FULL COMMITTEE HEARING ON DISASTER PLANNING AND RECOVERY: ARE WE READY FOR ANOTHER KATRINA?

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FULL COMMITTEE HEARING ON DISASTER PLANNING AND RECOVERY: ARE WE READY FOR ANOTHER KATRINA?

Thursday, August 2, 2007

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

The Committee met, pursuant to call, at 10:05 a.m., inRoom 2360, Rayburn House Office Building, Hon. Nydia Velázquez [Chairwoman of the Committee] presiding.

Present: Representatives Velázquez, Shuler, Gonźalez, Braley, Johnson, Chabot, Heller.

Also Present: Representative Jefferson.

OPENING STATEMENT OF CHAIRWOMAN VELÁZQUEZ

ChairwomanVELÁZQUEZ. Good morning. I now call this hearing to order.

This hearing continues the committee's examination of the government's response to Hurricane Katrina. With the hurricane season upon us, it is critical that we fully understand the ability of Federal agencies to serve those affected by large-scale disasters. This past April, the Committee held a field hearing in New Orleans to review the government's efforts to include local small businesses in Hurricane Katrina recovery contracting. What we found was disappointing.

The Committee uncovered miscoded contracts and missed opportunities. Local small businesses testified at the hearing that they were unable to get prime contracts and that contracts were being awarded to large firms from out of State. The agencies' own data supported this testimony. At the end of that hearing, I told the agencies that the Committee will continue to monitor their contracting practices in New Orleans. So I have brought them back today to update the Committee on their progress.

Today's hearing will explore what has been done since we met in New Orleans. We will also look at any institutional changes that may have been made, updated statistics and plans for future contract awards.

I have to say that I am disappointed with the submitted testimony. Not one of the agencies testifying today has made local small businesses a priority. The testimony does not focus on specific and measurable ways to include these local small businesses in the rebuilding effort. At this point, I would expect less lip service and more action. The use of local small businesses is vital. It is vital

to the recovery of the gulf coast. These agencies' witnesses acknowledged as much at our last meeting in front of local small business owners. Today, we are going to find out why more action has not been taken.

When we talk about the Federal Government's response to disasters, we generally talk about the SBA Disaster Loan Program and with good reason. In the aftermath of the hurricane, thousands of small businesses turned to SBA for financial assistance but, instead, only found frustration and difficulty. Over 200,000 applications set mired in a long processing backlog that took well over a year to process. Those victims who were approved for loans often waited months to receive any funds. We are also beginning to learn that the agencies' efforts to improve the backlog employed some very aggressive tactics which left many disaster victims without the help they needed. A recent SBA Inspector General report confirmed this, and this committee continues to review these findings.

In addition to these concerns, the SBA released a disaster recovery plan that falls short of making the necessary cultural and workforce changes to remedy these past problems. While we do want to spend time examining this plan, we also need to talk about government-wide plans to increase contracting opportunities for local small businesses.

For the agencies here today, it must be a priority for them to ensure that small and local firms are part of any rebuilding process following a disaster. As Louisiana, Mississippi and Alabama begin the long process of reconstruction, we have already seen the important contributions that can only come from these businesses. Small firms are the largest job creators and the engines that power economic growth. Clearly, the Federal Government must focus on prioritizing these companies in its gulf coast recovery efforts.

I look forward to the testimony today and I thank all of the witnesses for making every effort to be with us today.

I now recognize Mr. Chabot for his opening statement.

OPENING STATEMENT OF MR. CHABOT

Mr.CHABOT. Thank you, Madam Chair.

No one disputes the fact that the Federal Government's response to the gulf coast hurricanes in 2005, particularly in Katrina, was not up to the standards it should have been. It was, in general, inadequate. Although, considerable effort was made by many individuals, and there were true heroes involved in the efforts, but there certainly were holes.

The Committee held a field hearing in April to assess the state of small business involvement in the recovery. I commend the chairwoman for her diligence in the continued oversight to ensure that the recovery efforts utilize local small businesses to the extent possible.

Local small business involvement after a disaster is crucial to economic recovery. Without economic recovery, an area will never return to its pre-disaster status. Businesses located in the area have a vested interest in ensuring the economic vitality of the region that they call home. Local businesses will hire members of the community to perform the work associated with the response in rebuilding. Funds disbursed will stay in the local area because the

business and the employees are local. Participation by small businesses in disaster response and recovery certainly is valuable to the community. However, that must be tempered by the realities on the ground related to the disaster.

Federal, State and local agencies certainly should have in place disaster response plans that call for the participation of small businesses but also recognize that the primary mission is health and safety, and that must take priority over small business participation. Although, small business participation, as I said before, is important.

To make these types of decisions, it is necessary to have a comprehensive set of emergency response plans in place. I know that Administrator Preston has worked diligently in deriving an emergency response plan, one that provides the necessary response, but recognizes that Federal agencies operate under certain fiscal constraints. I am sure that the witnesses at the table will ensure that proper coordination takes place among the agencies in response to the next major disaster and that the mistakes associated with a response to Hurricane Katrina are not repeated.

In closing, I would like to thank the distinguished members of the panel for coming here today to explain the actions they have taken to enhance the participation of small businesses in disaster relief and recovery.

I yield back the balance of my time, Madam Chair.

ChairwomanVELÁZQUEZ. Thank you.

Our first witness is the Honorable Paul Schneider. Mr. Schneider is the Under Secretary for Management at the Department of Homeland Security. He oversees the department's budget, appropriations, expenditure of funds, accounting and finance, procurement, human resources and personnel, information technology systems, facilities, property, equipment, and other material resources. Mr. Schneider previously served as a defense and aerospace consultant and was sworn in at DHS as Under Secretary for Management on January 3rd.

Welcome, sir.

I would just like to say that I want every witness to adhere to the 5-minute rule, and I am going to be watching the clock because we are going to be having a lot of votes today. So I want everyone to have the opportunity to make your presentation, but your testimony will be submitted into the record.

So welcome, sir.

STATEMENT OF HON. PAUL SCHNEIDER, UNDERSECRETARY FOR MANAGEMENT, UNITED STATES DEPARTMENT HOMELAND SECURITY

Mr.SCHNEIDER. Thank you, Madam Chair, Congressman Chabot and members of the Committee.

Thank you for the opportunity to review the actions of the Department of Homeland Security that we have taken to increase contracting opportunities for local small businesses affected by disasters.

FEMA is the Department's lead agency, an operational component, and as such, is the focal point for preparing for and responding to disasters. On October 4th, 2006, section 307 of the Stafford

Disaster Relief and Emergency Assistance Act was amended by section 694 of the Department's Appropriations Act of 2007, public law 109, 295.

The amendment required that contracts for major disaster assistance activities be preferentially awarded to local businesses. FEMA responded to the change of legislation through the adoption of new procedures and strategies that facilitate the maximum level of engagement with local contracting communities. Prior to issuing the solicitation, FEMA conducts market research to determine whether or not the capabilities of small local businesses meet program requirements. The small local businesses are determined to possess the necessary qualifications. Then the solicitation is structured either as a local small business set-aside or as a price evaluation preference. If no such business is available, the scope of the set-aside 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 set-aside is expanded to the State level, then to the gulf coast region and, finally, open to a national pool of contractors.

On June 22nd, 2007, the Small Business Administration provided the Committee with information of DHS contracting opportunities to small businesses, including small businesses affected by Hurricane Katrina and other disasters, utilizing the local set-aside discussed above. This list provided seven small business contracting opportunities, ranging from construction to professional, administrative and management support services to information technology services, including telecommunications and communications in detection equipment.

Since its establishment in 2003, the Department has had a solid small business track record. In 2006, we achieved 31.62 percent in small business prime contracting and 10.75 percent for overall small disadvantaged business for a total small business obligated dollar amount of over $4.4 billion and a total overall small disadvantaged business obligated dollar amount of almost $1.5 billion. The government-wide small business goal is set at 23 percent for prime contracting. We have shown our strong commitment to small business by raising the bar from the 23 percent to a proactive and aggressive 30 percent small business goal for 2006-2007. The government-wide small disadvantaged business goal is set at 5 percent. We have set our goal at 8 percent for 2006-2007.

The U.S. Small Business Administration has recognized the Department's effort to maximize opportunities for small business. During the last 4 years, SBA has twice elected DHS for its top award, the Gold Star Award, for overall sustained small business achievement and for the Francis Perkins award for women-owned small business achievement. I have seen our draft SBA scorecard results. They are outstanding, among the best in government, and we are very proud of these scores. Our small business office head, Mr. Kevin Boshears, who is with me today, was recently recognized by the small business community as one of the finest small business advocates in government.

Despite these actions and our demonstrated track record, we are very disappointed that the House action on the DHS fiscal year budget zeroed out the accounts that fund our Small Business Office

at DHS. In addition, the House Homeland Security appropriations bill, specifically section 537, has words in there that require full and open competition for all contracts. This will dramatically impact our ability to meet the small business goals and dramatically impact our ability to basically put more dollars in the small business community by requiring full and open competition for all our contracting efforts. We are very hopeful that these words and this action will be modified during conference.

Small and local business partners in the Midwest have been integral in meeting FEMA mission requirements, resulting from the tornadoes which hit Kansas and the flooding which occurred in Missouri this past May. In both areas, FEMA utilized small local utility companies in order to restore basic needs back to the affected communities. In addition—

ChairwomanVELÁZQUEZ. Mr. Schneider, your 5 minutes are up. You have 30 seconds, but you have an opportunity to make whatever other statement you want.

Mr.SCHNEIDER. Well, my testimony, Madam Chair, has some of the specific contracting actions that we have identified for small business in the gulf coast. I will not repeat them here.

In conclusion, I would like to thank you for your continued support and for the Committee's continued support of our Department and of our small business program, and I would be happy to answer any questions that you may have.

ChairwomanVELÁZQUEZ. Thank you, sir.

[The prepared statement of Mr. Schneider may be found in the Appendix on page 47.]

ChairwomanVELÁZQUEZ. Our next witness is Ms. Lurita Doan. She is the Administrator of the General Services Administration. Ms. Doan has served as the Administrator since May 2006. Prior to taking this position, Ms. Doan was the owner of a technology company.

Welcome. Again, 5 minutes.

STATEMENT OF HON. LURITA DOAN, ADMINISTRATOR, UNITED STATES GOVERNMENT SERVICES ADMINISTRATION

Ms.DOAN. Thank you. Thank you, Madam Chairwoman, Ranking Member Chabot and members of the Committee.

Creating a more level playing field for all small businesses to participate in Federal contracting is one of my core priorities at GSA. I have had the unique perspective of founding and running a small minority business for 15 years, and for the past year, I have had the great privilege to lead GSA and manage the government's premiere procurement agency. Creating opportunities is a special passion for me that I work on every day. At GSA, there has been a revolution in our efforts to promote small businesses in Government contracting. During the past year, GSA has awarded 32 percent of all procurement dollars spent by GSA to small businesses.

In the gulf region during my tenure, we have awarded 79 percent of all contracting actions, and 62 percent of all contracting dollars from GSA have gone to small business, and since this past April,

understanding the concerns of the House Small Business Committee, we are increasing our efforts to ensure that the gulf coast contracting opportunities go to local small businesses. During the next 12 months, I fully expect these numbers to improve, and I will tell you why.

First, I know from experience that the single most important element to ensure small business success is a favorable business environment that rewards and encourages entrepreneurs. The President deserves much credit for creating the economic environment that small companies need to grow, emerge and thrive.

Second, this is a copy of the 1,800-page FAR that governs all Federal procurements. It is an amazing document, but it is a big beastie, and small companies need our help to navigate the process that is oftentimes expensive and time-consuming, and that is why, in my first week at GSA, I announced that GSA would commit to reducing the amount of time it takes companies, small companies, to get a schedule from 157 days to 30 days or less. Lots of folks were skeptical, but we did it. As a result, small companies can now sell their goods and services to government agencies far faster than ever before. I believe a GSA schedule is a small business's first and best chance to become a prime contractor.

Third, we have a special obligation and an opportunity to help restore the economic vitality of the gulf that was devastated by Hurricane Katrina. I am from the Ninth Ward in New Orleans, and I have firsthand knowledge of the entrepreneurial talents of small business resources in the region. Over the past year, GSA has sponsored over 25 different small business events in the region, and GSA is delivering. During the past year, 62 percent of all contracting dollars spent by GSA in the gulf region were awarded to small business.

Fourth, I am especially proud of GSA's new VETS GWAC directed at small businesses owned and operated by service-disabled veterans. GSA expects to award $5 billion over the next 5 years to some of the Nation's most deserving, dedicated and talented Americans. There can be no better way to honor our service members than to encourage their entrepreneurial energies.

In addition, I am counting on these amazing men and women to provide a new source of pride and accountability as they help raise the standard of performance in Federal Government contracting. You have a determined colleague at GSA, anxious to remove roadblocks to small businesses. We are proud of our recent efforts. We are also eager to do more, and we need to do more, and I am especially eager to work with this Committee.

I want to note that the helpful legislation introduced to reduce bundling is going to help create a more level playing field for small businesses, and I think that is terrific. I would also like to suggest that it is time to take an even bolder approach and to look at ways to advance the cause of small business. If you take the time to have a closer look at the Federal contracting process, you need to understand exactly why contracting officers try to bundle contracts that then become too large for small companies to compete on. What is the root cause? What structural problems exist? I think you are going to find two big problems.

First, our Federal contracting officers are too risk-averse. Too often, it is easier and more bureaucratically acceptable to award a Federal contract to one of the big companies that have a longer history. The challenge is analogous to the situation every college graduate experiences when trying to get a job. They are often told they have the skills, but the position calls for someone with more experience. They do not have experience because companies are unwilling to give them their first break.

Contracting officers are reluctant to give small companies with limited experience a chance because they know that even the smallest procedural error could ruin their careers. So they just do not do it. They are blamed, punished and vilified, and that has to change. We need to encourage them to take risks and to be willing to give these small and especially local small companies the opportunity to excel, but I cannot fix this without your help, and I would hope that, today, we can begin to work together to solve the problem.

We must remove all barriers that prevent opportunities being offered to small, minority and women-owned businesses. I have no illusions about how difficult it will be, but to quote the late, great Alba Sungadore, ″We will soon face the choice of doing what is easy or doing what is right.″ GSA is eager and ready to work with the Committee to do what is right.

Thank you.

ChairwomanVELÁZQUEZ. Thank you, Ms. Doan.

[The prepared statement of Ms. Doan may be found in the Appendix on page 55.]

ChairwomanVELÁZQUEZ. I understand that you have a family commitment and that you are going to stay here until 12:00 o'clock.

Ms.DOAN. I am going to try and stay as long as I can past that.

ChairwomanVELÁZQUEZ. Past 12:00?

Ms.DOAN. Past 12:00.

ChairwomanVELÁZQUEZ. Thank you very much.

Our next witness is Dr. James Finley. Dr. Finley is the Deputy Under Secretary of Defense for Acquisition and Technology. He is responsible for policies and procedures governing the Department of Defense's procurement and acquisition process. Dr. Finley was confirmed to this position by the Senate in February 2006.

STATEMENT OF HON. JAMES FINLEY, DEPUTY UNDERSECRETARY OF DEFENSE FOR ACQUISITION AND TECHNOLOGY, UNITED STATES DEPARTMENT OF DEFENSE

Mr.FINLEY. Good morning. Chairwoman Velázquez, Ranking Member Chabot and members of the House Committee on Small Business, thank you for inviting me.

Mr.CHABOT. Would the gentleman yield for just a second. We pronounce it ″sha-but,″ but you can pronounce it ″shah-boe,″ which is the French pronunciation, which is fine, but we pronounce it ″sha-but,″ just so it is cleared up.

Mr.FINLEY. My apologies, sir.

Mr.CHABOT. Yes. No problem. It is all right, Mr. Finley. Okay.

Mr.FINLEY. Thank you for inviting me here to appear before you today in a follow-up discussion to the meetings we had in New Or-

leans. Katrina was a catastrophe of unprecedented proportion. It is a matter of importance for all of us, and I welcome the opportunity to participate in this hearing.

Today, I will focus on three areas—post Katrina local business/small business performance. I also plan to discuss the steps taken to improve the Department of Defense's emergency acquisition policy so we are ready for the next major event, also the improvements in DOD's overall small business policy in particular.

Since our last meeting of post Katrina local small business performance, we have five contracts that we have identified, other than what was awarded by the Army Corps of Engineers, that we will share with you and that we have submitted in a letter to the chairwoman. They are summarized, you know, simply as about a $1 million contract to a small business company local in Louisiana called Fussell Company Contractors. They do runway repairs.

A second company is called Cann Contracting, Incorporated, a civil engineering job of about $700,000 to construct a munitions' storage facility. There is a third company called Bechter Aviation, contracted for about $560,000 for liquid propellants for jet engines. There is a fourth contract for about $300,000, also with Cann Contracting, for construction repairs on runways. There is a fifth company, also with Cann Contracting, for sprinkler system failure at about $150,000.

We have also worked significantly, from a local business point of view, with our PTAC organization on procurement and technical assistance centers, and we have a tremendous opportunity in New Orleans because our boots on the ground in New Orleans have been there for over 20 years. We have about nine PTAC people in the State of Louisiana, three or four of which are absolutely focused on New Orleans, itself. I have had the opportunity to meet them in our previous hearing, and I have also had the opportunity to directly talk with them again in preparation for this hearing, and I am very pleased to report that there is progress.

I would say that the New Orleans area, in general, has a fairly significant way to go, you know, for restoration of where we used to be and where we want to be, but nonetheless, in our previous hearing, what we shared with you was that we had about 300 local New Orleans' companies in our database with PTAC pre Katrina. Post Katrina, we had 200. We lost about 100 companies we could not account for. After the 4/12 hearing, we took action on these areas. We also talked to the companies that you identified at the hearing. We followed up with about half of those companies that we thought we could deal with for DOD business. None of those companies, unfortunately, through PTAC could we arrange, you know, to find ways to put those into DOD contracts.

Having said that, the mix today—and getting back to our 300 pre Katrina levels—is about 290 companies, small businesses, New Orleans-based, New Orleans doing business in New Orleans, if you will, and the mix has changed in what they do. They have changed their portfolios a bit, but nonetheless, they are, I would say, vibrant, and they are looking for more business in New Orleans.

Based on what I have heard from the Army Corps of Engineers in preparation for this, I am very optimistic that we will continue to grow small business for DOD in that region.

In addition to the small business focus, we are improving our DOD emergency acquisition policies. The last time we identified several initiatives. This time, we have about seven initiatives. My formal hearing testimony identifies each of those initiatives, and I will be pleased to talk and to address each of those during the hearing.

In addition to that, improving the overall DOD small business policies, we have got about six practices that we are focused on improving. These include some of the things that the previous witnesses have testified about, including bundling and what we are doing with acquisition strategies to virtually eliminate bundling, if we can, as a practice in DOD.

In summary, we at the Department of Defense are very committed to the health and welfare of our people and of our Nation. We have a strong small business program with strong performing organizations such as the United States Army Corps of Engineers as well as other support organizations like the PTACs, the Procurement Technical Assistance Centers. We are planning to continue to build on those strengths to provide more agility and flexibility for the acquisition of our products and services to protect our country and to provide emergency health in the time of need due to natural disasters here and on the home front and abroad.

I thank the Committee for their time today and for their leadership in addressing the small business participation in the aftermath of Hurricane Katrina.

Thank you.

ChairwomanVELÁZQUEZ. Thank you, sir.

[The prepared statement of Mr. Finley may be found in the Appendix on page 62.]

ChairwomanVELÁZQUEZ. Our next witness is Lieutenant General Robert Van Antwerp. Lieutenant General Van Antwerp is the Chief of Engineers for the U.S. Army Corps of Engineers. His office is responsible for defining policy and guidance and setting the directions for the organizations within the Corps. Lieutenant General Van Antwerp succeeded Lieutenant General Carl Strock as Chief of Engineers in May of this year.

Welcome, sir.

STATEMENT OF HON. LIEUTENANT GENERAL ROBERT VAN ANTWERP, CHIEF OF ENGINEERS, UNITED STATES ARMY CORPS OF ENGINEERS

GeneralVAN ANTWERP. Thank you, Madam Chair, Ranking Member Chabot. Is that close?

Mr.CHABOT. Chabot. It is ″Chabot″ like ″rabbit.″

GeneralVAN ANTWERP. Chabot. We will get this right.

Mr.CHABOT. It is no big deal, really.

GeneralVAN ANTWERP. I will just call you ″sir.″ that is easier for me.

Mr.CHABOT. I will call you ″sir,″ too.

GeneralVAN ANTWERP. Okay. And members of the Committee, I thank you for this opportunity to appear before you today.

The Army Corps of Engineers is committed to using local small businesses in both our normal course of duty and also in this case when we are reviewing times of disaster.

In your June letter to us, you asked us to identify five small businesses that could be prime contractors. I am happy to report today that we have awarded five contracts and that we have seven more in procurement action for small businesses as the prime contractor in the area of local small businesses.

I want to just talk for a second about our ongoing and future work and one initiative that is, I think, very important in this area. First of all, as to our repair and restoration, the appropriated funds for that right now are $5.8 billion. Our acquisition plan has 34 percent of that, almost $2 billion, going to prime small business contractors in both just small business, 8(a), HUBZone, and service-disabled, veteran-owned small business. We anticipate about 150 contracts all together. 101 of those are going to be set aside for small business. Just to report on where we are to date, 65 contracts have been awarded. 60 of them have gone to small businesses.

Just as a sideline, we have two flood fights in the recent past. One is in Oklahoma. The other is in Texas. We awarded three contracts in Oklahoma, all three of those to local small businesses and, in Texas, two contracts both to local small businesses.

The initiative I would like to talk about is the Advance Contracting Initiative, and this, of course, is the vehicle the Corps of Engineers used to be ready for a disaster so that our response can be immediate. We have proposals out there, and we received them on June 23rd because we are recompeting or Advance Contracting Initiative. Before, all of our contractors were large businesses, 100 percent, so we are recompeting that, and the proposals have been received, and what we are doing is establishing three multiple award, task-ordered contracts, and two of those will be for HUBZone and 8(a). So, of those three, two-thirds of those, and what we will do is we have a local office that is set up, and when we have a disaster, they will determine on capacity where that award goes, but we think this will greatly facilitate the use of local small business.

Also, we have increased our subcontracting goals for our large businesses. They will be hiring in all small business categories, 75 percent to small business.

Finally, I would like to say that we have done a lot of engagement down in the Katrina area and in other areas where we have had disasters in the past—industry forums, market surveys and all kinds of conferences where small business interests are represented of which, as to many of them, either General Strock or myself in the future will be speaking.

Again, I thank you for this opportunity to appear before the Committee, and I welcome your questions at the right time.

ChairwomanVELÁZQUEZ. Thank you.

[The prepared statement of Lieutenant General Van Antwerp may be found in the Appendix on page 68.]

ChairwomanVELÁZQUEZ. Our next witness is the Honorable Steven Preston. Mr. Preston is the Administrator of the Small Business Administration and has testified before this Committee sev-

eral times this year. Mr. Preston was sworn in as Administrator on July 11, 2006 after serving as Executive Vice President of the Service Masters Company.

Welcome, sir.

STATEMENT OF HON. STEVEN PRESTON, ADMINISTRATOR, UNITED STATES SMALL BUSINESS ADMINISTRATION

Mr.PRESTON. Thank you. Good morning, Chairwoman Velázquez.

Mr. Chabot, I am trying to find a new pronunciation, but you know, I have talked to you too many times, so I will stick with ″Chabot.″

Members of the Committee, thank you very much for having me here to testify with my colleagues.

When I came to the Agency just over a year ago, the SBA's response to the gulf coast hurricanes had many backlogs in it and a number of critical areas as you all know. Prior to coming into the position, I visited New Orleans to get a firsthand account of the pulse on the ground. Obviously, like many of you who have been done down there, I was overwhelmed by what I saw, and after visiting both our New Orleans district office and our processing center that handles those loans, it became very clear to me that there were serious issues we needed to address very quickly.

We quickly dug into those issues to address them, and we spent months listening to and working with our customers, our employees, as well as doing an intensive examination of our operational processes. We discovered a number of issues that have led to high error rates, backlogs in critical processes and decision-making bottlenecks.

Today, we have not only redesigned the closing and disbursement processes needed to complete our work in the gulf, but we have fully reengineered the way that the SBA responds to future disasters to provide dramatically faster and more responsive service to disaster victims.

On June 1st of this year, we presented to the Committee the agency's disaster recovery plan. After months of deliberation and countless hours of work, the plan has documented the critical steps to be taken by the SBA to prepare for, to respond to and to recover from natural disasters. Just as we have learned many lessons and made significant contributions on the disaster lending side of our response to the 2005 gulf coast hurricanes, we have also done a lot of work in assessing our role in the contracting process during the rescue relief and reconstruction of the region, and we have made important progress on that front as well. The SBA was and continues to be committed to making sure that our small business customers receive fair opportunities following natural disasters. In the interest of time, I will dispense with a lot of the statistics. I think they are in my testimony, my written testimony that has been submitted.

As we have done on the lending side in our disaster response, we are also looking at our role in the post-disaster procurement process. Rebuilding communities after a disaster requires tremendous strength and dedication from the individuals who live there as well as from the small businesses that provide jobs and long-term eco-

nomic stability. The SBA has acquired the responsibility for the Hurricane Contracting Information Center from the Department of Commerce. We have identified an intake point for the information on disaster contracts for coordinating staff communication between government contracting and our disaster call center and our renaming of the Disaster Contracting Assistance Center.

Additionally, the SBA has begun an initiative to refocus the workload of our PCRs throughout our field network to work more intensively and specifically with contracting officers and specialists at the purchasing agencies to identify opportunities for small businesses. Our district office will be working more intensively with the small businesses themselves to identify the contracts for which they may be eligible to apply as well as finding more small businesses interested in pursuing new contracting opportunities as they arise.

I am accelerating the 2008 hiring decisions for PCRs as well, and this month, we will actually have 1,200 people from the SBA across the country coming in to train them on many of the new practices I am talking about, many of which specifically are business development people.

Even since our hearing in April, the SBA has participated in and has helped lead multiple events designed to expand small business opportunities in the gulf, each touching hundreds of small businesses. I personally keynoted the Post Katrina Development Summit, which included 268 small businesses and many Federal as well as State level purchasing agencies.

I also want to point out that, just last week, we announced changes to the Surety Bond Program that will help enable small businesses to bid on public construction projects. The pricing structure for the surety bond guaranty is now more flexible, which we expect will make the product more affordable for small business. We are also working with other agencies, including my colleagues here at this table, to assist with and to complement their efforts. In the coming months, we will be focusing on identifying more small businesses that can fulfill their contracting needs. In addition, we plan to work with the Army Corps of Engineers and with the GSA as they work to make advance contracting arrangements for disaster needs of small business vendors and service providers.

So thank you for allowing me to testify here today. I also want to thank my colleagues here at the table for the work they are doing with each one of them. I know they have done a good job of elaborating on that, but I want to thank them specifically, and I look forward to working with this committee and with my counterparts in the other Federal agencies to continue this important work of improving the Federal Government's disaster response and enabling small businesses to participate more fully in disaster recovery and rebuilding efforts.

Thank you.

ChairwomanVELÁZQUEZ. Thank you, sir.

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

ChairwomanVELÁZQUEZ. Our next witness is the Honorable Robert Henke. Mr. Henke is the Assistant Secretary for Management

of the Department of Veterans Affairs. He is responsible for the Department's budget, financial policy and operations, a position of material management, real property, asset management, and business oversight. Mr. Henke was sworn into office in November 2005.

Thank you, sir.

STATEMENT OF HON. ROBERT HENKE, ASSISTANT SECRETARY FOR MANAGEMENT, UNITED STATES DEPARTMENT OF VETERANS AFFAIRS

Mr.HENKE. Yes, ma'am. Thank you, Madam Chair, Ranking Member Chabot. I did live in Cincinnati from 1993 to 1997, so I am not going to get that name wrong.

I appreciate the opportunity to discuss the VA's commitment to increasing contracting opportunities for local small businesses participating in rebuilding New Orleans and the greater gulf coast region.

In the aftermath of Hurricane Katrina, the VA very much wants to see a sustainable, vibrant, economic recovery in New Orleans and in the rest of the gulf coast region. I am honored to represent the totally dedicated VA employees throughout the country who serve our veterans and our Nation's heroes on a daily basis. Last April, the VA testified before this committee regarding our complete commitment to small business in New Orleans and the greater gulf coast, and I will use my time this morning to briefly give you an update on where we are at.

We have been an active participant in our outreach efforts to small businesses in the southeast region. On May 8th, the VA attended the Vicksburg, Mississippi Business Procurement Opportunities Conference and Trade Fair, sponsored by the Mississippi Development Authority and Mississippi PTAC. The VA representatives spoke with over 200 small businesses regarding opportunities for VA hurricane cleanup as well as ongoing operational opportunities. We also participated in the Post Katrina Economic Development Summit in June in New Orleans. VA's Office of Small Disadvantaged Business Utilization and our gulf coast veterans' health care network discussed VA's contracting opportunities with over 300 small businesses. Firms were provided information, process guidance and networking opportunities for VA post Katrina recovery.

Since this committee's hearing on April 12th, we have been in nine outreach efforts in the gulf coast region, and we have three more planned for before the end of this year. Also, the VA will participate in GSA's small business conference in New Orleans next week on August 9th.

During the hearing on April 12th, the Committee asked each agency to commit to working with the SBA to identify five prime contracting opportunities that target the local small businesses. We have kept that commitment to you, and I will just review the results briefly.

At a medical center in Biloxi, a parking lot design-build contract solicitation has been released that we project to award this month. At a medical center in New Orleans, there are three different projects, one to rebuild a pharmacy. We have completed negotia-

tions with an 8(a) firm. We project to award it this month. Also in New Orleans, a roof repair. We project to award that to a local small business in September. In New Orleans, as to the demolition of a damaged building, a local small business has been identified, and we project to award that contract in September. At the VA medical center of gulf port, there is the environmental remediation of the property, tank removal. A small business set-aside is planned, and we project to award that in September as well.

At April's hearing, the VA shared with the Committee the fiscal year 2006 small business accomplishment of the South Central VA Health Care Network. Through June of this year, the network had spent approximately $270 million, fully one-third or 33 percent of that with small businesses, to include 12 percent with small disadvantaged and 8(a) firms.

In closing, I want to reassure you, Madam Chair, that the VA is committed to small business in general and specifically to those in the gulf coast region.

Thank you for this hearing, and I look forward to your questions.

ChairwomanVELÁZQUEZ. Thank you.

[The prepared statement of Mr. Henke may be found in the Appendix on page 75.]

ChairwomanVELÁZQUEZ. Almost 4 months ago, we met in New Orleans, and at that hearing, you clearly saw firsthand the agony and the frustration of local small businesses. I hope that, today, you come out of this hearing understanding that this is more than just local small business participation. What this is about are people's lives in the gulf coast, and of those who have been suffering so much, they have a lot to offer in the recovery and reconstruction of the gulf coast.

So, as to my question to each of the witnesses, since I was not able to gather this out of your testimony, I would like to start by asking each one of you to share their local small business percentages since we met in New Orleans.

Mr. Schneider.

Mr.SCHNEIDER. Madam Chair, we wanted to wait until July 31st so we could get the most accurate, up-to-date numbers, which is why it was not in my submitted testimony, and we will provide the tables, but I will give you the rough numbers.

From April 13th to July 31st, 69 percent of the DHS dollars obligated in the gulf coast were awarded to small businesses.

ChairwomanVELÁZQUEZ. Sir, I am asking about local small businesses.

Mr.SCHNEIDER. As to local small businesses, 49 percent of the net dollars obligated in the gulf coast region were awarded to local businesses, small and large.

ChairwomanVELÁZQUEZ. No. We need to make a distinction here. It is not local businesses. It is local small businesses.

Mr.SCHNEIDER. I have got that number. It is 33 percent of the total dollars obligated that were awarded to local small businesses.

ChairwomanVELÁZQUEZ. Why is it that you did not include that in your testimony?

Mr.SCHNEIDER. We wanted to wait until the closeout of the books on July 31st. There was no way I could get those numbers, get it

into my testimony clearing process and get it to you to meet the date or the time that you required.

ChairwomanVELÁZQUEZ. Let me ask my staff to put up the chart. Oh, I am sorry. No. No. I do not want to go there.

Yes, I will come back to you, sir.

Ms. Doan, what percentage?

Ms.DOAN. Thank you.

22.8 percent of all of the small local business contracts to Louisiana vendors were awarded since April 12th, and our time frame only goes through June 30th because that is when our books cut off.

ChairwomanVELÁZQUEZ. Local small businesses.

Ms.DOAN. Local small businesses, 22.8 percent.

ChairwomanVELÁZQUEZ. General.

GeneralVAN ANTWERP. Ma'am, we have awarded 60 of 65 contracts to small businesses. The local small businesses is in the neighborhood of 35 percent.

ChairwomanVELÁZQUEZ. Dr. Finley.

Mr.FINLEY. Madam Chair, as to the numbers we have, all contractors in the area post 4/12 from our FPDS system are $670 million for all contractors. Instate local contractors amount to $560 million of that. So it is well over 50 percent.

ChairwomanVELÁZQUEZ. I am sorry.

Mr.FINLEY. It is well over 50 percent.

ChairwomanVELÁZQUEZ. I am asking if this is contracts or money, dollars.

Mr.FINLEY. Dollars.

ChairwomanVELÁZQUEZ. Dollars. They are not contracts?

Mr.FINLEY. Dollars.

ChairwomanVELÁZQUEZ. I will go back to the general.

Dollars or contracts?

GeneralVAN ANTWERP. Contracts, ma'am.

ChairwomanVELÁZQUEZ. Yes.

Ms.DOAN. We are dollars.

ChairwomanVELÁZQUEZ. Sir.

Mr.SCHNEIDER. Dollars.

ChairwomanVELÁZQUEZ. Mr. Preston.

Mr.PRESTON. We are really not procuring down there. I think, though, you appropriately pointed out in the last hearing that we did have some issues with small businesses down there. Our overall percentages for small business were very good, and prior to April, they were not good for local small business, and we would be happy to work with your committee to help understand why we were not doing the job on that.

ChairwomanVELÁZQUEZ. Mr. Henke.

Mr.FINLEY. Excuse me, Madam Chair. If I may, I read the number wrong. About 25 percent. All dollars. Local.

Mr.HENKE. Yes, ma'am. As to the network, 16 South Central Health Care Network, the data I have says that they have procured about $88 million to date. 33 percent of that—excuse me. That is 33 percent to small businesses, and I also have data that indicates—

ChairwomanVELÁZQUEZ. Local businesses?

Mr.HENKE. Ma'am, I do not have that by local. I have it by small businesses.

ChairwomanVELÁZQUEZ. So I will ask you to please provide that information to the Committee—

Mr.HENKE. Yes, ma'am.

ChairwomanVELÁZQUEZ. —in the next 2 weeks.

The staff, please. I need for Mr. Schneider to look at that. Would you turn that, please.

Mr. Schneider, you awarded close to $12 million to larger businesses since April, and this is in contrast to a net loss of $82 million in small business contracts due to modifications that removed work.

I just would like to ask you why is it that large firms seem to be able to secure contracts when small businesses are losing ground.

Mr.SCHNEIDER. I cannot relate directly to those numbers because they do not match with, frankly, the numbers that I work with. I think I need to take a couple of minutes to talk about why we deobligate money from contracts, which seems to be what the issue is here.

Most of the contracts that we obligated in the gulf coast are on what we call ID/IQ, indefinite delivery/indefinite quantity-type contracts. We have two choices. Our contracting offices have two choices. They could either negotiate a specific price for each order or they can put out a max price not to exceed, and the reason we encourage them to put out the max price not to exceed is to get an agreement, to make sure that we have enough ceiling coverage so that the work can be done within that, and to get on with the business, okay?

So what happens is, when we settle up and the work actually comes in less, we deobligate money from the contract. The work is done. Small business does not lose out. Industry does not lose out. The fact of the matter is it is a way of expediting the awarding of the contract. We have specific numbers that, in fact, by State show the deobligations, but that is the reason for the deobligations.

ChairwomanVELÁZQUEZ. Sir, first, those numbers are accurate numbers, and they are taken from the Federal procurement data system that each of you have to submit. Two, what it shows and what that chart shows is the fact that, indeed, you are taking money away from contracts that were given or awarded to small businesses. You came back. You modified those contracts, and you took that money away. Small businesses—local small businesses in the region—are losing money, but we do not see the same pattern with large firms. My question to you is why.

Mr.SCHNEIDER. Most of the work at large firms is negotiated at the actual price of the work. Again, to get on with the work, it is contractually expedient that we put out a not-to-exceed ceiling price, and the fact is we have two choices. We could either negotiate down to the decibel point the cost of work, in which case that would actually delay the execution of the work, or we can agree that it will not exceed, get on with the work and settle up with the bills. We always make sure that the not-to-exceed is high enough to truly cover the cost of the work. So, when we deobligate the money from the contract, and this is done after the work is done,

we are basically settling up. The work has been done. It is not a question of taking money from the small business. It is a question of basically removing the excess dollars that were obligated as part of the financial responsibility that we have.

ChairwomanVELÁZQUEZ. Why is it that it always happens with small businesses? You are not seeing that. We are not seeing that based on the data that we have analyzed.

Mr.SCHNEIDER. With most of our large businesses, we negotiate the specific price. When we are talking about just in the past—since post April—that 69 percent of the dollars are being obligated to small business, the majority of those dollars are, in fact, due to these emerging types of work where we issue the not-to-exceed, and where the large businesses are we basically negotiate the specific price as opposed to a not-to-exceed.

ChairwomanVELÁZQUEZ. Look at that chart. Those are the contract losses since April.

Mr.SCHNEIDER. With all due respect, Madam Chair, they are not losses. They are deobligations. There is a significant difference.

ChairwomanVELÁZQUEZ. Call it the way you want it.

Mr.SCHNEIDER. That is what the financial people call it.

ChairwomanVELÁZQUEZ. The fact, sir, is that it is happening with small businesses. It is not happening with big firms. Yet, we have not gotten to the fact that you are miscoding large firms as small businesses.

Ms. Doan, during the last hearing, you stated that GSA awarded more than 70 percent of its contracts to small businesses. In fact, since April, when we met in New Orleans, GSA has awarded only 6.3 percent of its contract dollars to local small businesses. Only $62,000 has been awarded to these businesses. When we asked you to identify five prime contract opportunities for local small businesses, the GSA provided five contracts but did not address local small businesses at all. So I ask you:

What is it that the GSA is doing to increase the participation of local businesses in contracting opportunities?

Ms.DOAN. First, Madam Chairwoman, out of the contracting dollars, I would like to say that what we reported are Katrina-related contracts. We also have contracts which are just for general procurement work, and none of these, of course, show within the construction field contracts that are actually subcontract dollars, which would actually also be local small businesses. Unfortunately, the way the system is set up for metrics it does not allow you to count all of that.

As for the things that we are doing for small businesses, for local small business, first of all, we have issued guidance on the Stafford Act, which allows them to have the opportunity to have a local preference. I think this is one of the, probably, most important things that we are going to be able to do because it became clear that a lot of our contracting officers, while they understood that was a requirement there, did not necessarily feel as empowered to do that, and that is something that I can change.

We have our Chief Acquisition Officer, who is getting procurement folks who are trained only in disaster recovery. There will be training sessions to make them aware of how to utilize and write the justifications for local small businesses. We have an invoice

modification process which requires our prime contractors to account on the front of the invoice for all dollars awarded to local small businesses.

We have put in place something called ″workplace solutions,″ which allows us to combine our public building service, which has the large contracts for construction, and our Federal acquisition service, and those—

ChairwomanVELÁZQUEZ. Are you talking about the gulf region?

Ms.DOAN. Yeah. I am sorry. Yes. Yes, Madam Chairwoman. Yes, we are talking about within the gulf region.

ChairwomanVELÁZQUEZ. But we met in April.

Ms.DOAN. Yes, I know, ma'am.

ChairwomanVELÁZQUEZ. From April to this day, you come here, and we can point to just only 6.3 percent. You did the same at that hearing.

Ms.DOAN. With all due respect, Madam Chairwoman, I would appreciate the opportunity to come to you at the end of our fiscal year. Much of our procurement at GSA happens in the August to September time frame when the end of your spending occurs and we have put and positioned our contracting folks in place within Louisiana, Mississippi, Texas, and Alabama to handle these procurements, and we are set up to handle, and we expect quite a bit of procurement in that time frame.

ChairwomanVELÁZQUEZ. You will come back at the end of fiscal year. I promise you that.

Ms.DOAN. Thank you very much. I appreciate that.

ChairwomanVELÁZQUEZ. My next question is: Since you spent so much time in your testimony talking about VETS GWAC, how many local small businesses got awarded any portion of VETS GWAC—

Ms.DOAN. I do not have that.

ChairwomanVELÁZQUEZ. —for the gulf region?

Ms.DOAN. I do not have that information at this point, but I will be happy to follow up with the Committee on that.

ChairwomanVELÁZQUEZ. Well, your answer is totally irrelevant because it did not pertain to the gulf region at all. So that is why we cannot have any information as to any of the contracts going to local small businesses. It was nationwide. It did not have anything to do—but you spent all of your time talking about this. I asked in the letter that I sent to you specifically for you to address local small business participation in the region.

With that, I recognize Mr. Chabot.

Mr.CHABOT. Thank you, Madam Chair.

Mr. Schneider, let me begin with you if I can.

After the gulf coast hurricanes, did FEMA undertake a critical review of its coordination with the SBA in responding to natural disasters, and if so, what lessons did it learn, and have those been implemented?

Mr.SCHNEIDER. I am not familiar in detail with how they coordinated. I do know, because I researched it in preparation from the previous hearing in April, that we were not prepared post Katrina for what happened. So I can tell you that we had no people on the ground. We had no awareness of small local business. We had no contracts people. We had no market analysis of what the industry

could do locally, and so those are the major lessons learned across the board. Though, there really was, from what I understand, very little interfacing down in that area with the Small Business Administration.

So what we have done since then is, you know, beef up. We have about 60 people. We have contracting officers on site. We work very closely with the SBA. We do a tremendous amount of outreach. While in the immediate response to Katrina, we awarded major contracts to big business, close to 70-some-odd percent of the work was actually done by small businesses. So, in the course of doing that, we built up a pretty good knowledge on the ground of what the capabilities were of small and local business, and we have used that. We keep databases. We have outreach. We do forums jointly with SBA. We have what I consider to be—I have actually met with the people who are working it on the ground, and I think we have done a pretty good job to make sure we are much better positioned to handle that type of problem today.

Mr.CHABOT. If such a review were performed and is in writing somewhere, could you make sure that the Committee acquires a copy of it, assuming that it is within security requirements and thing of that nature?

Mr.SCHNEIDER. Yes, sir. I will go back and look at that.

Mr.CHABOT. Thank you very much.

Ms. Doan, let me turn to you if I can now.

Is one of the issues associated with contracting with small businesses in these areas such as we are discussing here, in areas where there was a disaster, the fact that the area is still recovering and that the number of small businesses operating in the area remains well below the prehurricane totals?

Ms.DOAN. Yes, this is very much a problem. And on Friday, when I was actually in New Orleans talking with our contracting officers, one of the commitments that we made together is that every month we will be hosting from now on training sessions in New Orleans that we are going to work around the small business person's schedule because a lot of them, they are the owner of the business, and they are working in the business. So they will be very early in the morning, during lunch or in the evening, and we will try to get them on the GSA schedule, making them aware of procurements. What we have found every month, more businesses are returning to the region, and therefore, it is important for us to be constantly refreshing that information. What we have been doing in the past—we need to have a regularly scheduled meeting where new businesses, when they return to the region, can come to us and know that they can get that help and guidance to get those Federal contracts.

Mr.CHABOT. Okay. Thank you. General, are there some functions performed by the Corps of Engineers that small businesses, for one reason or another, are unable to perform or incapable of performing? And do any of those functions relate to disaster response?

GeneralVAN ANTWERP. Generally there are always contracts that some small businesses can do. But in a disaster, we are finding most of those contracts are in the area of water, ice, debris removal, temporary roofing and those things, that they are capable. Now, we have found that in some instances, the affected area, the

contractors and some of their workforces are affected initially. So one of the things we are looking at is, how do you get them under these long-term contracts that are standing so they are geared up for it, and they are ready to respond. And then, secondly, can we get them re-engaged for those—because we will go to them and say, you know, a temporary roof contract, can you do this and do you have the capacity. And during the disaster or right after the disaster, we are going to have to contact each one of those firms. But we do know who they are, and we have them under a standing contract. So that is our commitment to use them and then we'll work with each one.

Mr.CHABOT. Let me follow up on that if I can. From your written testimony, it appeared that small businesses were to a considerable degree limited to debris removal. And are small businesses capable of providing other services to the corps in response to the aftermath of the gulf coast hurricanes? And if so, are you going to pursue that area and try to do a better job in the future.

GeneralVAN ANTWERP. Yes, sir. I think there are two areas. We separate this. One is the response to the disaster immediately, and then there is the rebuild and restoration. Right now, most of that $5.8 billion that I spoke of—and it is in my testimony—is first rehabilitation and restoration of the hurricane protection system. And we are using to the maximum extent small businesses in those local areas. I would report on one area. Most of our response efforts are under FEMA. And there was one area—and this is in the area of demolition—that we had a number of contracts prepared for demolition, but it has been slow in identifying those areas in the parishes for demolition. So FEMA has gone back and taken those dollars back. And they will go to individual parishes to do that demolition with the idea that the small businesses from those parishes would help with that response. So that is one area we have decreased a little bit because the work wasn't there yet.

Mr.CHABOT. Thank you. Secretary Finley, in your written testimony, you were—you may have done this in your oral as well—refer to the reference guide. Does the DOD plan to make the reference guide available on the Web so that small business owners know exactly what contracting officers in the field are utilizing when they are determining emergency contracts?

Mr.FINLEY. Yes, sir. The guide has been going through numerous—I have a copy of the latest updates here. It has been going through what we call red team review. It will be on the web. It has gotten inputs back from the air force, the Navy, Marine Corps and the Army. We plan to post this, you know, on the Web site this week and start to get feedback. And the first addition of this is planned to be issued on or around 1 September this year.

Mr.CHABOT. Good. I think it is important to let the small business community know exactly as much as possible so they are able to bid and that sort of thing.

Secretary Preston, last year, storm forecasters predicted a more active than normal hurricane season and, of course, as we know, no major storm made landfall in the U.S. How difficult is it to be fiscally responsible with an employee budget yet maintain appropriate readiness for a major disaster on the level of Hurricane

Katrina or Rita or other major disasters that we have had or a major earthquake, for example, in California?

Mr.PRESTON. Sir, it is a balancing act. I do think it takes money to be prepared, but I think there are ways that we have looked at preparedness that we think are fiscally responsible but also, and most importantly, ultimately will be sensitive to the people that we are here to serve. I think it hits in two areas. Primarily it hits in—probably three. It hits in having a system's capacity to handle the volume with your computers. It hits with facilities, having backup facilities to help people because we ramp very quickly. And most important and most challengingly, it deals with people. And what we have done in those areas is we have already expanded our system's capacity fourfold. So it has been dramatically expanded. We have a very specific facility expansion plan with currently active backup facility. And then we also work with people at the GSA every month to understand what is available in the Federal network should we blow through that which would only anticipate an event much bigger than Katrina. And what we have never done before is dramatically expanded our reserve corps. That does cost money. It costs money to bring people in every year for a week so we can train them. But they stand ready to come and serve. We have significantly expanded our lending train for people who are not in our disaster business in the SBA. That costs money, but we think it is a very frugal way because we are identifying people, training them but not fully employing them at this time. And you really have to kind of understand how that ramps with the needs. But I think we have done a good job of balancing that.

Mr.CHABOT. Finally, Mr. Henke, since you lived in Cincinnati, what I should ask is more, do you miss Skyline Chili, Graeter's ice cream or La Rosa's Pizza. But I won't put you on the spot for that. Although I will ask—

Mr.HENKE. All of the above, sir.

Mr.CHABOT. If a similar event like Katrina occurred in the gulf coast region or elsewhere, how would the VA's response differ from the response in Katrina?

Mr.HENKE. We have taken a look at our emergency contracting procedures and are trying to establish a core competency in the acquisition workforce to handle that. If you look at VA's response to Katrina, we had frankly a remarkable achievement. Our gulf port facility was completely destroyed. It was planned to be consolidated with the facility at Biloxi anyway, and we moved ahead and are now rebuilding—or expanding our campus in Biloxi, Mississippi. The VA care providers in the hospital in New Orleans, there are many of them who stayed in the bed tower, in the hospital in New Orleans tending to their patients and evacuating their patients as they could. And they could see from the hospital tower where their own homes had been flooded, had been destroyed. So we are actually quite proud of our performance and our response. We didn't lose a single patient and many of them were in critical care. But we did extraordinary things to evacuate them to safety. We quickly established three new community clinics in Hammond, Slidell and LaPlace, Louisiana, to re-establish the VA presence in the area and start to provide that care. And the workload for veteran patients

is showing up and is reappearing in the New Orleans area. So we are very proud of what the VA employees did in that region.

Mr.CHABOT. Thank you very much.

Yield back, Madame Chair.

ChairwomanVELÁZQUEZ. Thank you.

Mr. González.Mr.GONZÁLEZ. Thank you very much, Madame Chairwoman. First, it is going to be an observation.

Assistant Deputy Schneider, you made a comment about legislative language out there, about having full and open contracts that you think may impede. But let me explain, I guess, from the perspective of Congress. The purpose of that language that we are attempting to put in legislation is to address some problems. And one of those, of course, is to assure that we don't have a proliferation of no-bid contracts, for instance, or to make sure that we don't have favoritism based on political party affiliation demonstrated in the awarding of contracts. I will agree with you that we have to be very careful that there may be some unintended consequences which I think we can address. So I do appreciate the import of your observation, but I want everyone to be abundantly clear of why we would have such language.

My question to you would be the following, and it was somewhat addressed with the graphs and stuff. But I am still somewhat confused. In our memo, it says, although the Department of Homeland Security awarded 297 of its 340 contracts to small businesses, the total dollar value of these awards was negative in your responses to the chairwoman's questions. Let me see if I sort of understand this. Let us say you have 100 small business contracts each at a dollar, and that is the upper limit—because you are not real sure what it will cost at the end of the process. But at the end of this, you still have 100 contracts fully completed but you have de-obligated and you are down to $30 for those 100 small businesses. Now, you would still take credit for contracting with a hundred small businesses, would you not?

Mr.SCHNEIDER. The number of the small businesses that we contract with doesn't change.

Mr.GONZÁLEZ. Let me stop you there. Now, in reporting to us, would you reflect that you have contracted with the small businesses to the tune of $100 or $30?

Mr.SCHNEIDER. It would originally be—

Mr.GONZÁLEZ. No, no, no. I want to know, when we look at your figures, are you going to report to us that you invested $100 in small businesses or $30?

Mr.SCHNEIDER. The net ultimately would be reported as 30. The process would show a de-obligation in the system of what the excess money was. So initially but not to exceed would be recorded. Then when the work was done and the work actually came in at less money, what was not spent—because it didn't need to be spent—would then be de-obligated. And that de-obligation would show as a negative in the system. So you ultimately see the net.

Mr.GONZÁLEZ. I will tell you something. I don't know. Maybe my fellow members are in disagreement with me. We are really interested in the net. We understand how you have to do business, and I think it is good common sense to say, this is the ceiling, and you are not going to exceed it. I understand that. But I think for our

purposes to see what small businesses are really receiving in this country, we need to figure out what is the bottom dollar that any department or agency is actually paying to that small business. That is the reality. Let me move on to something else because I believe our time is going to be up.

Mr.SCHNEIDER. In response, I will submit these detailed charts so you will be able to actually track the flow by State, put in not to exceed, de-obligated and net.

Mr.GONZÁLEZ. I understand. But we have individuals out there that will be using the not-to-exceed numbers as representing the effort out there by a department or agency. I am just placing people on notice that, to us, that is irrelevant. It is totally irrelevant. If you are the business person on the end of this transaction, I guarantee you it is totally irrelevant.

The next thing is about miscoding. And I am going to quote from the memorandum. In looking at the data, the Committee found that hundreds of these contracts had been miscoded. Contracts with fire departments and cities have been listed as small business awards and then also subsidiaries of bigger companies. Now, you would think some of these subsidiaries may have misled you. But this is the comment that we have in the memo. More often, the companies made no effort to self-identify a small business. The miscoding then largely occurred at the agency level. Now, as it applies to FEMA and to the Department of Homeland Security, how do you respond to that particular assertion in our memorandum?

Mr.SCHNEIDER. I am not sure that the memorandum that you are reading from—yeah, I am not sure specifically how that is worded. But let me tell you a little bit about the coding. I went through after the last hearing with the contracts expert to actually understand how something gets coded in the system. And I asked the question, like, how many contract actions we have. We have 66,000 a year. So with an experienced contract expert, I went through them and I said, show me why it is so hard to enter this data. What they did was actually walk me through each of the lines and show how an experienced contracting officer, sometimes based on the choices you have, can make a mistake. Okay?

And that is why what we do is the following. We have been working closely with the GSA folks. We have identified approximately 20 different changes that could be made to facilitate the entry. We have an outreach program with all of our contracting people in terms of how we can do a better job of coding. In November 2006 and May of 2007, we reviewed 4,000 entries to see how many errors there were. We found errors, and we fixed them. What we try to do is figure out where in these lines are the errors being made and then let us focus on the attention to fix them.

The other thing I might point out is this. This is the very last thing a contracting officer does after they basically sign off on a contract. What we have found is that some of the practices vary. Sometimes they actually enter right after they sign off on the contract. Sometimes they wait until the end of the week. Sometimes they wait longer. And the longer they wait, the less fresh it is in their memory, and there is an opportunity actually for more errors. So I think we were aggressively looking at the errors, what causes the errors—

Mr.GONZÁLEZ. Secretary Schneider, because my time is going to be up. Look, I am not questioning your sincerity and everything. I think you were finding some of the problems. We just want you to hurry up and fix them. And let me explain why I am saying that. I have been handed some information that, in the spring, 106 miscoded contracts were identified. You still have them on the books as constituting small businesses when they are not. One of those is the water board of New Orleans. And I can name Oakley, Avery Dennison and Global Charter Services and such. So much of what you said right now, I don't think you have even instituted. We just want to see something that is a lot more aggressive, much more thorough in addressing these problems. When you give us these numbers about how you are engaged with small businesses, they are not representative. And we are starting off with some base information which is incorrect and inaccurate. So we are starting with a foundation that is faulty and trying to build on faulty foundations. That won't do anybody any good, whether it is Congress or the department or the agencies.

With that, I yield back. Thank you, Madame Chair.

ChairwomanVELÁZQUEZ. The Committee stands in recess subject to the call of the chair.

[Recess.]

ChairwomanVELÁZQUEZ. The Committee is called to order.

Mr. Preston, I want to follow up on the miscoding issue that was raised by Mr. González. As we all know, your agency is responsible for submitting an accurate report to Congress of small business goals. Yet the Committee found approximately 250 miscoded contracts in FPDS, the Federal Procurement Data System, for Katrina-related actions and most are still in the data. Since you have stated that cleaning up this problem is a priority, can you provide the committee with a timeline for when these errors will be corrected?

Mr.PRESTON. Yes. As you know, this has been a big issue for you, this has been something we publicly talked about a lot. Last year, I sent a letter to all the agency heads, along with people in the White House asking for clean data not only going forward but to restate 2005 and make sure 2006 was correct. We have worked with the agencies very extensively to get to a much cleaner output when we look at that data. Paul Bennett from OFPP has also asked all the Federal agencies to represent to the White House the validation and verification procedures they will have, having third parties do that. People are responsible back to him for that. We will be making a resubmission of the 2005 data available within the next few weeks. That is the result of many months of work with the Federal agencies. We think it is a much higher quality product.

I will tell you, 3 and 1/2 million small business actions a year, it won't be perfect. The other thing we are doing is we are working with the people at the GSA to make that data—every one of those lines of data publicly available and easier and in a more user-friendly format. We are working with people a lot in the process. We have a lot of support broadly in the administration. I think the agencies have worked very hard on this, but it is a very extensive

project I think that will continue forward for a while before I think we really get it right.

ChairwomanVELÁZQUEZ. When do you think this will be ready?

Mr.PRESTON. We will have 2005 and—cleaned up 2005 and 2006 data available this month.

ChairwomanVELÁZQUEZ. Mr. Schneider, I asked the Department of Homeland Security to identify five new prime contracts after our April hearing in New Orleans. And in your response, you included one that was posted prior to the hearing in April. So since I requested for each one of the agencies to identify five new contracts, I will ask you that you identify one new contract, one new prime contracts and explain to me first why, when I asked for five prime new contracting opportunities, you included one that was old.

Mr.SCHNEIDER. I wasn't aware at the time that one contract was old. I think it was the seven total, which were, I think, two over and above the five you asked for—

ChairwomanVELÁZQUEZ. Well, I want to—

Mr.SCHNEIDER. I will go back and find out why and we will take a look to see if there is any other additional contracts. But, you know, I don't know why the one. But we did provide five.

ChairwomanVELÁZQUEZ. Well, I will ask that, in the next 2 weeks, you provide information with the five new contracts going forward after the April hearing. My understanding is that two of the contracts were listed twice, so that is why you come up with the seven contracts. So we need accurate information. And I please ask you that you submit it to the Committee in the next 2 weeks.

Mr.SCHNEIDER. Sure.

ChairwomanVELÁZQUEZ. Mr. Van Antwerp, In your testimony, you mentioned that your debris removal contracts will be more small-business friendly. You mentioned 8(a) and HUBZone set asides. But now only one mechanism to ensure local firms are included. So my question is, why is it that you are not using set asides for local small business participation.

GeneralVAN ANTWERP. Ma'am, I am not sure exactly how we can code local small business. And we are trying to come to grips with this as we look at how we code them. But we have small business. But we will go after that local small business set aside.

ChairwomanVELÁZQUEZ. If your staff has problems in identifying or the definition, I would suggest that you get the assistance of the Small Business Administration.

GeneralVAN ANTWERP. Thank you, ma'am.

ChairwomanVELÁZQUEZ. Mr. Henke, at the hearing in April, Admiral Dunn, who represented your agency at the time, testified that the agency's policy for the veterans' medical center was to have large prime contractors and involve small businesses only at the subcontractor level. And he, in our exchange, basically made the statement that he thought, based on experience but not on data, that there will be no local small businesses that could do the job that was required. So in the contracts that you are submitting to the Committee, there were prime small business contracts for the VA medical center; right?

Mr.HENKE. Yes, ma'am.

ChairwomanVELÁZQUEZ. So, I guess that Mr. Dunn was wrong in his statement because when he came in April, he said there is no

way that we could identify or set aside five prime contracts for small business, yet you are submitting prime contracts for small businesses to our Committee. So what happened between then and now?

Mr.PRESTON. Ma'am, I am not exactly sure what Admiral Dunn said before the Committee. Perhaps the discussion was about the construction effort that the VA must undertake in New Orleans. But I know that when the admiral responded, when the VA responded in the letter, we did provide the five, and we are executing two of them this month and three of them next month. We expect to award all five here in the next month or two.

ChairwomanVELÁZQUEZ. You are expecting to?

Mr.HENKE. Yes.

ChairwomanVELÁZQUEZ. When.

Mr.HENKE. Two in August and three in September is the expected award date for these five efforts.

ChairwomanVELÁZQUEZ. Mr. Finley, at 4:30 p.m. Yesterday, DOD finally provided contracts in response to the Committee's request. These were all contracts that had already been awarded. The purpose of my request after the April hearing was for the agency to show what they planned to do going forward. What DOD did instead was wait until the last minute and then simply go back and pull from the contracts that they have already let. And I have to tell you that this demonstrates a lack of goodwill on the part of the department. And then to wait 4 months for you to comply with the Committee's request and not providing any new prime contracts, that is unbelievable. Four months. Sir, I thought that military time was more prompt than 4 months. Do you have anything to say?

Mr.FINLEY. Yes, Madame Chair.

First of all, I apologize for the very late response. The letter that you sent to us unfortunately did not reach our office in what you might consider a normal fashion. Everything gets checked for chemical, biological things. It came in through our normal mail and it—

ChairwomanVELÁZQUEZ. Two months—excuse me. What do you mean by, ″it didn't reach your office in a timely manner″?

Mr.FINLEY. It didn't reach our office in more of what I consider a timely fashion. I am not using it as an excuse. I am using it as an example of what slowed our system down.

ChairwomanVELÁZQUEZ. Sir, you have to check your system. This is the military. Huh? We send it electronically, too.

Mr.FINLEY. I will double check on that as well, ma'am. As a point of the contracts themselves, Madame Chair, I am not aware that these were already awarded prior to 4/12. My information was that these were awarded post-4/12. And I will take that question for the record, and we will get back to you on the facts of those programs. And if we cannot find that those are the proper timed programs, we will certainly work to identifying in the next 2 weeks five contracts that do fit post-4/12 awards.

ChairwomanVELÁZQUEZ. Those contracts were awarded prior to the April field hearing. I am asking you that you go back and identify five new prime contracts that will be posted after this hearing for local small businesses.

Mr.FINLEY. Okay. Ma'am.

ChairwomanVELÁZQUEZ. I ask that you comply in 30 days.

Mr.FINLEY. I will.

ChairwomanVELÁZQUEZ. Now I recognize Mr. Chabot.

Mr.CHABOT. Thank you, Madame Chair.

Mr. Preston, let me begin with you if I can. I just have a few questions. Not terribly in depth with anybody at this point. But did the SBA use the disaster response plan in response to the tornados that occurred a few months back that devastated Greensburg, Kansas? Because, obviously, Katrina was, you know, a number of years ago and you all came up with a different disaster plan, I think, which was supposed to be more efficient. And how did it work in the Kansas situation? What kind of differences—

Mr.PRESTON. In Kansas, also with the tornados in Florida and in many other cases, a lot of the changes that have occurred over the last year and many which are described in the disaster recovery plan were in place for those disasters. We saw a very responsive turnaround time both for people getting approved for their applications and actually getting disbursements. In fact, in Florida, the local newspaper highlighted the reforms of the agency and how responsive we had been down there.

Mr.CHABOT. Thank you.

And finally, for any of the panel members that might like to respond, I would be happy to give each of you, you know, a minute or so if you would like to just to maybe clarify anything that you think you would like to bring out in response to any of the questions that might have been asked or any points that you think that you didn't have adequate time to explain your answers. I would be happy to give you that time now, approximately a minute each. You don't have to take it. But if there is something you would like to clarify, I would be happy to hear it. I begin with you, Mr. Schneider.

Mr.SCHNEIDER. Yes, sir. I appreciate the opportunity. I would like to follow up on the discussion with Congressman González. His discussion of our concern about the appropriations bill where specifically that Section 537 where he, I think, used the term there may be some unintended consequences. We are very much worried about this. While our department clearly supports the tenets of competition and the benefits of it, basically the restrictions, the way we see this would be absolutely detrimental to all of our efforts in small business HUBZones, small disadvantaged businesses, woman-owned businesses, et cetera. So the Secretary is given by the statute very limited authority only in terms of national emergency. So anything that you can do, we would really ask for your support basically in conference in getting this turned around. This is a big deal for us, so we would appreciate your help in that regard, as well as frankly the salary lines for the account that basically funds the small business office.

Mr.CHABOT. Thank you. And we can just go down the line.

ChairwomanVELÁZQUEZ. Yield?

Mr.CHABOT. I would be happy to yield.

ChairwomanVELÁZQUEZ. Sir, can you explain to me more specifically how to have these full and open is bad?

Mr.SCHNEIDER. Yes, Madame Chair. Section 537 states none of the funds appropriated in this act may be obligated for a grant or a contract awarded by a means other than full and open competition other than a grant distributed by a formula or other mechanism that is required by statute. The Secretary of Homeland Security may waive the application of this subsection during a national emergency. So full and open competition is full and open competition for all businesses. That means we would, except in the case of a national emergency, not be able to set aside a procurement for small business. We are all for competition. We want the benefits to be able to execute the small business programs that we have been executing because we think they are absolutely essential to stimulate growth in that particular area of the economy.

ChairwomanVELÁZQUEZ. That is a matter for interpretation.

Mr.SCHNEIDER. This is one of the reasons why we have taken, our department, very strong exception to this because we believe we are significantly disadvantaged by that statute as currently written.

Mr.CHABOT. I reclaim my time, unless you need to continue, Madame Chair.

ChairwomanVELÁZQUEZ. Yeah. The issue at hand today is local small business participation. This is going forward. The fact of the matter is small business participation by each and every one of the agencies represented here in the gulf coast. And there is no way that we can rebuild the gulf coast region if we do not address the issue of fair participation by the same businesses, local small businesses that will be the ones creating the jobs, to help the region recover. This segment called for transparency, and that is good for big business and small business.

Mr.CHABOT. Reclaiming my time.

Ms. Doan, did you—

Ms.DOAN. I would also like to add that GSA believes the other way to revitalize the gulf coast region is by ensuring that local small businesses actually participate in the National Federal contracting arena. And that is one of the reasons why our GWACs are so important. If we can get them on the schedule, our GSA schedules, if we can get them on our other government wide acquisition contracts, it gives them a chance to participate in all of the Federal contracting dollars that are available.

And I appreciate, Madame Chairwoman, that you mentioned that the gulf coast region is more than just Louisiana. Because, for example, you know, Alabama was also affected, and we have 8(a) stars which are the 8(a) set-aside contracts awarded to gulf coast companies there. Each of these are ways, even though they are participating on a nationwide arena, to help revitalize that region. And GSA is small-business friendly. We are local-small-business friendly. And we will continue to work with this Committee to be aggressive in pursuing these opportunities. Thank you.

Mr.CHABOT. Thank you. And we can go down the line. If you don't need to take time, that is fine.

GeneralVAN ANTWERP. I might just very quickly say—give a status report. We are at about the pre-Katrina authorized level as we do the recovery, but that means we have got a very large effort to get to the 100-year storm protection. So there will be more oppor-

tunity here from the Corps of Engineers where we have a good acquisition plan to involve local small businesses in that next piece to go to the 100-year storm protection. And then, as I said earlier, for the advanced contracts to be ready for the next hurricane, we have the RFPN, and we have got a situation in place where we will use as much small business effort as they can provide.

Mr.CHABOT. Secretary Finley?

Mr.FINLEY. I will simply reinforce and endorse that local small business is the key, is the focus. We have boots on the ground through our PTACs in New Orleans, and we are absolutely using them as a focus and barometer of our success in making results happen in New Orleans in particular.

ChairwomanVELÁZQUEZ. Director Preston.

Mr.PRESTON. I want to say, in the last year, certainly some of the successes we have had down there as well as the lack of successes has taught us a lot this year. And it has allowed us to refocused our PCRs. We are in the process right now—in fact, I think we rolled it out last week, a tool to help Federal contracting officers electronically identify small businesses specifically in the preference areas to support their work. I think it has helped us get a much better degree of coordination across the agencies going forward. That is going to be a critical element. And certainly, just as the leader of the agency, it is put on my radar screen much more clearly in the realization that the leadership for this type of thing does need to be at the top. I think we are in a better position than we have been before, and we will continue to make good progress.

Mr.CHABOT. Secretary Henke.

Mr.HENKE. Yes, sir. I'd just make two quick points. The VA is very committed to ensuring that we meet our small business goals. We met them last year. Our goal is 23 percent. We made 28 percent. End of note, VA—as VA should be—we made the goal for service-disabled veteran-owned small businesses, one of two agencies to do that. We are proud of that accomplishment, and we are moving forward to implement new legislation that the Congress gave us last year, to put service-disabled veteran-owned and veteran-owned businesses at the head of the line.

Second point, sir, on the VA medical center in New Orleans, we are very committed—the VA is very committed to re-establishing a presence, a commanding presence in New Orleans. We want to put our medical center back down there. We do need Congress's help in one way. We have the $625 million appropriated for construction to build a facility. We have only $300 million authorized to do that. So we need congressional authorization to move ahead on that project when the time comes. We are very committed to a partnership with LSU in the area. And we are very close to a site selection. But this hospital in New Orleans, the VA facility will be a million—more than a million gross square feet. We hope it will include more than 140 hospital beds. The outpatient clinic has the capacity to receive 410,000 visits per year and a 60-bed nursing home. So we intend for this to be a state-of-the-art facility. We are pursuing collaboration vigorously with LSU and want to find ways we can collaborate and work together. We need congressional help to get the project fully authorized so that, when we come to the construction point, we can do that. Thank you.

Mr.CHABOT. Madame Chair, I yield back the balance of my time.

ChairwomanVELÁZQUEZ. Mr. Braley.

Mr.BRALEY. Thank you, Madame Chairwoman and Ranking Member Chabot for holding this important hearing.

One of the important pieces of legislation to come out of this Committee this year was a Small Business Fairness in Contracting Act which I was very proud to sponsor and which had overwhelming bipartisan support from the Committee as a whole and on the House floor where it passed with 409 votes. And the chairwoman and Ranking Member Chabot were both cosponsors of that legislation. So my question for the entire panel is, are you aware of the requirements of the act? And what, if anything, are your agencies doing to prepare for it in the event that the President signs it into law?

Mr.SCHNEIDER. I am not.

Ms.DOAN. I know there were several portions—and, yes, we are aware of the act, and our chief acquisition officer is working on a plan. One of the clauses, or whatever you want to call it, in the plan is, of course, the anti-bundling, and we at GSA, and I in particular, are very proactive in trying to prevent anti-bundling because it is probably one of the hardest things as a small business to try to perform on these really huge contracts. And I might add that is one of the initiatives that we are working on because one of the ways that we can prevent the tendency to bundle is to make our contracting officers comfortable with taking the risk and making those awards to small businesses and knowing that they can provide those goods and services, that they have that ability to excel. And that is one of the things we are working on, is to provide that guidance to our contracting officers so that they will give those small businesses a chance. And you missed my earlier statement, but I said I actually think that it is terrific. The small women-owned business clause is in it. We also have a group that is working on trying to make opportunities available to women-owned businesses. We are working on, how do we handle mid-size business opportunities? So, yes, we are aware of it. We look forward to working with the Committee on all the many aspects of this legislation.

Mr.BRALEY. Ms. Doan, can we take it from that testimony, then, you would be on record as supporting the anti-bundling provisions of the Small Business Fairness in Contracting Act.

Ms.DOAN. Actually when I was looking at it the other evening, there are four or five different clauses or phrases or caveats in it. And what we are doing at GSA is trying as hard as possible to develop our approach to each one of these. The ones that we can support, we obviously will. I will tell you that there are some challenges with it in that we have to balance this with the need to respond to other congressional requirements and other statutes. For example, enterprises architecture. Enterprise architecture in and of itself is in a way a sort of bundling because they are saying that you have to have one platform, one performing in a particular area. But those are things we will look forward to working with the Committee on trying to redefine and find ways to make these opportunities available to small business.

Mr.BRALEY. But can we take it from your testimony that you at least in concept support the idea of eliminating bundling obstacles that prevent small businesses from getting their fair share of the Federal pie?

Ms.DOAN. As much as possible whenever something comes over my desk that I have actually seen that implies there is bundling involved, I usually say no.

GeneralVAN ANTWERP. Sir, I am aware of the Fairness in Contracting Act, and I would agree with your statement that we want to make sure that we have removed the obstacles and so, in your words, eliminating the bundling obstacles. We are in agreement with that.

Mr.FINLEY. Sir, I would reiterate that we would very much like to work with the Committee on this. I personally have not reviewed the language. Bundling is something that we are opposed to. And from an acquisition strategy, we do everything we can to avoid it. But we very much would like to work closely with the Committee and perhaps yourself to better define what the concerns would be, if any, and work together to find a way out so that when it became law, we could implement it right away.

Mr.BRALEY. Mr. Preston?

Mr.PRESTON. I think the big issue for us is how to support the people at the table as effectively as possible. It will require us to really redouble our focus in ensuring that they see the right small businesses, that we see all the contracts that are available for small business to work our network. So, in some ways, I think it will up our workload, but that is a good thing because I think it will intensify people's focus on the small business needs and give us an opportunity to be in the middle of that process.

Mr.BRALEY. Administrator Henke.

Mr.HENKE. Sir, I am not familiar with the details of the legislation you cited. But the VA has a proactive effort to reduce contract bundling. It is required that we review every action that is $2 million or above. At the VA, we cut that threshold in half. We review every action over a million dollars. We have reviewed over a thousand contract actions and returned about 20 percent of those back to the acquisition professionals to say that this needs to be unbundled. So we take that effort very seriously.

Mr.BRALEY. Thank you, Madame Chairwoman.

ChairwomanVELÁZQUEZ. Mr. Jefferson.

Mr.JEFFERSON. I am going to commend you and the ranking member for the work that you have done in New Orleans and the field hearings, all the special attention you've paid is extraordinary. And on the awards received this past weekend from the Black Chamber of Commerce, the Mitchell award, the highest award they can give, I think you deserve it. And I appreciate the work you have done to continue the focus on the recovery of the gulf. Mr. Braley asked the question whether you supported his act. This bundling issue is one of the largest ones that we are dealing with down home. The question that I would like to ask is—because the chair lady is concerned, and we all are, about going forward. We know that it hasn't worked so far. Whatever you have done to deal with the anti-bundling issue hasn't really worked now. My question is, if you support this legislation, in what particular ways do you

envision undoing this issue of bundling? What specific steps are you going to take to make sure this doesn't happen in the future? Each of you, if you want to answer that. And the other question I want to ask—because Mr. Hsu came before us sometime ago to say that—he was the associate administrator for government contracting—who said that his job is to contact each agency under the leadership of Mr. Preston and to engage each agency in finding new opportunities for small business. I wonder, have you been contacted, any of your agencies, by Mr. Hsu? Has he gotten his program underway to help you identify—work with you to identify small business procurement opportunities? And has he emphasized the issue of local small business opportunities that we are emphasizing at this hearing?

Mr.SCHNEIDER. Well, Congressman, I will answer that last part first. The talking to Mr. Boshears, who is the head of our small business, yes, his staff has worked with our staffs looking at potential opportunities. So it sounds like that is working, at least from what Mr. Boshears tells me. I can tell you just—

Mr.JEFFERSON. What kind of schedule are you on with him to get back to him with some answers?

Mr.SCHNEIDER. It is an ongoing dialogue. And I would expect frankly that it would be because what we would be interested in is a continuing evolution to continuously identify those capabilities. I think as I indicated in response to your earlier question, I have not read that legislation. Just picking up from the discussion, clearly it addresses bundling. I can tell you that what we do in terms of our—from our contracting—from our chief procurement officer perspective and in her dealings with all the chief procurement offices in the department, what we do is encourage and we highlight the need to basically eliminate the bundling of contracts where it doesn't make any sense.

Mr.JEFFERSON. I'd encourage you to think hard about that, think about some new ways to get after this issue. Have you given this any thought, Madame Secretary.

Ms.DOAN. I have given it enormous thought. And the first thing I have done is, every time an opportunity has come across my desk that appears to be bundling, I say no to it. I did that my second week on the job with a $200 million award that was going to go to a large business. And I said this has to be offered to our small and minority business community before—

Mr.JEFFERSON. Have you given particular emphasis of this and what is going on—

Ms.DOAN. Yes. As a matter of fact, I did. And one of the things I realized is required is our contracting officers get a little risk averse because they have to write justifications or validations because of the nuances. Is it debris removal? Is it collections? So it occurred to me that I as administrator have the ability to issue a GSA order that gives them the cover, that basically says all contracts that are performed in the region—

Mr.JEFFERSON. This is something new you have come up with.

Ms.DOAN. Yes, it is, because I realize more has to be done in order to empower our contracting officers to—

Mr.JEFFERSON. This is a very recent action you are taking.

Ms.DOAN. Yes.

Mr.JEFFERSON. So you think this will cure some of the issues we are talking about here with respect to this fuzziness that may exist as to what agencies can and cannot do.

Ms.DOAN. I believe it will help. I intend to monitor it very, very closely. And since we will meet sometime after September 30th, I imagine I will be happy to present you with any results that we have had as a result of that. But I also believe that it is really important for us to work with our contracting officers. And our chief acquisition officer is providing training for them to make sure that they feel empowered to go to the local small businesses.

Mr.JEFFERSON. General?

GeneralVAN ANTWERP. First of all, I don't believe that we have been contacted from my small business people, so we need to make contact on that. Of your question with Mr. Hsu—

Mr.JEFFERSON. Mr. Hsu's job is to contact you and to try to advocate for small business, to find opportunities within your agency.

GeneralVAN ANTWERP. To my knowledge, we haven't been contacted yet.

Mr.JEFFERSON. What specific steps are you taking different from what you have taken in the past to deal with the bundling issue?

GeneralVAN ANTWERP. It is a great question. The best indicator is in our advance contract initiative. We have three task force orders that we have out there, and we have set two of those aside for small businesses. And that is because the theory before was, get someone that has the total capacity to do it in all different phases of it. But now we are breaking it up so it may be on a parish-by-parish level. So we are carving that out and taking those things apart, and we will apply them as the small businesses have capacity.

Mr.FINLEY. Congressman Jefferson, we have a regular discussion ongoing that the small business—Mr. Preston and myself stay in touch a couple of times every couple of weeks. Mr. Hsu has clearly been in touch with myself. He has been in touch with Anthony Martocchia, our new director of small business programs. This particular subject matter has come up. We in the DOD have been streamlining and simplifying our acquisition processes on a grander scale. And as it comes into small business programs, we are putting in metrics and our acquisition strategies have checks and balances to eliminate bundling. We are fundamentally opposed to this. We want more—

Mr.JEFFERSON. Is this a new procedure you are talking about?

GeneralVAN ANTWERP. These metrics are new, yes, sir.

Mr.PRESTON. I just want to say thank you for acknowledging Dr. Hsu. He is a true American success story. He was an 8(a) firm owner. And it is sort of a rags to riches story. We hired him because of his tremendous passion not only for small business. And he is very actively getting out there, meeting with the agencies as is his staff. So I appreciate your acknowledging that.

Mr.JEFFERSON. Is he getting results out of his work?

Mr.PRESTON. I think he is. The other thing he does is he chairs the Procurement Advisory Committee which has small business representatives from all the major agencies. And I can tell you the deputy or I are at all of the those meetings or at least a portion of them. Paul or Dr. Hsu chairs them. And I feel like there is—

even the dialogue among the agencies on these issues has expanded dramatically.

Mr.JEFFERSON. Anything with specific recommendations on the anti-bundling that you might pass on to the other agencies?

Mr.PRESTON. I think we are working with them on a number of those issues. I don't have anything specific here today. But what I would tell you is, we work very hard to see bundled contracts in the field. Our procurement center representatives look at those. A very significant percentage of the small business contracts that go out are awarded after we file actions to have agencies relook at those procurements and redesignate them for small business. And I don't have that data here today, but I would be happy to share it with the committee. So I believe that our interaction with the committees, with the other agencies is a very important part of getting those contracts to small business. And much of it is in looking at potential bundling situations.

Mr.HENKE. Sir, I do know that Mr. Hsu has been in contact with our small business office on a regular basis. I am not sure of the exact status of those discussions, but I do also know that Administrator Preston had a visit with our deputy secretary about 2 and 1/2 to 3 weeks ago. So that just reflects the level of dialogue we have with the VA, with SBA.

ChairwomanVELÁZQUEZ. Time has expired.

Mr.JEFFERSON. Can I ask one last—this is about the—there was a commitment on the part of the Homeland Security to go back and undue those things and let them be rebid. But most of us think that never really happened, that the old contracts were added to and people kept on. Am I right on that or have you unbundled those things and gotten them out for local folks to have a chance at them?

Mr.SCHNEIDER. Congressman, I don't know the details of that.

Mr.JEFFERSON. The no-bid contracts, the early ones that were put out, $500 million a piece—

Mr.SCHNEIDER. The large contracts I think are the ones you are talking about? What they did was—if it is the four big ones that were awarded immediately after Katrina where they were awarded to large businesses, we are in the final—I believe in the final closeout phase of most of those contracts. I might point out that roughly 70 percent of all the work under those four big contracts was done by small business, and so I think we are still in the closeout phase.

Mr.JEFFERSON. It is way down the—

ChairwomanVELÁZQUEZ. Would the gentleman yield?

You said 70 percent of those four large contracts were performed by small businesses. What percentage was performed by local small businesses?

Mr.SCHNEIDER. I do not have those numbers.

ChairwomanVELÁZQUEZ. Interesting that you remember the 70 percent but not the other one.

Now I recognize Mr. Braley.

Mr.BRALEY. Thank you, Madame Chairwoman. Certainly contract bundling was one of the principle focuses of the Small Business Fairness in Contracting Act, but another major component had to do with miscoding of contracts. And we discussed this at our earlier hearing on this issue and also during the field hearing. And

one of the problems that was identified during the field hearing was that, during an analysis of a list of over 15,000 Katrina-related contracts, hundreds of contracts had been identified as miscoded; 106 in the Department of Homeland Security; 79 at GSA; 71 at DOD; and totaling 259 at the relevant agencies.

And, Ms. Doan, let me start with you. Given the fact that the Committee has identified $4.6 million in miscoded contracts, including 79 that were counted as small business contracts that were not in fact awarded to small businesses, can you explain for us how it is possible to express satisfaction with your agency's small business achievements when they include so many awards to large businesses and nonprofits?

Ms.DOAN. GSA scrubbed its numbers, and we are standing by them. We can't actually certify the validity of the other agencies' data at this point. But when we were alerted by the SBA that there were some significant miscoding, we identified those, and we corrected them in May of 2007. So that is a very recent correction that we did. The contracting officers who are responsible for the procurements were not always the same people who were entering the data in the database. We have corrected that. And it is possible that the folks who had been entering them in were not sufficiently knowledgeable to complete the information. The contracting officers themselves from now on will be entering the coding and that can assure a level of validity that we didn't have previously to that. In addition to that, our chief acquisition officer is going to stress the importance in our current emergency response training program that we are hosting, and they are going to stress the importance of coding at the time of the award of the contract to ensure that the data is going to be accurate.

Mr.BRALEY. I wasn't able to tell from your testimony whether there have been any specific changes in interagency operations and procedures in direct response to miscoding problems. Has that been implemented in any formal way other than just a directive to do a scrubbing of the numbers.

Ms.DOAN. I believe that actually came from the SBA, and I think they sent letters to every government agency asking them to go in and scrub their numbers because each agency is responsible for its own numbers within the database. GSA has already done the scrub of its numbers as of May 2007. I think you will also find now that we have cleaned up the numbers—I think government wide, at least within GSA for 2005 and 2006. That allows the data that is now going to be certified for 2007 to be a lot more accurate.

Mr.BRALEY. Getting back to my question. Were there formal changes in policies and procedures within the agency to deal with the problem of miscoding other than in response to a directive from SBA?

Ms.DOAN. Yes. Our chief acquisition officer issued a letter to all of our regional contracting officers who are responsible for performing the contract work within GSA. And I will be happy to follow up with you and the Committee with the various letters and guidances that our chief acquisition officer has put out to correct these issues.

Mr.BRALEY. We would appreciate that. And also if there is any intended or anticipated training for these contract officers on the

coding problem that has been identified and to make sure that the numbers being reported going forward are accurate.

Ms.DOAN. There is training that is planned, and I will have the chief acquisition officer follow up with that information. I will take responsibility for sending that over to you and the committee.

Mr.BRALEY. And just for the benefit of my information, who is that?

Ms.DOAN. Molly Wilkinson. And she is our chief acquisition officer for the General Services Administration.

Mr.BRALEY. And does she report directly to you.

Ms.DOAN. She reports directly to me.

Mr.BRALEY. Thank you. Administrator Preston, one of the things you talked about was the need for better cooperation among the agencies. Do you remember that in your earlier testimony.

Mr.PRESTON. Yeah.

Mr.BRALEY. One of the things we have been dealing with a lot, in terms of implementing the recommendations of the 9/11 Commission, which we just voted on yesterday, is this whole concept of interagency interoperability, and that is breakdowns in communication system that prevent governmental agencies from communicating effectively among each other. Based upon your unique role in dealing with a host of Federal agencies in trying to reach the small business target goals pursuant to the directives from this Committee and Congress, have you identified specific factors that are preventing the type of interagency communications that can lead to better outcomes for small businesses in this country?

Mr.PRESTON. Yes. I think there are some, a number to point to. Some of it is interagency communications. Some it of it I think is enabling the agencies to do their job better and having us give them better support as well. I think there needs to be formalized bodies that interact on these issues consistently. And we do have a consistently standing meeting with all of the small business representatives at all of the agencies. As I mentioned before—and I am not sure if you were in the room yet—either I or the deputy participate in every one of those meetings now. We get readouts. It is a terrific forum for us to raise issues. We learn a lot of things we are not doing right, and it allows us to communicate out as well. It also gives me the ability to call people at this table if issues arise. So that is on the block in the tackling site. And I don't know that it can happen any other way than actually having that kind of communication and that accountability with individuals. On the systemic side, I think what we are seeing is there is a much better opportunity for us, especially with some of the improvements that GSA continues to make in the Federal procurement contracting system, for us to support people by getting them access to better data on who is out there, who is available to do contracting. And then putting our people in the mix to make sure we help the agencies connect the dots. We are also looking very specifically once again within our agency and the productivity of our people in the field in getting in front of contracting actions and ensuring that those get to small businesses where they should.

Mr.BRALEY. Thank you.

ChairwomanVELÁZQUEZ. Mr. Preston, I would like to address some questions to you regarding the improper loan cancelations

that was reported by the general inspector. And, of course, they are all related to victims from the gulf coast region. Did loan processing employees have any incentive to cancel or withdraw disaster loans in order to appear more efficient, yes or no?

Mr.PRESTON. The only incentive programs we had in place were to increase disbursements. It was clear based on what we were trying to achieve that the real issue was getting money into people's hands.

ChairwomanVELÁZQUEZ. Okay. Isn't it true that your agency gave bonuses to employees who resolve the most loans irrespective of whether that was by cancellation or approval?

Mr.PRESTON. I don't believe so. I believe that the only incentive plan in place had to do with disbursements.

ChairwomanVELÁZQUEZ. Mr. Preston, clearly the inspector general believes there was a deliberate effort by your agency to cancel outstanding loans. Was it?

Mr.PRESTON. No.

ChairwomanVELÁZQUEZ. If there was not a deliberate effort from your agency, then why were these loans cancelled?

Mr.PRESTON. Well, the inspector general report deals with a very specific campaign we had. One of the issues we had at the agency is that our interactions with people are primarily through the mail. People who needed help in New Orleans didn't have somebody to call. So we either took—we fully reengineered our process as you know and one of the things we did is we gave every individual a human being to talk to, to manage their cases. There were about 30,000 people that we—whose loans had expired.

ChairwomanVELÁZQUEZ. And that didn't work.

Mr.PRESTON. It did work.

ChairwomanVELÁZQUEZ. Were you able to have physical contact with those that applied for those loans?

Mr.PRESTON. Yeah. Out of the people that we did not get to, that the IG is focussing on, is about 3,000 people. These are people whose loans had expired. Historically they would have simply gotten a letter that said your loan expired. Instead we attempted to call every one of them. There were about 7,700 people that we could not contact. We left messages for them. Their loans had expired. We sent them a letter that said, your loan has expired. If you want to contact us in 6 months to get reinstated, please contact us. A week later we attempted to recontact everyone by phone; 1200 people said, actually, we don't want our loan reinstated—we don't want our loan cancelled, please reinstate us. About 3,000 we couldn't contact.

ChairwomanVELÁZQUEZ. Let me ask you. What harm could possibly have come from leaving these loans open for borrowers to use when circumstances permitted? We knew that some of these victims were no longer there, that they moved and they were living either in New York or with some relatives.

Mr.PRESTON. They have the ability even today, ma'am, to come back and reinstate those loans. We gave them a 6-month timeline. Our policy at the end of those 6 months is we extend it another 6 months. Today when borrowers come back and say, you know, I am sorry, my loan is expired, you haven't heard from me, we would still reinstate them today.

ChairwomanVELÁZQUEZ. Isn't it true that cancellations—that people that apply got a letter stating that their loans were cancelled even though they had not been contacted?

Mr.PRESTON. Their loans had expired. So they were given a timeline and that timeline was extended once to get back in contact with us and provide us closing documents. That had expired. So what we did was called out to say, do you really want this to expire or do you want us to extend it? Those people we couldn't contact after two call campaigns—there are about 3,000 of them—had their loans cancelled.RPTS SCOTTDCMN BURRELL[12:45 p.m.]

ChairwomanVELÁZQUEZ. We know that your agency—explain it to me. Maybe it is not so—has policies in place whereby a disaster victim's application may be withdrawn from consideration unilaterally. This is without express consent from the person who is applying for that loan.

So what proportion of loan applications from the 2005 hurricanes were withdrawn without the express consent of the applicant?

Mr.PRESTON. Well, I do not know. From that particular campaign, there were somewhat over 3,000 people, but once again, these are people we reached out to more than once, sent them a letter, and they said, ″Call us back if you want, and we will reinstate the loan.″

So, you know, let me just also mention, Madam Chairwoman, that I have looked at the e-mail traffic that went between the leaders and the call campaign people. I have looked at the call scripts. I have looked personally at all of the files the IG pulled, and these people in Buffalo who undertook this project are devastated by the implication that they were doing something inappropriate. They worked long hours, 7 days a week, with a tremendous heart of service here, and so I think, you know, we really need to look at the whole picture on this one.

ChairwomanVELÁZQUEZ. Of the 3,000 loans that have been canceled, how many of them did you contact?

Mr.PRESTON. Well, the 3,000 were the ones we did not, who we were not able to contact. So out of the 94,000—and what I cannot tell you is that I do not know how many of those people got back to us to reinstate, but if they called today, even today, they will still get reinstated.

ChairwomanVELÁZQUEZ. Yes. I understand that 1,200 borrowers requested to be reinstated.

Mr.PRESTON. That is right. That is correct.

ChairwomanVELÁZQUEZ. So it tells us that, if there is a contact between the agency and the borrowers, most probably they will ask for their loans to be reinstated.

Mr.PRESTON. No, I do not think that is the case. The vast majority of the people we contacted from that group either went to someplace or—of the 7,700 that we recontacted, that we tried to contact again—most of the people who we contacted did not want the loan, but they had gotten multiple written communications from us, and we have attempted to reach them at least twice telephonically.

ChairwomanVELÁZQUEZ. So you are telling me there was not a deliberate effort from your office to respond or to react to criticism about the backlog on these loans?

Mr.PRESTON. The criticism—and you know, I read this very carefully coming into the job. The criticism was that we were not getting money in people's hands. I did not see any criticisms that we had loans that we were—there was criticism that we were taking too long. When you look at the information we track, it is customer response times backlog, that kind of thing. So my view is I do not see any incentive for us to cancel loans. In fact, the only incentive people had was to disburse, and like I said once again, I have reviewed this pretty deeply.

Now, I will tell you there are thousands of people working these processes. I cannot tell you that every person on these phone calls, you know, conducts business the way we would like them to. You know, I get concerned that, you know, in some circumstances, people might—you know, nerves fray, whatever, but I believe, by and large, these are good people who cared about what they were doing.

ChairwomanVELÁZQUEZ. Mr. Johnson.

Mr.JOHNSON. Thank you, and I must apologize for being absent. I had a markup on the Judiciary Committee.

I wonder if each of you could take about 15 seconds to—do each of you have a spare sheet of paper, a blank sheet of paper, and something to write with? If you would, take about 15 seconds to just write down your definition of a ″small business,″ and if someone would be prepared—Scott, if you could, go down and collect those. It may sound crazy, but I think it is important. It does not have to be too verbose either. It can be pretty simple maybe with some dollar amounts down there also.

Do you have dollar amounts? Do each of you? Okay.

While we are collecting those, I might ask Mr. Preston a question. There is a memo dated May 10th of 2007 from the SBA Inspector General, which addressed an audit of the section 8(a) contracts related to gulf coast construction. The memo concluded that the handling of data collection was inadequate and that there was not one central collection point existing to compile data on the awarding of these loans or on how the loans were being spent.

Specifically, the Inspector General noted that the database tracking these loans was missing data because, according to the district office, that office was short-staffed, and the data was not being entered. In addition, the memo notes with concern that the database SACS/MEDCOR ceased to exist on April 30th of 2007 and that the interim database was not known.

My question to you is this: Is the situation with the 8(a) database—well, how does that situation affect the tracking of the 8(a) loans?

Mr.PRESTON. Okay. Are you referring to 8(a) contracts?

Mr.JOHNSON. 8(a) contracts. I am sorry.

Mr.PRESTON. Yes. The SACS/MEDCOR is an internal system, so what that does is it helps us follow how—it helps us work with information on the 8(a) firms.

What I would tell you is right now a lot of our systems, in my view, are deficient. Our systems that we use to work with 8(a) firms to track them, to work on their annual certifications and to work on their initial applications when they come in to us all need significant work. In fact, I just spent 2 hours with my team earlier this week to work out a pathway on how best to upgrade those sys-

tems because I think what it does—and correct me if I am wrong. Maybe Lurita understands this better than I do, but I do not think that affects how these people gather data on 8(a). It affects how we manage those firms and how we get data on how they are doing. So it is very important for us to improve that system as well as the other systems that relate to 8(a).

Mr.JOHNSON. I have noticed that neither the 8(a) nor the SACS/MEDCOR is addressed in the newly released disaster plan.

Mr.PRESTON. The newly released disaster plan deals with disaster lending and all of the issues around disaster lending. It does not address specifically the contracting side.

Mr.JOHNSON. So exactly what will be your plan? Do you have a plan for addressing those deficiencies?

Mr.PRESTON. Yes. We have a number of major projects in place right now that deal with two things—number one, improving our processes around helping 8(a) firms, making sure that we are compliant in what we do and also in making sure that we have the capacity to provide them business development and then, thirdly, in making sure that we can identify the right firms for the right contracts as they come up. A lot of this deals with, you know, as you rightly noted, IT systems.

Mr.JOHNSON. Okay. All right. Well, let me look at these definitions here.

Mr. Schneider, I think your answer was ″small business has a revenue of less than—″ and then it is blank.

Mr.SCHNEIDER. I left it blank because it depends on what the field, if you will, is that—and I forget what the code is an NC or NAC, depending on what your field is. It is graded by field, and it is graded by the number of employees, and I just do not remember what the field designation is. Prior to this, for 3-1/2 years, I was a defense consultant prior to taking this job 7 months ago. I was a small business. I just do not remember what the coding was because I know the criteria is different.

Mr.JOHNSON. What were your gross revenues?

Mr.SCHNEIDER. Very low.

Mr.JOHNSON. Okay. A private firm?

Mr.SCHNEIDER. Well, me. Plus, what I would do is contract out for temporary work depending upon the nature of the jobs. I also was an employee for a better part of that 3-1/2 years for one of the most successful women-owned small businesses in the State of California.

Mr.JOHNSON. How many employees—

Mr.CHABOT. Madam Chair, I would just note that the gentleman's time has expired and that, if he wants an additional minute or two I would be pleased to go with that.

Mr.JOHNSON. I would love to have an additional minute or so, but will we have a second round?

ChairwomanVELÁZQUEZ. This is the third round, basically. You may have an additional minute.

Mr.JOHNSON. Well, all right. I will note for the record that you have no idea what a ″small business″ is, Mr. Schneider, according to your definition.

Then from Ms. Doan, the definition of a ″small business″ is ″as per the NAICS and the SBA guidelines,″ but there is no definition.

Ms.DOAN. Sir, the NAICS code specifies certain categories, if you are in manufacturing with a size standard of 500 employees or more. If you are in technology, for example, it might be 2,500 or more employees. It might be that technology is like $23 million as your upward ceiling. Depending on what your line of business is, there is a NAICS code that corresponds with that particular discipline, and it gives you a size standard, and that is the definition of ″small business.″

Mr.JOHNSON. Okay. Then General Van Antwerp, ″a business that has certain limitations of size and capacity that distinguishes it from large business. A categorization is based largely on past contracts.″

ChairwomanVELÁZQUEZ. Mr. Johnson, your time has expired.

Mr.JOHNSON. All right.

ChairwomanVELÁZQUEZ. Okay. Mr. Chabot.

Mr.CHABOT. Yes. I do not have any more questions. I just want to make the point that, to be fair to the panel, I think that there are a number of definitions depending on whether you are in the construction industry or in steel producing or services. There is a whole range of definitions. So I think, if we got an exact answer from every one of the panel members, I would be very surprised, and my crack staff has advised me that the definition is ″a small business is one that is independently owned and operated and not dominant in its field,″ section 3(a) of the Small Business Act, 15 USC, section 632(a), which is what I would have said off the top of my head, of course.

ChairwomanVELÁZQUEZ. I guess the point that the gentleman is trying to make is, you know, how can we make sure that—look, the President in 2002, during the Small Business Week, made a great speech. He said, ″This is my small business agenda.″ the number one priority on top of that agenda was to unbundle contracts, and so the direction has to come from the head, from the chief secretary, from the secretaries of the different departments, to instruct and to make sure that the contracting officers comply with the contracting goals for small businesses. I guess that he is trying to make—

Mr.JOHNSON. Would the gentlewoman yield?

ChairwomanVELÁZQUEZ. Yes, sir.

Mr.CHABOT. It is my time, but I will yield.

Mr.JOHNSON. All right. Thank you. Thank you.

I was leading up to the fact that ITS, which has $69 million in contracts with Homeland Security, is a company that in 2004 reported revenues of $108 million with 950 employees. Yet, they are qualified as a ″small business.″ SRS is a company that just was purchased for $195 million, a company with $294.3 million in revenue in the first quarter of 2007, but it has got $32 million worth of contracts. Also, last but not least, Clear Brook, has multiple contracts, one that is more than $16 million, but you know, it is another company whose Federal paychecks were suspended in 2005 when the DHS Inspector General found that they had overcharged the Government by millions of dollars. Yet, they are receiving small business contracts as well.

Thank you.

Mr.CHABOT. Reclaiming my time, I think this hearing has been helpful to the extent that it continues to focus attention on the need to make sure, to the extent that we are able to, that small businesses do get their fair share of contracts whether it is Katrina or anything else.

I also want to thank the panel for their testimony, each and every one. This can be a very challenging Committee to testify before, maybe not to the degree it is if you are on patrol in Baghdad or something, but as things go it is pretty challenging, and I think the members have done very well, but I am sure the Chair and this Committee will continue to keep an eye on it to make sure that the small business community in this country is being served well.

I yield back my time.

ChairwomanVELÁZQUEZ. Thank you, Mr. Chabot.

One thing is clear. We have a lot of work to do, and we will be exercising our responsibility of this Committee in terms of oversight. People love to talk to us and preach in this country about accountability. So we are going to hold the agencies accountable, and this is the responsibility that we have as good Americans in terms of helping in the reconstruction and in the rebuilding of the gulf coast. We cannot accomplish that without an important element.

Do not come here and talk to me about small businesses in general. We are asking about local small business participation from the gulf coast. We will be coming back, and you will be asked to report on the progress.

With that, I want to thank all of the witnesses for your cooperation and for your testimony here today. The Chair will ask unanimous consent that any statements admitted for the record be accepted.

Hearing adjourned.

[Whereupon, at 1:05 p.m., the Committee was adjourned.]

STATEMENT
Of the
Honorable Nydia M. Velázquez, Chairwoman
House Committee on Small Business
"Disaster Planning and Recovery: Are We Ready for Another Katrina?"
August 2, 2007

I now call this hearing to order. This hearing continues the Committee's examination of the government's response to Hurricane Katrina. With hurricane season upon us, it is critical that we fully understand the ability of federal agencies to serve those affected by large scale disasters.

This past April, the Committee held a field hearing in New Orleans to review the government's efforts to include local, small businesses in Hurricane Katrina recovery contracting. What we found was disappointing.

The Committee uncovered miscoded contracts and missed opportunities. Local, small businesses testified at the hearing that they were unable to get prime contracts – and that contracts were being awarded to large firms from out-of-state. The agency's own data supported this testimony.

At the end of that hearing, I told the agencies that the Committee would continue to monitor their contracting practices in New Orleans. So I have brought them back today to update the Committee on their progress.

Today's hearing will explore what has been done since we met in New Orleans. We will also look at any institutional changes that may have been made, updated statistics, and plans for future contract awards.

But, I have to say, I am disappointed with the submitted testimony. Not one of the agencies testifying today has made local, small businesses a priority. The testimony does not focus on specific and measurable ways to include these **local** small businesses in the rebuilding effort. At this point, I would expect less lip service and more action.

The use of local and small businesses is vital to the recovery of the Gulf Coast. These agency witnesses acknowledged as much at our last meeting – in front of local, small business owners. Today we are going to find out why more action has not been taken.

When we talk about the federal government's response to disasters, we generally talk about SBA's disaster loan program, and with good reason. In the aftermath of the Hurricanes, thousands of small businesses turned to the SBA for financial assistance, but instead only found frustration and difficulty.

Over 204,000 applications sat mired in a loan processing backlog that took well over a year to process. Those victims who were approved for loans often waited months to receive any funds.

We are also beginning to learn that the agency's efforts to improve the backlog employed some very aggressive tactics, which left many disaster victims without the help they needed. A recent SBA Inspector General report confirmed this and this Committee continues to review these findings.

In addition to these concerns, the SBA released a Disaster Recovery Plan that falls short of making the necessary cultural and workforce changes to remedy these past problems. While we do want to spend time examining this plan, we also need to talk about government-wide plans to increase contracting opportunities for local small businesses.

For the agencies here today, it must be a priority for them to ensure that small and local firms are part of any rebuilding process following a disaster. As Louisiana, Mississippi, and Alabama begin the long process of reconstruction, we are already seeing the important contributions that can only come from these businesses. Small firms are the largest job creators and the engines that power economic growth. Clearly, the federal government must focus on prioritizing these companies in its Gulf Coast recovery efforts.

I look forward to the testimony today.

I now recognize Mr. Chabot for his opening statement.

Opening Statement

Hearing Name	"Disaster Planning and Recovery: Are We Ready for Another Katrina?
Committee	Full Committee
Date	8/2/2007

Opening Statement of Ranking Member Chabot

"No one disputes the fact that the federal government's response to the Gulf Coast hurricanes in 2005, particularly Katrina, was inadequate. The Committee held a field hearing in April to assess the state of small business involvement in the recovery. I commend the Chairwoman for her diligence in the continued oversight to ensure that the recovery efforts utilize local small businesses to the extent possible.

"Local small business involvement after a disaster is crucial to economic recovery. Without economic recovery, an area will never return to its pre-disaster status. Businesses located in the area have a vested interest in ensuring the economic vitality of the region that they call home. Local businesses will hire members of the community to perform the work associated with response and rebuilding. Funds disbursed will stay in the local area because the business and the employees are local.

"Participation by small businesses in disaster response and recovery certainly is valuable to the community. However, that must be tempered by the realities on the ground related to the disaster. Federal, state, and local agencies certainly should have in place disaster response plans that call for the participation of small businesses but also recognize that the primary mission is health and safety and that must take priority over small business participation.

"To make these types of decisions, it is necessary to have a comprehensive set of emergency response plans in place. I know that Administrator Preston has worked diligently in deriving an emergency response plan – one that provides the necessary response but recognizes that federal agencies operate under certain fiscal constraints. I am sure that the witnesses at the table will ensure that proper coordination takes place among the agencies in response to the next major disaster and the mistakes associated with the response to Hurricane Katrina are not repeated.

"In closing, I would like to thank the distinguished members of the panel for coming here today to explain the actions they have taken to enhance the participation of small businesses in disaster relief and recovery.

I yield back the balance of my time."

Statement of The Honorable Jason Altmire
House Committee on Small Business Hearing
"Disaster Planning and Recovery: Are We
Ready for Another Katrina?"
August 2, 2007

Thank you, Chairwoman Velazquez, for calling today's hearing to follow-up on the field hearing this committee held five months ago in New Orleans. Unfortunately, despite the recommendations this committee made in April, it has become apparent through the submitted testimony that too few changes have been made to ensure that small businesses are being made a made a priority in the rebuilding effort taking place in the Gulf Coast.

The best way to help the Gulf Coast repair itself is to fuel the local economy. The federal government has failed to reach out to local small businesses despite the recommendations this committee has made. More needs to be done by the federal government to revitalize small businesses in the Gulf Coast.

This committee will continue to examine contracting practices made by the six federal agencies that are here with us today to guarantee that Gulf Coast small businesses are included in the reconstruction effort.

Madam Chair, thank you again for holding this important hearing today. I yield back the balance of my time.

# # #

TESTIMONY FROM
THE HONORABLE PAUL A. SCHNEIDER
DEPARTMENT OF HOMELAND SECURITY
UNDER SECRETARY FOR MANAGEMENT
BEFORE THE HOUSE COMMITTEE ON SMALL BUSINESS
Washington, DC
August 2, 2007

Ms. Chairwoman Velázquez, Congressman Chabot, and Members of the Committee, thank you for the opportunity to examine the actions the Department of Homeland Security (DHS) has taken to increase contracting opportunities for local small businesses affected by disasters.

As you know, I undertook the job of Under Secretary for Management at DHS eight 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.

The Federal Emergency Management Agency (FEMA) is the Department's lead disaster operational component and, as such, is the focal point for preparing for and responding to disasters. Its role in these matters was strengthened by Congress as a result of the Post Katrina Reform Act, "Local Community Recovery Act of 2006," which significantly enhanced FEMA's ability to provide local small business set-asides for disaster affected areas. FEMA has a key role in engaging the small business community and directing the maximum share of dollars back into local economies affected by disasters.

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, Public Law 109-295. The amendment required that contracts for major disaster assistance activities be preferentially awarded to local businesses.

FEMA responded to the change in legislation through adoption of new procedures and strategies that facilitate the maximum level of engagement with local contracting communities. Prior to issuing a solicitation, FEMA conducts 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 price evaluation preference. If no such business is available, the scope of the set-aside 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 set-aside is expanded to the state level, then to the Gulf Coast Region, and finally open to a national pool of contractors. Contract files document the determination and findings regarding the availability of capable local firms.

On June 22, 2007 the U.S. Small Business Administration (SBA) provided the committee with an informational list of DHS contracting opportunities to small businesses, including small businesses affected by hurricane Katrina and other disasters, utilizing the local set-asides discussed above. The list provided seven small business contracting opportunities ranging from construction, to professional, administrative, and management support services, to information technology services, including telecommunications services and communication, detection, and coherent radiation equipment.

DHS is committed to a unified team approach that involves senior management, small business specialists, acquisition personnel and program staff in efforts to support the critical homeland security mission and at the same time meet the important public policy objective of small business inclusion in the Federal market place. As such, DHS's Office of Small and Disadvantaged Business Utilization (OSDBU) and the DHS component agencies (Customs and Border Protection, Federal Law Enforcement Training Center, Immigration and Customs Enforcement, Transportation Security Administration, FEMA, 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 programs within their respective organizations.

Since its establishment in 2003, the DHS small business goal achievement has had a solid track record. In FY 2006, DHS achieved 31.62% in small business prime contracting and 10.75% for overall small disadvantaged businesses (SDB) (6.18% 8(a), 4.57% other SDB) for a total small business obligated dollar amount of over 4.4 billion dollars ($4,400,575,711) and a total overall SDB obligated dollar amount of almost 1.5 billion dollars ($1,496,530,345). 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 FYs 2006 and 2007. The Government–wide small disadvantaged business goal is set at 5% (2.5% for 8(a) and 2.5% for other SDB), and DHS has raised its own SDB goal to 8% (4% for 8(a) and 4% for SDB) for FYs 2006 and 2007.

The U.S. Small Business Administration (SBA) has 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 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 has obligated to date approximately $8.995 billion for recovery. Of this total, DHS has awarded 28% of the contract dollars to small businesses and 8% to small disadvantaged businesses. These achievements are depicted in Figure B.

FIGURE B
Hurricane Katrina and Rita Socio-economic View
Aug 29, 2005 through July 18, 2007

Dept.	Total Obligations	Small Business		Small Disadvantaged Business		Woman-Owned		HUBZone		Service-Disabled Veteran-Owned Business	
DHS Katrina & Rita (to include FEMA)	$8,995,086,121	$2,488,742,312	27.7%	$689,029,774	7.7%	$383,927,872	4.3%	$324,209,766	3.6%	$117,433,293	1.4%

Information as of 07/19/2007 10:00 A.M. EST. Source: FPDS

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 as depicted in Figure C.

FIGURE C:
FEMA Vendor Obligations by State (Vendor Location)

Vendor State	Dollars Obligated	Percent of Total Dollars
LA	$884,761,256	10.3%
AL	$198,525,335	2.3%
MS	$187,000,204	2.2%
TX	$558,025,382	6.5%
TOTAL	$1,796,645,642	21.3%

Information as of 07/18/2007 10:00 A.M. EST. Source: FPDS

II. 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 four companies--Bechtel, CH2M Hill, Fluor, and Shaw- based on the need to fill urgent requirements. The IA-TAC I contractors supported the disaster relief housing mission. At the current time, no additional IA-TAC I requirements exist, and these four contracts are in close-out phase.

All four contractors utilized small businesses and local businesses as subcontractors to a large extent during contract performance. 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 of those dollars:

	Bechtel	CH2MHill	Shaw	Fluor
Small Business	81.9%	75.8%	66.3%	66.5%
Local Business	70.3%	44.8%	78.0%	52.9%

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 compete directly for future prime contracts and support FEMA's 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.

Since the expiration of the IA-TAC I requirements last year, many of 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 directed at participation from entities within the local affected communities to fulfill many of the responsibilities originally performed under IA-TAC I. These requirements were divided into four separate work statements for

services: (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 to small businesses during April and May 2006 for the Gulf Region. Each contract has a ceiling of $100 million over a maximum five-year period.

Participation in the MDC bidding process was limited to 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 I contractors to the MDCs. 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 participation by 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 2006 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 which provided security services for the group sites in Mississippi and Louisiana. FEMA recently conducted a competition off the GSA schedule directed at local firms. Three task orders were preliminarily awarded; one for Mississippi and two for Louisiana. One of the Louisiana awards was to a HubZone Small Business. This requirement is currently under protest.

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 to support the 2006 hurricane season. 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.

- 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. It 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 Quantity (IDIQ) contracts to Louisiana small businesses and four HubZone-certified small businesses in Mississippi for the hauling and installation of UFAS-compliant trailers and the building and installation of UFAS-compliant ramps. This requirement enabled FEMA to provide disabled FEMA applicants with temporary housing that complies with the timelines set forth in a settlement agreement entered into in federal class action lawsuit, *Brou vs. FEMA*. Requirements in Louisiana have decreased since award in September 2005, and contractors have met all

requirements in Mississippi. Performance is continually monitored for timeliness and quality assurance for the contractors in Louisiana still meeting requirements.

- Group Site UFAS Modifications: In early March 2007, FEMA awarded a contract to a Louisiana 8(a) Tribally-owned HUBZone firm to support the retrofit of approximately 40 group and exclusive sites to meet UFAS. This procurement represents a significant step forward in FEMA's ability to support the disabled community, as well as local small business concerns.

III. Awards Made in Response to Recent Midwestern Disasters

Small and local businesses partners in the Midwest have been integral in meeting FEMA mission requirements resulting from the tornadoes which hit Greensburg, Kansas and the flooding which occurred in Missouri this past May. In both areas, FEMA utilized small and local utility companies in order to restore basic needs back to the affected communities. In addition, many small and locally-owned businesses and franchises of national companies provided a number of goods such as potable water, ice, equipment rental, vehicles, box trucks, tents, gasoline and diesel fuel, temporary toilets, pest control, copiers and many other goods. Electricians, plumbers, and carpenters based in the local area have also provided many services to assist in rebuilding efforts.

IV. Upcoming Opportunities for Small Businesses

The following is a list of current solicitations posted on Federal Business Opportunities which are set aside for small and/or local businesses:

- Trailer deactivation services in Louisiana and Mississippi;
- Forklift and heavy equipment rental in disaster-affected areas of Alabama and Mississippi; and
- Support in providing an assessment of the public water and sewer infrastructure in the City of New Orleans.

V. 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 and to conduct meetings with interested vendors/contractors during which they may present their respective company capabilities and performance record.
- Active use of FEMA's small business program representative to network and connect with interested vendors of various socioeconomic groups, track small business statistics, and gauge FEMA contracting metrics against Agency goals set by the SBA.

- 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, including the 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.

Thank you for your leadership and your continued support of the Department of Homeland Security and its small business program. Also, thank you for this opportunity to be here today. I am happy to answer any questions that you may have.

STATEMENT OF LURITA DOAN

ADMINISTRATOR OF GENERAL SERVICES

BEFORE THE

COMMITTEE ON SMALL BUSINESS

UNITED STATES HOUSE OF REPRESENTATIVES

AUGUST 2, 2007

Thank You Madame Chairwoman, Ranking Member Chabot, and members of the committee. It is a pleasure to be back before the House Small Business Committee again to testify on the status of small and disadvantaged business opportunities and successes at the General Services Administration (GSA), an issue that is extremely important to me.

I have often said that GSA is a good friend to the small and disadvantaged business community because the GSA Schedule is often the first and best opportunity that a small business has to become a Prime Contractor for the Federal Government. It is not a gift, and participation must be earned, but it does provide opportunity, and, in the United States, an opportunity is all that is needed to place entrepreneurs on the path to success.

Greater involvement from, and greater opportunities provided to, the small business community has been one of my Agency's and personal priorities since my first day as Administrator at GSA. And, I am pleased to report that GSA has made great progress in the past 14 months. But, I will be the first to tell you that, given my goals, given my ambitions for small and disadvantaged business opportunities at GSA, and the groundwork I wish to lay for future stability in this area, there is much more that I hope to accomplish during the time that remains for me at GSA.

I know we are here today to discuss small and minority business challenges and how we can work collaboratively to make more opportunities available to the small business community. Some of the challenges that directly affect small and disadvantaged businesses that I will be addressing during my time as Administrator of GSA are:

- On Time Delivery of Contract Awards
- Reduce time for Award of GSA Schedule Contracts and reduce time for Schedule Contract Modifications
- Bundling
- Increase transparency and standardization of RFP and contract requirements
- Assistance in obtaining higher ceilings on construction bonding
- Increase Opportunities for Veterans,
- Increase Opportunities for HubZone Businesses
- Increase Opportunities for Minority Businesses
- Increase business opportunities in the Gulf Coast Region
- Assist entrepreneurs with opportunities in international markets
- Create new Lines of Business to provide expansion into new markets
- Provide increased training on doing business with GSA
- Provide opportunities for small business to play a greater role in energy efficiency initiatives

GSA has two opportunities to make small and disadvantaged business opportunities available, first through the goods and services that we procure on behalf of our Government client agencies, and second; through the goods and services that GSA procures for our own internal use.

GSA has had some challenges in meeting its target goals since GSA, traditionally, has chosen to give the small business credit for procurements back to its Government customer agencies on whose behalf we are purchasing goods and services. As a result, GSA always comes up a little short in the overall statistics each year. However, internally, on procurements that are completely within GSA's control and purview, I am pleased to report that GSA has an excellent record. My goal is to ensure that GSA excels on both external and internal procurements.

GSA has had some outstanding successes. The award of contracts to 44 companies under the VETS GWAC valued at $20 billion dollars provides all of our Government customers with cost effective pricing and an opportunity to meet or exceed its Service-disabled veteran-owned small business goal.

One of our more recent procurements, for example, GITGO, the internal GSA Information Technology Support contract, is valued at $200 million and was awarded last quarter to a service –disabled veteran-owned, 8(a) company.

Another way that GSA is trying to bridge gaps is to increase opportunities and assist entrepreneurs with finding prospects in international markets. To that end, I recently met with my counterpart from the Republic of Korea to discuss ways that our small business contractors could have access to Korean markets and participate in reciprocal mentoring opportunities. This is only one of several of GSA's counterparts in other countries that we are engaging in dialogues to find ways to further the opportunities for commerce for small businesses.

On behalf of our many Government customers, GSA looks forward to the award of Alliant Small Business in the near future, a government-wide acquisition contract that will make it easier for GSA's many Government customers to have access to additional small and disadvantaged businesses and have access to their innovative products and services.

I have an excellent and committed team of procurement professionals, and I am going to keep cutting red tape and pushing to make sure that any small company is going to have a much easier time doing business with GSA.

Holding Prime Contractors Accountable

One of the truly aggressive innovations to serve the small business community, and an initiative of which I am quite proud, is the modified invoice format that GSA is requesting in its upcoming internal procurements. GSA intends to lead

by example in the area of greater accountability in small and disadvantaged business contracting. Prime contractors, who are not small businesses, are asked to track on each invoice all subcontractors who have performed work billed under a particular invoice. The prime is also asked to indicate what percentage of the value of the contract that work constitutes, both for the current invoice and for the overall contract. In this way, the GSA contracting officers and project managers can ascertain if prime Contractors are achieving the agreed upon goals.

Making Opportunities Available Faster
One concrete improvement we have made during my first year involves helping small businesses navigate their way through the GSA schedule process. Though many doubted it could be done, we are seeing successes in slashing the time it takes for a small company to negotiate a GSA schedule from over 157 days to in some cases 30 days. In addition, we are also applying these same efficiencies to the process of negotiating and awarding contract modifications.

We're going to keep pushing to make sure that any interested and qualified small firm can submit an offer to obtain a Schedule contract, that we do a thorough job of tracking that participation, and that we continue our numerous outreach events aimed at educating small businesses on how the process works.

Increased Transparency in GSA Processes
GSA is focused on making its processes transparent to its small business partners. To that end, GSA has continued to host a series of monthly training and outreach sessions in cities throughout the US. In addition, GSA has been revamping its IT procurement systems to ensure they are more user friendly for our customers and for our business partners.

Increased focus on Revitalizing the Gulf Coast Region
On a national level, GSA has significantly increased its spending on small businesses to $1.7 billion. More than 32 percent of all procurement dollars spent by GSA are going to small business. However, in the Gulf Coast states of Alabama, Mississippi, and Louisiana, GSA continues to outperform our already impressive national small business numbers. I am proud to tell you that, for the 3rd quarter of Fiscal Year 2007, April 1 through June 30, 2007, over 79% of contracting actions and over 62% of contracting dollars for work done in the Gulf Coast States of Alabama, Mississippi and Louisiana have gone to small businesses.

The Greater Southwest Region of GSA has issued seven new prime contractor awards to Louisiana small business firms for work in the State of Louisiana.

Last June, the small business firm, Argote, Derbes, Graham, Shuffield and Tatje of New Orleans Inc. received a task order to update an appraisal for the former Department of Energy Weeks Island Facility in New Iberia, Louisiana.

The small business firm, Braithwaite Construction Company Inc., of Meraux, Louisiana, received two task orders. Last April, they received an order to repair water drains in the elevated walkways at the entrance to the Hale Boggs Federal Building Courthouse in New Orleans. In June of this year, Braithwaite received a task order for the installation of vehicle crash barriers at the entrance and exit ramps to the basement parking at the John Minor Wisdom Courthouse in New Orleans.

Last May, the small business firm, Moses Engineers, of New Orleans, received a task order for pre-design analysis of space renovations at the Border Patrol Station in New Orleans.

The small business firm, J. Graves Insulation of Shreveport, Louisiana received two task orders in May 2007 for asbestos abatement work in New Orleans. The first task order was to abate the 1st, 2nd, 3rd and 4th floors of the US Custom House in New Orleans. The second task order was to abate the switchgear room floor tile in the Hale Boggs Federal Building Courthouse in New Orleans.

The small business firm, American Moving & Storage of Leesville, Louisiana also received a task order last May for relocation services for the FBI Offices in Shreveport.

Increased Opportunities in Emergency Response and Recovery
As a native of New Orleans, and a former small business owner, I understand the importance of small businesses in New Orleans. One of the reasons I accepted President Bush's nomination to become the Administrator of GSA is because I knew that I could retool GSA's abilities in national emergencies and disasters.

Since I became Administrator, GSA has completely retooled our emergency response capability, and created a single Office of Emergency Response and Recovery that reports directly to the Administrator. In this way, all of GSA's abilities and resources have been more sharply focused and our ability to respond more quickly has been fundamentally improved. When the next hurricane or disaster strikes, GSA will be much better prepared and organized to respond.

GSA employees have engaged their innovative energies and are continually finding new and better ways to save taxpayer money and help our folks in the Gulf Region. One example of that is the GSA Disaster Response Vendor database. This database, the most comprehensive of its kind, has over 1,400 companies listed. We are certain that it will be a significant asset after future disasters.

Another innovation is our new Disaster Recovery Purchasing program for state and local Governments. This program allows state, local and tribal agencies to access the GSA Schedule to speed recovery from a major disaster or act of terrorism. The Cooperative Purchasing initiative means increased opportunities for small businesses which are located in these communities and is one of the reasons that the transformational change we have made in the time it takes to award Schedule contracts and process Schedule contract modifications is so very important.

During my first year as Administrator, GSA has had some good success in opening doors to small businesses and in retooling our abilities to meet the next national emergency. As I reported in April, I directed that the restoration of GSA's most historic property in New Orleans, the US Customs House, have subcontracts performed by small, minority, **locally-**based companies. Our commitment on the GSA flagship property of the New Orleans' US Customs House echoes a much larger commitment that GSA has to small and minority businesses.

Madame Chairwoman and members of the committee --- I know from first hand experience that the Gulf South is a hot bed of entrepreneurialism. As a Black woman and former small business owner, I am extremely passionate about removing bureaucratic barriers that stand between small, women, service disabled veteran, HubZone and minority businesses and Government contracting opportunities. I have worked hard to initiate changes that would make GSA more efficient in serving our client agencies and in helping small businesses do business with the Federal Government.

I have made seven official trips to the Gulf Coast region since becoming GSA Administrator and will be going back again next week. GSA hosted or participated in more than 25 small business events in the Gulf Region, and we are going to have more national and regional conferences there. Next week, on August 9, we will be holding another small business outreach conference at the World Trade Center in New Orleans. We are directly bringing value by making more opportunities available for local businesses. By bringing the Federal Government conferences to this area, we indirectly are helping small and local business owners around the region by bringing in business that would otherwise go to a different place.

Creating a Culture of Innovation

GSA is doing some real good in the small and disadvantaged business community, but there is always more that we can do, and the GSA management team is working to instill, in its procurement professionals, a commitment to a culture of innovation and continual improvement.

I am one of the few Government agency heads who was an entrepreneur, who was a former small and minority business owner, and who was also a Federal Government contractor. I can speak from experience when I say that starting a business is hard, that sustaining and growing a business is even harder and that doing business with the Federal Government is perhaps, sadly, hardest of all. I am determined, as the Administrator of GSA, to do whatever is within my power to ensure that doing business with GSA is not one of those hardships.

I understand and appreciate what it takes for small firms to succeed. They are not looking for handouts and they have the will and the drive to compete for opportunities. Our country needs this competitive spirit. You won't find an agency more committed than GSA or an agency head that is more passionate about this cause than I am.

Small businesses are vital to the success of our economy and our country. Starting from our very origins, small business owners, such as Paul Revere and Ben Franklin, have made this country great. Entrepreneurship is a great American tradition that has formed the bedrock of our country's phenomenal growth and economic success and, it will create the momentum of our country's future successes. I intend for GSA to be one of those Government agencies that provides the opportunities that make the successes possible. You have my commitment that I will persevere, and you have my promise that if it's broken, I will work to fix it.

Thank you again for this opportunity. I look forward to further discussion of how we can increase small and minority business opportunities in Federal Government procurements.

Testimony of

The Honorable Dr. James I. Finley

Deputy Under Secretary of Defense
(Acquisition and Technology)
U.S. Department of Defense

Hearing of the
U.S. House Committee on Small Business

on

Small Business Contracting Opportunities After Hurricane Katrina

August 2, 2007
Washington, DC

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The Department of Defense
Small Business Contracting Opportunities After Hurricane Katrina
Follow-up to New Orleans Field Hearing

The Honorable Dr. James I. Finley
Deputy Under Secretary of Defense
(Acquisition and Technology)

Chairwoman Velázquez, Ranking Member Chabot and Members of the House Committee on Small Business:

Thank you for inviting me to appear before you today for a follow-up discussion of Department of Defense (DoD) contracting activities with small businesses residing in the areas devastated by Hurricane Katrina. Katrina was a catastrophe of unprecedented proportions. This is a matter of importance to all of us and I welcome the opportunity to participate in this hearing.

Today I will focus on the DoD's continuing efforts in post Katrina Local Small Business performance. I also plan to discuss the steps taken to improve DoD emergency acquisition policy, and improvements to DoD's overall small business policy.

POST KATRINA, LOCAL SMALL BUSINESS PERFORMANCE

Based on data from the Federal Procurement Data System - Next Generation (FPDS-NG), since the end of August, 2005, approximately $43.5 billion has been awarded to fulfill DoD requirements in the states of Alabama, Louisiana, and Mississippi. This figure includes work done in support of Katrina relief and recovery and other DoD efforts. Of the $43.5 billion, $25.9 billion, or 60%, was awarded to contractors residing and performing in the states of Alabama, Louisiana, and Mississippi. $7.4 billion, or 28.6% of the $25.9 billion, was awarded to local small business.

In addition to the DoD's Army Corps of Engineers (USACE) awards for local small business, identified subsequent to the April 12, 2007, hearing held by the House Small Business Committee in New Orleans, the DoD's Procurement Technical Assistance Center (PTAC) in Louisiana helped procure the awards of nine contracts to six local small business companies. Those six companies and associated awards, totaling approximately $4.8 million, are summarized as follows:

- Assaf, Simoneaux, Tauzin & Associates
- IMC Consulting Engineers
- Northshore Office Equipment
- QRI
- SEMS, Inc

- Diversified Building & Construction Contractors

PTACs are a very effective means of reaching out to the local small business community. PTACs provide training, counseling, and other specialized and professional assistance to small businesses seeking to learn about contracting and subcontracting opportunities with DoD, other Federal agencies and state and local governments.

PTAC success stories are far ranging with companies. In Louisiana, in particular, Southern Services and Equipment, Inc., Deep South Communications, Home Park Maintenance LLC, Optinet Resources LLC, Smith Research Corporation, DQSI and RAI Services, Inc are all examples of a diverse set of companies where the hard work and dedication of PTACs provided the achievement of local small business participation.

IMPROVING DoD EMERGENCY ACQUISITION POLICY

The Emergency Procurement Committee, chaired by the Defense Procurement and Acquisition Policy (DPAP) within the Office of the Secretary of Defense (OSD), Acquisition, Technology and Logistics, continues to meet on a weekly basis. Outcomes from these meetings have continued to identify initiatives summarized as follows:

- Creating a Joint Contingency Contracting Working Group to develop a DoD Contingency Contracting Guide which will be incorporated into DFARS Part 18. This draft guide is currently being reviewed by the Emergency Procurement Committee.

- Creating a quick-reference, pocket-sized handbook for contingency contracting officers in the field. The handbook will provide electronic links to the FAR, various contracting tools/templates, useful websites, as well as links to standardized contingency training. The product is in draft and currently in review.

- Establishing a Joint Contingency Contracting Community of Practice to promote knowledge sharing across organizational boundaries. This collaborative tool serves as a central repository for DoD contingency contracting learning and job support assets to include policy and guidance information, after action reports, pre-deployment information and related knowledge to promote increased job performance. The website is constantly being updated with new information, such as the new Office of Federal Procurement Policy Emergency Acquisition Guide.

- Utilizing DoD auditors to support on-going contract negotiations and contract billings to identify areas requiring improvement.

- Creating a Joint Contracting-Contractor Management Working Group to develop joint doctrine to ensure our contingency contracting troops have clear and unambiguous guidance in the field and to address joint policy on contingency contracting directed by the FY07 NDAA. The Joint Publication 4-10 is currently in review.

- Developing a competency model for the DoD contracting community that includes modules for contingency contracting and small business.

- Establishing a web-based Community of Practice at the Defense Acquisition University website.

IMPROVING THE OVERALL DoD SMALL BUSINESS POLICY

In addition to the initiatives for emergency acquisition policy, outlined above, the DoD has implemented the following practices for policy implementation to ensure maximum contracting opportunity for small business:

- **Mitigating the effects of contract bundling** - Any acquisition strategy that contemplates bundling must undergo an extremely rigorous justification and approval process prior to the action being taken. Only when the Department has determined it will derive a measurable and substantial benefit can this type of acquisition strategy be used. If small business prime contracting opportunities are not available, DoD acquisition professionals are obliged to develop strategies that set aggressive small business subcontracting goals, including methods for ensuring that the goals are achieved.

- **Improving data accuracy** – As the Chairwoman of this committee emphasized at the last hearing, we must have accurate data in order to properly manage our small business efforts. In May of 2007 the Under Secretary of Defense for Acquisition, Technology, and Logistics issued a memorandum to the Director of the Office of Management and Budget, affirming the Department's commitment to the establishment of infrastructure, policies and processes to ensure continuous improvement of data quality. The DoD Office of Small Business Programs (OSBP) is working within the Department and with other Federal agencies to ensure data systems are programmed with built-in edits that will, to the degree possible, prevent the most common miscoding error.

- **Educating the acquisition workforce** – DoD has established a small business training program as a joint initiative between the DoD Office of Small Business Programs and the Defense Acquisition University. We plan to continue an aggressive training program. We are also in the final stages of revising this

Guidebook and will post it online soon. Additionally, OSBP is developing a Teaming/Joint Venture Guidebook as well as training to assist small businesses in pursuing larger procurements. This Guidebook and training will be available by the end of the year.

- **Subcontracting** – We are also in agreement with the recommendations made in the Government Accountability Office (GAO) report number GAO-07-205 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. Corrective actions identified by the GAO report have already been implemented.

- **Ensuring the availability of subcontracting opportunities** – It is the responsibility of both DoD contracting officers and small business specialists to ensure prime contractors' put forth their best efforts to achieve the small business goals established in their subcontracting plans. These goals are intended to challenge prime contractors to provide the maximum practical subcontracting opportunities to all small businesses. Here too, DoD recognizes the need for accurate data reporting and therefore strongly supports the implementation of the Electronic Subcontracting Reporting System on a DoD-wide basis.

  When a contractor fails to make a good faith effort to achieve its subcontracting goals, contracting officials will note this information in the contractor's official past performance record. Past performance information is maintained in the Government-wide Past Performance Information Retrieval System (PPIRS). PPIRS is used by DoD contracting officers to make required contractor responsibility assessments. DoD contracting officers must evaluate the extent of participation of small businesses in all negotiated procurements that are required to have a subcontracting plan.

- **Payments to Small Businesses** – It is the policy of DoD to assist small business concerns in obtaining payments under their [prime] contracts, late payment, interest penalties, or information on contractual payment provisions. DoD has made great strides to eliminate payment delays by deploying the Wide Area Work Flow – Receipts and Acceptance (WAWF-RA) electronic invoicing system. Approximately 54.8% of DoD's invoices are now processed under WAWF and the number of users grows daily. Pursuant with GAO's recommendation, WAWF will soon be updated to include a small business indicator flag to alert DoD payment officials when an invoice is from a small business and to process the invoice as expeditiously as possible.

It is also DoD policy to ensure that prime contractors establish procedures for the

timely payment of amounts due pursuant to the terms of their subcontract(s). A DoD contracting officer must investigate if they determine a prime contractor's certification of payment is inaccurate in any material respect, the Department must investigate the matter. Depending on the contract type and its nearness to completion, contracting officers will encourage the prime contractor to make timely payments to the subcontractor or, the contracting officer may reduce or suspend progress payments until the contractor complies. Failure of prime contractors to pay their subcontractors in a timely manner is negative past performance information that is reported into PPIRS.

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 with strong performing organizations such as the United States Army Corps of Engineers as well as support organizations such as the Procurement Technical Assistance Centers. We are planning to continue to build on those strengths 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.

Thank you.

COMPLETE STATEMENT OF

LIEUTENANT GENERAL ROBERT L. VAN ANTWERP
CHIEF OF ENGINEERS

U.S. ARMY CORPS OF ENGINEERS

DEPARTMENT OF THE ARMY

BEFORE THE

Committee on Small Business

HOUSE OF REPRESENTATIVES

August 2, 2007

Madam Chair and Members of the Committee, I am Lieutenant General Robert L. Van Antwerp, Chief of Engineers. Thank you for the opportunity to testify before you today concerning contracting opportunities for small businesses affected by disasters and the Corps of Engineers' efforts to increase these opportunities.

In times of disasters, the U.S. Army Corps of Engineers (USACE) works primarily in support of the Federal Emergency Management Agency (FEMA), carrying out a wide variety of missions. 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/8(a), 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 three areas: "Current Opportunities and Awards", "Future and Ongoing Work", and finally my thoughts on the "Way Ahead".

CURRENT OPPORTUNITIES AND AWARDS

Madam Chair, in your letter dated June 11, 2007, USACE was asked to identify five prime small business contracting opportunities. I'm pleased to inform the Committee that the USACE Louisiana Recovery Field Office (LARFO) has awarded the following four contracts to local small businesses since the April 12, 2007 hearing held by the House Small Business Committee in New Orleans:

- Metro Disposal (8(a)) – Fill swimming pools -- $3.5 Million (M)
- Threefold Consultants (8(a)/HUB) – Private Property Debris Removal Assessment. -- $3.5M
- Augulliard 8(a) – Private Property Debris Removal -- $3.5M
- Progressive Inc. - Clean out of St. Bernard Canals -- $3.5M -- sole source 8(a)

The LARFO anticipates awarding the following six to eight small business procurement actions:

- 5-7 competitive 8(a) contracts for Private Property Debris Removal; estimated value $5.5M each; Geographic Scope – Jefferson Parish; approximated RFP issue dates July 5th through July 12th, closing dates approximately July 23rd through July 30th; Performance period – NTE 60 calendar days
- Recoupment of architecturally defining features -- 8(a) Competitive – closes July 9th

During the hearing on April 12, 2007 and in my response to your letter dated June 11, 2007, USACE identified 16 new small business prime contract opportunities worth over $150 million for this fiscal year. Ten of the 16 contracts were to be demolition contracts awarded to 8(a) business concerns and Historically Underutilized Business Zone (HUBZone) firms, as requirements were identified. The estimated values of these contracts were $15M each; the USACE existing mission assignment ends September 30, 2007. FEMA is working directly with local parishes on potential demolition missions and USACE will not be awarding these Contracts. FEMA has determined that New Orleans and Louisiana are now in a position to award their own contracts and to continue the recovery process without direct Federal aid. Our direct feedback from the City confirms their readiness.

FUTURE AND ONGOING WORK

On July 23, 2007, proposals were received for the re-competition of the Advanced Contracting Initiative – Debris Removal solicitation, or ACI – Debris Removal. Under the ACI program, USACE competitively awards contracts for future use in the areas of water, ice, power, temporary roofing, and debris removal. Having these contracts in place allows USACE to rapidly respond to emergency situations. The previous ACI - Debris Removal contracts were 100% large business. These new ACI Debris Removal contracts will be more small business friendly. Along with competitively awarded unrestricted contracts, these awards will include several competitively awarded 8(a) and HUBZone contracts. We have established three Multiple Award Task Order Contracts pools within the ACI Debris Management Services acquisition plan. Each pool will contain four to eight contractors, depending on the quality of the proposals received from industry. Two of the pools are HUBZone Set-Asides and one is an 8(a) Set-Aside. This equates to 12 to 24 contracts available for HUBZone and 8(a) contractors. When USACE responds to a disaster, a Recovery Field Office (RFO) is established. With this new business model, the RFO team will complete a debris field analysis which includes a determination on whether small businesses have the capacity to remove the amount of debris left in the wake of the disaster. Also, subcontracting goals for our large business partners (unrestricted contracts) will be higher in all small business categories than they were in the previous ACI – Debris Removal contracts. For the unrestricted contracts, the following goals have been set for this acquisition:

Small Business (SB) 75.0%
Small Disadvantaged Business (SDB) 14.0%
Women-Owned Small Business (WOSB) 12.0%
HUBZone Small Business 10.0%
Service-Disabled Veteran-Owned Small Business (SDVOSB) 7.0%
Veteran-Owned Small Businesses (VOSB) 9.0%

USACE is in the process of repairing and restoring the hurricane protection system in the New Orleans area. USACE 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 65 contracts awarded to date, 60 have been awarded to small businesses. Finally, of the $335.75 million obligated on these contracts, $229.32 million has been obligated on the small business prime contracts.

THE WAY AHEAD

The Corps of Engineers has long considered the small business community an important partner in the success of its mission and continues to do so. We continually attempt to engage the small business community, through outreach, not because federal statutes require us to do so, but rather because it makes good business sense and it is the right thing to do. Outreach is a critical marketing tool for small business. To aid the New Orleans small business community in identifying contracting opportunities, USACE has conducted industry forums, market surveys, speaking at various conferences such as the American General Contractors, Society of American Military Engineers, Black Chamber of Commerce, Service Disabled Veteran-Owned Small Business national conference, SBA sponsored forums, and other civic meetings. USACE will continue this robust outreach program with participation and attendance at all national chambers of commerce conferences.

USACE will continue to always consider small businesses first as we develop our Acquisition Plans. I am committed to increasing prime small business opportunities at the USACE. 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.

SUMMARY

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 contracting opportunities for small businesses affected by disasters. Many USACE 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.

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

AUGUST 2, 2007

Testimony of
Administrator Steve Preston

Good afternoon Chairwoman Velazquez, Ranking Member Chabot, and distinguished members of the Committee. Thank you for inviting me to discuss SBA's updated disaster response plan and our efforts to promote Federal contracting opportunities for small businesses following the 2005 Gulf Coast hurricanes. I am pleased to report on SBA's activities since my unprecedented testimony at the hearing in New Orleans on April 12, 2007 and our plans to assist in the contracting process in future disaster reconstruction efforts.

SBA continues its commitment to disaster victims in the Gulf Coast and throughout the country. As you are well aware, when I arrived at the Agency, there was a major backlog to close and disburse the tremendous volume of loans. We quickly dug in to address the issues. First, I went to our customers and asked them about their problems because it was important to know exactly what they were facing. Next, I took that information to our employees who were close to the action to get their perspective, and let them know how our customers viewed the situation. Then we got into the operational processes where we saw a number of issues leading to relatively high error rates, backlogs in critical processes and decision-making bottlenecks.

As a result of the reengineering effort, we established a new process to eliminate our backlogs, dramatically reduce response time, and improve the support we give to disaster victims throughout the process. As of today, all but 1,000 loans have been either fully or partially disbursed, and of those borrowers who have not drawn down on their funds, we stand ready to disburse. Our people have become advocates for the borrowers and we are now able to connect a loan and a document to a life and a story.

While we were re-engineering our processes and evaluating our performance, SBA recognized the severe challenges that hindered our efforts to aid recovery, and has made dramatic improvements to its processes that will significantly accelerate our response to victims of future disasters. On June 1st of this year, SBA presented to the Committee the Agency's Disaster Recovery Plan. After months of deliberations, and countless hours of work, this plan documents the critical steps taken by the Agency along with other Federal Agencies to prepare for, respond to, and recover from natural disasters. It also establishes a clear action plan to revamp our capacity.

Our improvements to the disaster assistance process include an accelerated loan application decision process; improved processes and tools for loan closing and fund disbursement; more transparent, meaningful performance data to better manage operations; consistent adherence to policy through training and internal quality assurance; better coordination with non-disaster field staff; and improved harmonization across disaster center operations.

Just as we have learned lessons and made significant improvements on the disaster lending side of our response to the 2005 Gulf Coast hurricanes, we have also assessed the contracting process during the rescue, relief and reconstruction of the region, and I am pleased to report on our efforts and progress on that front, to date.

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 in New Orleans to expand contracting opportunities.

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 five percent. Our preliminary data shows that small businesses have received nearly 29 percent of the more than $16.4 billion awarded in the Gulf.

With regard to the performance of the Federal Government in contracting to local businesses, over 23 percent or $3.7 billion of the $16.4 billion in contracts were awarded to local businesses of all sizes in Alabama, Louisiana and Mississippi. Of that $3.7 billion, approximately 57 percent went to local small businesses.

SBA has also begun an initiative to refocus the workload of our PCRs to increase the amount of time they have to review contract actions. It is more important than ever that our PCRs keep in contact with contracting officers and specialists at the purchasing agencies. Recently, PCRs have been spending too much time on other duties, duties that distract them from their primary mission of identifying opportunities for small businesses.

We are expanding training and clarifying the role of the District Office to work more intensively with small businesses to identify the specific contracts for which they may be eligible to apply, as well as finding more small businesses interested in pursuing new contracting opportunities as they arise. They will be able to draw on existing databases of local small businesses, as well as established contacts to promote contracting opportunities.

Related to our revised approach to emergency acquisitions, the Office of Federal Procurement Policy and the Chief Acquisition Officers Council Working Group on Emergency Contracting has provided guidance on strategies for effective response planning and flexibilities that acquisition personnel deployed to an emergency situation may use to facilitate timely procurements. The report addresses small business contract formation and specifically, the importance of pre-qualified contractors.

Where consistent with preferences provided to local businesses, the guidance calls on agencies to provide maximum contracting opportunities to small businesses, including new entrants to the market. Use of simplified acquisition procedures should make it easier for agencies to do business with these sources, especially small businesses, which otherwise might experience difficulty competing in more formal settings where participation costs are higher.

Also, the Robert T. Stafford Disaster Relief and Emergency Assistance Act (P.L. 93-288) requires support to local economies adversely affected by emergencies. Agencies must perform market research on local business capabilities and give preference to those local firms capable of performing the requirement. The Stafford Act was amended in 2006 to add a local firm set-aside requirement for debris clearance, distribution of supplies, reconstruction, and other major disaster or emergency area assistance activities. We are supporting these efforts through our District Offices and PCRs.

In the meantime we have also recognized several hurdles to our ability to use small businesses more effectively in disaster situations. One of these barriers is the Competitiveness Demonstration Program (Comp Demo). Because "Comp Demo" restricts the use of small business set-asides in certain designated categories, specifically construction and waste removal, agencies are unable to focus as much contracting on small businesses as they would like.

Another area of concern is SBA's surety bonding program. While we have recently made administrative changes to improve access and utility of this program, the bond size does remain an issue. As I have stated before, the Administration would support an increase in the current bond size from two million dollars to five million dollars. That size increase would more accurately reflect the type of contracts available for small businesses.

In closing, thank you for allowing me the opportunity to testify. The 2005 hurricanes overwhelmed disaster response at all levels, and certainly SBA was no exception. Our people worked – often around the clock to try to help the disaster victim whose lives were torn apart by the hurricanes. Those are the same people who fixed the process and are, today, enabling SBA to play its part in rebuilding the Gulf while simultaneously improving our ability to respond to disasters in the future. I am very thankful for their dedication and their resolve.

STATEMENT OF THE HONORABLE ROBERT J. HENKE

ASSISTANT SECRETARY FOR MANAGEMENT

U.S. DEPARTMENT OF VETERANS AFFAIRS (VA)

BEFORE THE COMMITTEE ON SMALL BUSINESS

U.S. HOUSE OF REPRESENTATIVES

AUGUST 2, 2007

Madam Chair, Committee members, I appreciate the opportunity to discuss VA's unwavering commitment to increasing contracting opportunities for local small business participation in rebuilding New Orleans and the greater Gulf Coast region. In the aftermath of Hurricane Katrina, we too would like to see a sustainable economic recovery in New Orleans and the rest of the Gulf Coast Region.

I am honored to represent Secretary Nicholson, Deputy Secretary Mansfield and the dedicated employees throughout the Department of Veterans Affairs who serve our veterans daily.

On April 12, 2007, the Honorable Patrick W. Dunne, VA's Assistant Secretary for Policy and Planning, provided testimony to this committee regarding VA's ongoing commitment to small businesses in New Orleans and the greater Gulf Coast region. I will use my time this morning to provide an update on our accomplishments to date.

VA has been active in our outreach efforts to small businesses in the southeast region. On May 8-10, 2007, VA attended the Vicksburg, Mississippi Business Procurement Opportunities Conference and Trade Fair, sponsored by the Mississippi Development Authority and the Mississippi Procurement Technical Assistance Program. VA representatives spoke with over 200 small businesses regarding business opportunities with VA for hurricane clean-up as well as ongoing operational opportunities.

VA also participated in the "Post Katrina Economic Development Summit" in New Orleans on June 5-7, 2007, hosted by the National Community Development Organization, Inc. VA's Office of Small and Disadvantaged Business Utilization and VA's Gulf Coast Veterans Healthcare System representatives discussed VA's contracting opportunities with over 300 small businesses. Firms were provided information, process guidance and networking opportunities for VA Post Katrina recovery opportunities. Since the hearing on April 12th, VA has participated in nine outreach events in the Gulf Coast region to discuss small business opportunities with local small businesses. Conferences attended have been located in Florida (2), Georgia (2), Alabama (1), Mississippi (1), Louisiana (2) and Texas (1). We have three more planned in Texas before the end of this calendar year. Additionally, VA will participate in the General Services Administration's 3rd Annual Service-Disabled Veteran-Owned Small Business Conference in New Orleans, LA on August 9, 2007.

During the hearing on April 12th, this Committee asked each agency to commit to working with the Small Business Administration (SBA) to identify five prime contracting opportunities that targeted local small businesses. VA worked with SBA and provided the list to SBA and this Committee on June 28, 2007. I would like to provide the Committee with an update of these projects:

1. VA Medical Center Biloxi, MS: Parking lot design/build: Solicitation package has been released to a Local 8(a) firm. Projected Award Date: August 2007

2. VA Medical Center New Orleans, LA, Rebuild Pharmacy: 8(a) negotiations have been completed. Projected award date: August 2007.

3. VA Medical Center New Orleans, LA, Roof Repair: A local Service Disabled Veteran Owned Small Business (SDVOSB) has been identified. Projected award date: September 2007

4. VA Medical Center New Orleans, LA, Demolition of Bldg 2: A local SDVOSB has been identified. Projected award date: September 2007

5. VA Medical Center Gulfport, MS, Tank Removal & Remediation: An SDVOSB set-aside is planned. Projected award date: September 2007

In addition, on May 25, 2007, an 8(a) contractor was awarded a $1.5 million change order to expand demolition work at the VAMC, Gulfport, MS.

At the April hearing, Assistant Secretary Dunne shared with this Committee the FY 2006 small business accomplishment of the South Central VA Healthcare Network. Through June 30, 2007, the network has spent approximately $266 million, 33 percent, with small businesses to include 12 percent with small disadvantaged and 8(a) firms.

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 answer any questions you or other members of the Committee may have.