

**SBA MANAGEMENT REVIEW: OFFICE OF
GOVERNMENT CONTRACTING AND BUSINESS
DEVELOPMENT**

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THURSDAY, JUNE 23, 2022

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

The committee met, pursuant to call, at 10:02 a.m., in Room 2360, Rayburn House Office Building, Hon. Nydia Velázquez [chairwoman of the Committee] presiding.

Present: Representatives Velázquez, Davids, Mfume, Bourdeaux, Carter, Chu, Evans, Houlahan, Craig, Luetkemeyer, Williams, Stauber, Meuser, Tenney, Garbarino, Young Kim of California, Van Dyne, Donalds, and Fitzgerald.

Chairwoman VELÁZQUEZ. Good morning. I call this hearing to order.

Without objection, the Chair is authorized to declare a recess at any time.

I would like to begin by noting some important requirements. Standing House and Committee rules and practice will continue to apply during hybrid proceedings. All Members are reminded that they are expected to adhere to these rules including decorum.

House regulations require Members to be visible through a video connection throughout the proceeding, so please keep your cameras on. Also, remember to remain muted until you are recognized to minimize background noise.

In the event a Member encounters technical issues that prevent them from being recognized for their questioning, I will move to the next available Member of the same party and will recognize that Member at the appropriate time slot provided they have returned to the proceeding.

With that, let's start this hearing.

When a small firm wins a federal contract, it creates a ripple effect that creates jobs, invests in communities, and generally boosts the economy. The presence of small firms also helps drive innovation nationwide and competition in the federal marketplace.

Congress recognized these benefits in 1953, when they created the Small Business Administration and tasked the agency with ensuring that a fair proportion of contracts and subcontracts are awarded to small businesses.

Today, SBA's Office of Government Contracting oversees this mission and works to create an environment where small businesses can compete on a level playing field in federal procurement.

In addition to supervising governmentwide contracting goals, the office is also responsible for administering multiple programs like the 8(a) program, the Service-Disabled Veteran-Owned Small Business program, the Women-Owned Small Business program, and the HUBZone program. These initiatives help create contracting opportunities for disadvantaged small businesses and are instrumental in helping the government reach its overall small business contracting goal.

Given its critical mission of maximizing small business participation in the federal marketplace, we must take steps to ensure the Office of Government Contracting and Business Development operates as effectively as possible.

Today, I hope we can take a close look at the office's challenges and actions Congress can take to alleviate them. For instance, despite the federal government consistently meeting its goal of awarding 23 percent of eligible federal contracting dollars to small firms, small business participation has been steadily declining. Last week, we held a hearing detailing the severe impact of category management and governmentwide contracting vehicles to small firms. I would like to hear what steps SBA is taking to minimize these effects and safeguard the small business base.

While the government has met the overall small business contracting goal in recent years, the goals for programs like HUBZone and the Women-Owned Small Business program were not met. In fact, the goal for the Women-Owned Contracting Program has only been met twice, and the HUBZone goal has never been met. It is important that we address these shortcomings and ensure that program participants are getting an adequate number of opportunities.

I also want to discuss IT challenges. As reported by the SBA's Office of Inspector General, SBA abandoned Certify.SBA.gov alleging it was unsustainable in the long term and intended to replace it. Given the importance of having an IT platform that can successfully and efficiently service all of the contracting programs, I am interested in examining SBA plans and timelines related to this initiative.

These are just a few important issues we will cover today. I would also like to hear more from our witness about staffing resources, strengthening internal controls, and implementing key legislation related to contracting programs.

When small contractors can thrive, our nation's small businesses, government, and economy all benefit. I look forward to hearing from Associate Administrator Hidalgo about the ways Congress and the agency can work together to protect the role of small businesses in the procurement process.

I would now like to yield to the Ranking Member, Mr. Luetkemeyer, for his opening statement.

Mr. LUETKEMEYER. Thank you, Madam Chair. And thank you for having this important hearing with the associate administrator of SBA's Government Contracting and Business Development Office.

Now, more than ever, small businesses deserve to hear from agency officials that administer some of the most important small business programs within the government, including federal contracting programs. These are incredibly challenging times for small

businesses, their employees, and their communities. Inflation is running rampant across the nation and impacting nearly every product and service. In fact, the Consumer Price Index is at a 40-year high, and wholesale inflation is in the double digits. This is unacceptable for our nation and for Americans.

Surging prices and runaway costs have direct and immediate impacts on main street. Not only is inflation one of the top concerns for small business owners, but also has direct effects on the entire small business supply and demand ecosystem. According to the most recent survey out of NFIB, nearly three-quarters of all business owners are increasing prices. This matches the highest percentage on record.

In addition to red hot inflation, the nation's smallest firms continue to experience sharp supply chain issues and an ongoing labor crisis that is hindering the busy summer season.

It is for these reasons why it is so important for this Committee to hear from Treasury Secretary Yellen. This administration has the ability to talk directly to small business through one of the federal government's most important cabinet-level agencies, the Department of Treasury. Despite being legally required to testify before this Committee last year and twice this year, Treasury Secretary Yellen is a no-show. Small businesses employ approximately half of all workers in America; yet, she cannot find the time to speak to us.

COVID programs, including the PPP, which the Treasury Department assisted with by bringing in new lenders, is currently in the loan forgiveness stage. Secretary Yellen refuses to talk to us and talk directly to small business owners. This continues to be unacceptable and a violation of the law. It is my hope she stops ignoring the loss to small businesses on this Committee and testifies soon.

When it comes to contracting, small businesses are a critical player in helping to strengthen the nation's industrial base. They act as prime contractors and subcontractors on numerous projects that span the federal government.

Billions of dollars are processed through federal contracts, and small businesses have a significant role to play. Unfortunately, their impact is waning and this Committee must continue to study a balanced approach when it comes to cost savings and consolidation.

I look forward to having a thorough conversation on this very important topic. Additionally, I look forward to discussing the federal government's practice of setting and measuring goals within federal contracting, the role of subcontracting, and various other issues related to small businesses that participate in federal contracting programs.

As I mentioned, these are difficult times for small businesses, their owners, and their workers, as well as the nation's businesses that supply the federal government with goods and services.

With that, Madam Chair, I yield back.

Chairwoman VELAZQUEZ. Thank you, Mr. Luetkemeyer. The gentleman yields back.

I would like to take a moment to explain how this hearing will proceed. Ms. Hidalgo, you will have 5 minutes to provide a state-

ment, and each Committee Member will have 5 minutes for questions. Please ensure that your microphone is on when you begin speaking and that you return to mute when finished.

With that, I would like to introduce our witness.

Ms. Bibi Hidalgo is the Associate Administrator of the SBA's Office of Government Contracting and Business Development. In this role, Ms. Hidalgo oversees and reviews procurement-related policy for small business contractors hoping to work with the federal government. Before joining the SBA, she was a co-founder of Future Partners, LLC, which advised Fortune 500 corporate executives on procurement and minority business strategy and created a model for how to facilitate significant opportunity for both. She also served in the White House where she managed a government-wide initiative with 24 cabinet agencies to position the federal government to meet the 23 percent small business goal for the first time in a decade. Ms. Hidalgo has a Master's in Public Policy from the John F. Kennedy School of Government at Harvard University.

Welcome, Ms. Hidalgo. You are now recognized for 5 minutes.

**STATEMENT OF BIBI HIDALGO, ASSOCIATE ADMINISTRATOR,
OFFICE OF GOVERNMENT CONTRACTING AND BUSINESS DE-
VELOPMENT, U.S. SMALL BUSINESS ADMINISTRATION**

Ms. HIDALGO. Thank you, Chairwoman.

Good morning, Chairwoman Velázquez and Ranking Member Luetkemeyer, and distinguished Members of the Committee. On behalf of our Administrator, Isabella Casillas Guzman, and the SBA, thank you for the opportunity to appear before you today to discuss the important role that government contracting plays in empowering small businesses across the United States.

The federal government is the largest purchaser of goods and services in the world, leveraging its immense spending power of over \$500 billion annually on everything from biopharmaceutical research to cybersecurity improvements to green building architecture. And time and again, it is our nation's small business contractors who are driving these innovations, strengthening our supply chains, moving our economy forward, and keeping our country secure.

For small businesses, there is real power that comes with getting to say that the United States Government is one of their clients.

Under the leadership of President Biden, we have seen an overhaul in how federal agencies approach and promote small business procurement. This administration has shown that it believes in advancing small and socioeconomic business contracting not only for the sake of our congressional goals, but also for the health, security, and prosperity of our industrial base. I am proud to be a part of the Administration's work to ensure that innovative businesses can engage in the federal marketplace.

By way of background, I am the daughter of Cuban exiles who came to the United States after the Cuban Revolution. The day of the Bay of Pigs invasion, the Cuban militia stormed into my grandparents' house in Havana and took my grandfather, my mom, who was only 17 years old, and her two sisters to prison. Though my mom and her sisters were deprived of their freedoms for 39 days, America soon offered an open door for a better future, a future for

my mom and dad to start their family, raise five children, and teach each of us about grit and determination. And based on our deep Ignatian faith, we were taught the importance of working in service of others.

I have worked to promote small business interests under two U.S. Presidents. I was a small business owner myself, starting a business with my younger brother Patrick to serve Fortune 500 companies in developing strong supply chains. During this time, I faced many of the same challenges that I hear about from small business owners across the country, from making payroll to landing that first contract.

And I faced devastating loss at the start of the pandemic. My brother Patrick, who was my best friend and business partner, passed away suddenly in March of 2020.

As Associate Administrator of SBA's Office of Government Contracting and Business Development, I am deeply aware of the impact the pandemic has had on small businesses. My team and I work daily to widen the doors of access and opportunity by monitoring the progress of all agencies towards the congressionally mandated goals for small business contracting. Collectively, these goals translate to almost \$150 billion in small business contracts per year.

As part of the Administration's commitment to equity in procurement, SBA worked last year with the White House, OMB, and our partner agencies to develop five major policy changes for federal contracting to ensure that socioeconomic firms have a strong footing on which to compete in the federal marketplace. These changes included incorporating all socioeconomic firms into Tier 2 credit of category management, tracking all new entrants into the federal marketplace, publicly releasing FY20 disaggregated contracting data, adding small business goals to SES performance evaluations, and increasing the small disadvantaged business goal to 15 percent by 2025 with an initial goal of 11 percent for this fiscal year.

At the same time, we have spent the past year working to modernize our certification IT systems. These changes have come in two forms. First, as client-facing improvements to the system itself, such as making the application process easier to navigate. And second, as staff facing system improvements that have cut down on processing times.

Our reforms are making a difference. Across the board, SBA is processing certification applications over 20 percent faster than statute requires. And the new Veteran Certification Program that Congress entrusted to us and is slated to begin at SBA next year will be leading our technology-forward approach across SBA. As we work to support a new generation of entrepreneurs, it is more important now than ever to ensure that small businesses can access the exceptional resources of SBA and the opportunities afforded through federal contracting.

Thank you again Chairwoman Velázquez, Ranking Member Luetkemeyer, and distinguished Members of the Committee for the opportunity to appear before you today. I look forward to your questions and our conversation today.

Chairwoman VELAZQUEZ. Thank you, Ms. Hidalgo.

I now recognize myself for 5 minutes. I am very sorry for your loss.

Last Tuesday, we held a hearing here on category management and the impact that it is having on small businesses, so it is great that we have achieved the 23 percent small business goal. That is a good thing. However, the overall participation of small firms in federal contracts has declined significantly over the past years, largely because of initiatives such as category management.

My question to you is, based on the anecdotal data stories that we have heard and the numbers that are showing a decline, what is SBA doing to counter defects of category management?

Ms. HIDALGO. Well, thank you very much, Chairwoman, for that important question. That is the top issue that the White House and Administrator Guzman wanted us to address. And so right out of the gate we started to meet with everybody across the White House, OMB, and the largest contracting agencies to figure out how we could reverse that trend, realizing that category management was one of the biggest issues. And so as a result, we negotiated with OMB and the White House to have all the socioeconomic firms, that includes service-disabled veterans, women-owned businesses, all place-based HUBZone firms, and small disadvantaged businesses into Tier 2 of category management, which is the rating system that they had created. So that means that 33,000 more firms are part of that higher level tiering category which will create more access for contract opportunities.

Chairwoman VELÁZQUEZ. So we have followed-up with OMB to obtain more information about this change, Tier 2 Category. We have not received a response. Do you have a sense of the impact this change is having thus far, and would you please share with them that we are awaiting a response?

Ms. HIDALGO. Absolutely, Chairwoman. I will share with them that you are awaiting response. What I do with my team is check initially for anecdotal information while we also track the data, and we are seeing positive trends. We are hearing from business owners that they have been contacted for the first time in years. We are seeing an increase in new entrants, which is one of the things that we are tracking to make sure that it is not only an increase in dollars but that we are bringing back the industrial base, that we are lifting it up.

Chairwoman VELÁZQUEZ. In fiscal year 2020, the federal government also failed to meet the 5 percent prime contracting goal for the women-owned businesses program and the 3 percent goal for the HUBZone program. In fact, the women-owned small business goal has only been met twice as I mentioned in my opening statement and the HUBZone goal has never been met. What is SBA doing to ensure agencies make use of these programs and meet the goals?

Ms. HIDALGO. Thank you for that great question, Chairwoman.

This is really important to us, and so now we have the women-owned business goal and the HUBZone goal in the performance evaluations of not just acquisition staff but all senior executive program managers. So this is part of essentially their KPIs. And so we are seeing a difference. They are now reaching out more and more, the agencies. My staff was just telling me this yesterday,

across the board agencies are reaching out to identify more businesses across all the socioeconomic categories.

Chairwoman VELAZQUEZ. Are you optimistic that the 3 percent and the 5 percent goal will be achieved?

Ms. HIDALGO. I am optimistic that we are approaching closer to getting to the goal. I cannot say where we will be this year but I am optimistic of the trend that we are seeing.

Chairwoman VELAZQUEZ. Okay. Let me ask you about an important concern that I have, and that is that the agency now has performed a strategic review of certified.sba.gov. Could you please share with us what the plans are and associated timelines to implement an IT platform that achieves this goal?

Ms. HIDALGO. Thank you, Chairwoman.

We are very pleased that the systems are fully functioning and that was the number one thing I asked my team was to make sure that it is functioning and that we gain small wins along the way. Rather than doing an outright overhaul, we wanted to see that it would become much more user friendly for the customer. And I am pleased to say that we just recently released a rollout—

Chairwoman VELAZQUEZ. Okay, so to be clear, will SBA have one IT platform for all of the contracting programs or is the plan to improve each of the existing certification applications IT sees?

Ms. HIDALGO. Yes. We are working towards one contracting platform. But in the meantime, we wanted to make sure that it was fully functional, what we have, so that applicants are not unduly burdened in the process.

Chairwoman VELAZQUEZ. My time has expired. Now I recognize the Ranking Member, Mr. Luetkemeyer, for 5 minutes.

Mr. LUETKEMEYER. Thank you, Madam Chair. And thank you, Ms. Hidalgo, for being here today. And for your compelling personal story. It is always great to hear people's willingness to come to this country and participate in our process. As a capitalist and entrepreneur, you were able to take advantage of the economic freedom this country presents and start your own business and do well with it. I congratulate you and your family on that.

Along those lines, as a small business owner, I am sure you understand the effects of things that go on with regards to what is going on right now with our economy, with inflation, for instance, taxes and things like that. So in your position, you know, the Consumer Price Index right now is at 8.6 percent, and as I go home, that is the number one concern I hear from small businesses. With regards to contracting, I have heard from several businesses that seem to be stuck with a situation where they signed a government contract pre-COVID and because of runaway inflation and supply chain problems now they are stuck. There is not enough flexibility in the contracts to be able to recover the increased costs that are there due to inflation or delays. So my question I guess is do the government contracts have some type of clause or flexibility to allow small businesses who more than likely do not have a large cash flow to survive in these instances?

Ms. HIDALGO. Thank you, Ranking Member, first of all for your acknowledgement of my family's story. We are so proud to be in this country and my parents taught us that all our lives, to be proud of being able to become and be American citizens.

This issue is top of mind for me and so as a result I met with all of my Procurement Center Representatives to ask them what can we do to solve these challenges for our businesses? Contracting affords an incredible opportunity to contract with the largest purchaser in the globe and so we realize that this helps to serve as a strong buffer during these challenging times. And apart from that, I have been asking my team how we can adjust for inflation, and they have been giving me a number of recommendations, some of which we are working into our regulations now to provide additional relief to small business contractors.

Mr. LUETKEMEYER. I asked this question last week of one of our witnesses and they said that there was some flexibility in some of the contracts. They were making changes to allow that to happen. I know that I have got some of my constituents who are working to try to get that done because there apparently is not any flexibility in theirs. So the reason for the question I guess is it does not seem to be consistent across the board and do you find that there is flexibility? And if not, are you working to try to fix the problem immediately so that they can exist? Otherwise, it is going to run the small businesses out of business.

Ms. HIDALGO. Yes, thank you. So fortunately, given that small business contracting is a big priority of the President, we are in constant conversations with the Office of Federal Procurement Policy that issues guidance to address systematically all of these issues. And so together with OFPP, the White House, and the largest seven contracting agencies, we are trying to find ways to make sure that we can be consistent across the board in our guidance and allow for more variability in the costs associated with the contracts.

Mr. LUETKEMEYER. One of the things that the Government Accountability Office and SBA's Inspector General originally criticized the SBA for their lack of controls on these programs leading to potential fraud risks. Can you tell us what new measures you have implemented or plan to implement to combat the fraud risks? There seems to be a lot of problems with it, and from the IG report, there does not seem to be a lot of concern.

Ms. HIDALGO. So we are pleased that we have closed out many of those reports. We do have a couple of management challenges which we have been addressing and have proposed to the IG now to move them to green. So making sure that we have all the firms that Congress intended for us to have in the program. And I am really pleased to share that our Size Protest program issues a formal size determination when contractors' size is questioned by another bidding firm or a contracting officer. And in fiscal year 2021, because of these reviews, GCBD, or my office, was able to identify 66 companies that were not legitimate small businesses.

Mr. LUETKEMEYER. I have got one real quick question for you. How many of the recommendations from GAO and IG are still outstanding?

Ms. HIDALGO. We have two that are outstanding from the IG.

Mr. LUETKEMEYER. Okay.

Ms. HIDALGO. And those are what we are working on right now. One, of course, is on business development for 8(a) firms

which we are pleased to be working on that and really strengthening—

Mr. LUETKEMEYER. Do you have a date where you think you will get those fixed or can be compliant with?

Ms. HIDALGO. We are working diligently with IG daily. I actually hired a top team to address these issues and as you know, the Administrator has increased vigilance through the Fraud Risk Management Board of which we are very much a part in it.

Mr. LUETKEMEYER. Thank you. My time has expired.

Thank you, Madam Chair.

Ms. HIDALGO. Thank you, Ranking Member.

Chairwoman VELAZQUEZ. The gentleman yields back. Now we recognize the gentlelady from Kansas, Ms. Davids, Chairwoman of the Subcommittee on Economic Growth, Tax, and Capital Access.

Ms. DAVIDS. Thank you, Chairwoman Velázquez and Ranking Member Luetkemeyer for holding this hearing today. And thank you, Ms. Hidalgo for testifying before us today.

The SBA is charged with ensuring that a fair proportion of contracts and subcontracts for the federal government are placed with small businesses, which we have been discussing. And while the federal government has met its overarching goal of awarding 23 percent of contracts to small businesses, as we have been talking about there has consistently been a failure to meet the contracting goals for the Women-Owned Small Business program and HUBZone program. And one of the things that I have been made aware of more recently in part because the Kansas 3rd happens to have a really strong entrepreneurial ecosystem, is that the federal contracts we are seeing are largely going to small businesses in concentrated areas. Forty-three percent of the contracts went to around 17 congressional districts, 12 of which are located in Maryland and Virginia. And I, of course, want to make sure that all the amazing businesses that we have in Kansas that could absolutely provide the services and expertise that federal contracts require are able to do that.

So I am curious if you are aware of or can speak to some of the factors that have lead to this kind of high geographic concentration as it relates to these small business contracts.

Ms. HIDALGO. Thank you, Congresswoman, for that very important question.

We are deeply concerned about the issue of contract bundling and it favors companies that tend to be larger or that are working with larger corporations, and so as a result, that is part of the reason why we are seeing that concentration as well as with category management. And so, we are quite often looking at, studying the maps, including in your district to figure out what we can do to unleash more opportunity. And that is part of the reason why we are now tracking new entrants and we are hearing from agencies constantly what they can do to connect with new small businesses or small businesses that have not been contracting with the federal government. And recently, I signed a rule that also provides a lot more NAICS codes for set-asides for women-owned businesses. So now 92 percent of all federal spend can qualify as a set-aside for women-owned businesses. So we are hopeful that that will have an impact on women-owned business contracting as well.

Ms. DAVIDS. Thank you. That is really good to hear and I am sure our office will follow up so we can figure out if there are ways that we can be helpful in making sure that geographically diverse small businesses are able to access the government contracting.

I am curious if you could talk a little bit about the \$5 million funding, most recent funding request for HUBZone and 8(a) and the Women-Owned Small Business program for staffing resources. Can you just share with us a little bit about how you hope to use that funding to increase the effectiveness and efficacy of those programs?

Ms. HIDALGO. Yes, definitely. Thank you for that question, Congresswoman.

When I arrived, there were historic lows in some of our staffing, particularly around the Procurement Center Representatives who monitor the contract awards as well as the Commercial Market Representatives who monitor subcontracts. So this is one of the areas where we want to make sure we can get back to more historic levels of staffing. Each one of the PCRs, I asked my team to give a ballpark figure of what that represents in the return and value on contracts to small businesses. Each one represents about a billion dollars in additional contracts for small businesses. So we will leverage that \$5 million in staffing to be able to increase significant opportunity for small businesses.

Ms. DAVIDS. Thank you. And we will follow up about that as well. Thank you for your time today and Madam Chair, I yield back.

Chairwoman VELÁZQUEZ. The gentlelady yields back.

Now we recognize the gentleman from Texas, Mr. Williams, Vice Ranking Member of the Committee, for 5 minutes.

Mr. WILLIAMS. Thank you, Madam Chair. And thank you for being here. I appreciate it.

You probably know the president. Well, you do know the president much better than I do. You probably see him or you do see him more than I do. I am a small business owner. Tell him a couple things. Tell him that he needs to quit talking about tax increases. He needs to be fixing inflation. Okay? And he also needs to quit burdening small business owners with regulations through adding to compliance costs that are destroying profits in small business. If you would tell him that I would appreciate it.

And thank you again for being here. And as a small business owner for over 50 years—actually 52 years now—I still have my business. I employ about 330 people back in Texas. I can tell you that the Biden administration is completely out of touch with Main Street America. Main Street America is what this country is about and small businesses across the country are concerned with supply chain disruptions that are leaving storage shelves empty. And in my personal situation, I have no cars to sell on my lot. I cannot get cars. Excessive government regulations cause an increase in compliance. We just talked about. And the inability to find qualified workers and the constant threat of tax increases coming from Democrats in Washington are really hurting small business.

However, when I talk to my business owners back in Texas, they are most concerned about the out-of-control inflation we are all experiencing. And instead of taking and faking steps to bring down

energy costs and bring relief to families and small businesses, the only thing the Biden administration is doing is making excuses. The best I have ever seen. They have switched between blaming the Russian invasion of Ukraine to corporate greed as the main cause of inflation but I can tell you, Texas are not buying that. And Americans see the reckless government spending and the hostile posture towards our energy companies as the main factor in these record levels of inflation that are killing small businesses and owners who must drastically alter their operations.

So we have talked a little bit about this but I would say what is your office doing to help small businesses struggling with inflation. We talked about that earlier. But has Administrator Guzman asked you to examine inflation's impact on the federal contracting? Now, you did talk about the impact but you did not have the answer to the problem. And you mentioned a focus group I think that give you ideas and so forth but we have not talked about what are they saying? What are they saying that you need to do to fix this problem?

Ms. HIDALGO. Well, thank you—

Mr. WILLIAMS. You have got the problem and then you have got to have the fix.

Ms. HIDALGO. Thank you very much, Congressman, and I really deeply appreciate your perspective as a very successful small business owner.

So this is top of mind for the Administrator and the White House. And so as a result, that is why I met with all of my team members that are very much on the ground working with small businesses every day to get contracting opportunities to say what can we do to alleviate any of these challenges. So allowing for more variable price adjustments is one of the issues that we are looking at. Looking at thresholds to match, adjust for inflation are other areas. And so we are meeting regularly as a team to put together a package of fixes that will help to alleviate challenges—

Mr. WILLIAMS. Well, that's good. I hope you have some small business owners giving you some real world experience to help you do that.

And small business contractors are some of the hardest hit businesses by runaway price increases. And if a contractor's resource costs are rising each month, their margins will get smaller and smaller. And additionally, every business I speak to has told me how hard it is to find workers. We talked about that. Everyone knows that. And this is delaying the timelines on projects when they can be completed and then the project drags out. And with high inflation the cost goes up. So unfortunately, there is rarely any flexibility within these contracts to ensure they can still get the job done at a reasonable cost when these economic factors outside of their control are biting into their margins. So how is your office working with small businesses that have been awarded a federal contract? Before inflation, employers' shoulders were calculating the original bid. And I think one of the biggest things, too, is payment terms. Are you all paying them on time? How long does it take to get payment from the federal government?

Ms. HIDALGO. So we are actually—

Mr. WILLIAMS. That is one of the biggest things you can do right now to help. My experience with the federal government has been pretty much a slow pay.

Ms. HIDALGO. And we are working now to get back to during the Obama era where we fast-tracked payment. And so with the Prompt Pay Act, it is a 30-day requirement and we are trying to get that back to 15 days so that businesses will have more of a capital flow during these circumstances. And we are continuing to look at all the tools that are available at our disposal to ensure that small businesses can compete and that is where our strong relationship with OFPP and the White House has been critical in allowing us to provide those recommendations.

Mr. WILLIAMS. Thirty-day pay is good. Ninety-day is bad.

Thank you for being here. I appreciate it.

Ms. HIDALGO. Thank you, Congressman.

Chairwoman VELAZQUEZ. Time has expired.

Now we recognize the gentlelady from Pennsylvania, Ms. Houlahan, for 5 minutes.

Mr. HOULAHAN. Thank you, Madam Chair. Just making sure you can hear me okay. Can you hear me?

Chairwoman VELAZQUEZ. Oh, I am sorry. Yes, Ms. Houlahan, we can hear you.

Mr. HOULAHAN. Excellent. Excellent. And thank you so much, Administrator Hidalgo, for your really compelling testimony today.

And as a women entrepreneur myself, increasing opportunities for government contracting and business development for women-owned businesses is obviously particularly important to me and it very much informs my work on this Committee. I also happen to be a systems engineer and so I really believe in measuring what matters, and I am grateful to hear some of your KPIs and some of your emphasis on systems and systems change.

My Women-Owned Small Business Program Transparency Act, or the WOSB Transparency Act, passed the house earlier this month with very strong bipartisan support which would allow Congress and the SBA to gather necessary data that would improve this really important program that we have been talking about. I look forward very much to continuing to work with your office on ways to make sure that the SBA is able to reach their 5 percent prime contracting goal for women-owned small businesses and I am really pleased that the Chair and also Representative Davis have also highlighted this really important goal that has only been met twice in history in their remarks.

I am particularly interested in hearing more from you about how the certification process for that program can be improved because as I understand it, according to the latest data from the SBA's Office of the Inspector General, SBA initially received 15,000 applications for that WOSB program and 12,000 were screened apparently and returned to the applicant for more information. Do you know what the primary reasons were that so many applications were, in fact, return. And what actions is the SBA able to take to improve this process so that applicants can get to this process, get this process correct from the beginning?

Ms. HIDALGO. Well, thank you very much, Congresswoman, for that important question. And also, for your perspective as well as a business owner.

This has been top of mind for me since day one. We need to get women-owned businesses in the pipeline certified as soon as possible so that they can get access to set-asides. And so this is partly why immediately I asked my team to figure out what is going on in the system that leads to incomplete applications.

And I will give you an example. We learned that the way it was set up is they would ask applicants for all of their documents at once. But it turns out if they did not upload them individually, then it would only accept one of the documents. So I said, this is unacceptable and we need to fix this right away. And my team got right on it, fixed it to at least inform the business owner that they needed to upload one at a time. And as a result, we are seeing differences like that are having an impact. We have now certified well over 5,700 firms. We are on pace to certify over 6,000 this year. Any incomplete applications, I have my pre-screeners working directly with the applicants to make sure that their application is not rejected and that they can work towards a complete application as soon as possible.

Mr. HOULAHAN. I look forward to learning more of kind of the reason codes for why those things are happening and that is a really obvious glitch that you are talking about that I have experienced personally myself in submitting paperwork for health care as an example.

With what remains of my time, similarly, I am really interested in exploring the proposals that exist to benefit economically disadvantaged women-owned small businesses. While there are clearly requirements to participate in the Economically Disadvantaged Women-Owned Small Business contracting program or the very easy to remember EDWOSB such as income and net worth requirements, there really does not seem to be currently a separate and dedicated contracting goal that is EDWOSB's which would likely further maximize the utilization of such firms. Given the administration's commitment to these kinds of causes, I am wondering how the SBA is working to increase contracting opportunities for Economically Disadvantaged Women-Owned Small Businesses. For instance, do you believe a separate contracting goal might be beneficial?

Ms. HIDALGO. Thank you very much, Congresswoman, for that question and concern for EDWOSB firms. Fortunately, a lot of the firms will benefit from the President's emphasis on increasing Small Disadvantaged Business contracting and my team negotiated with all 24 agencies so we can get to 11 percent for fiscal year 2022. And so between that and the recent rule that I signed that allows for a significant number of more NAICS codes to be used for women-owned and economically-disadvantaged women-owned set-asides, as I mentioned, 92 percent of federal spend now falls under those NAICS codes. So we are hopeful that we will see an increase in both EDWOSB as well as WOSB set-asides.

Chairwoman VELAZQUEZ. Time has expired.

Mr. HOULAHAN. Thank you. I have run out of time, Madam Chair. I appreciate it and I yield back.

Chairwoman VELÁZQUEZ. Thank you.

Now we recognize the gentleman from Pennsylvania, Mr. Meuser, Ranking Member of the Subcommittee on Economic Growth, Tax, and Capital Access, for 5 minutes.

Mr. MEUSER. Thank you very much, Madam Chairwoman. And thank you, Ms. Hidalgo for being with us and testifying today.

I am very concerned about the health of our small businesses. I am sure you folks at SBA are quite concerned and have a sense of alarm and urgency because small businesses are facing this tattered economy and the repercussions of it certainly more than large businesses. Now, first, gasoline prices, fuel in general, diesel, heating oils as you well know are doubling in people with homes anyway, and so businesses, instead of paying \$3,000 or \$2,000 a year, they will be paying \$4,000 a year. Gasoline is costing \$5,000 more a year. Diesel, many businesses are concerned diesel is going to be rationed. I mean, it is that bad. And yet, the Secretary of Energy just yesterday very alarmingly said what we need to do is go to EVs and renewables which the administration should know that even if every country in the world hit its carbon reduction targets over the next 10 years, it still will only account to about 25 percent of the energy needs of the country and the world. And at increased demand, we need more of the current energies that we produce here domestically in 10 years. So it really was an unfortunate, I think, thing to say and kind of foolish. Because it is simple math on how that works. And so for the energy secretary administration to say something like that I think that raised a lot of fear in small businesses and certainly to our economy as a whole.

Small businesses are dealing with workforce issues, right, as well know. Access to capital. Supply chain disruptions. I mean, it is crazy. You go into a small business and they are waiting on things. They will have excess inventory or too little inventory and that is what throws off their cashflow to much. Regulations, taxes.

You know, it was disappointing when I asked Administrator Guzman a few meetings ago, Committee meetings ago, what she thought if she goes to the president and asks, informs him as the advocate for small business, that raising taxes is not a good thing. And she said she does not deal with taxes. You know, taxes are very important, keeping them as low as possible. We need to be a competitive nation. And you know, when you increase taxes, you reduce revenues, not just for the business but for Treasury, for government. Or inflation will do that. But you are reducing their net income. So therefore, you will be receiving less revenues and particularly with inflation.

Now, I went through that whole list and then let's just talk about inflation, which is definitely, as you know, the number one concern and problem small businesses are facing. And you did not mention anything about that in your opening. So I just have a couple of questions on that.

When businesses are dealing with, and why it should be very relevant to you, inflation, when businesses are paying more for goods and abiding by the contracts that they have with the SBA, they therefore, are squeezing their margins, their profitability. Are you in kind in the process of raising the contracted prices by 8.6 per-

cent, the highest level of inflation in 40, 50 years, whatever it is? Are you doing that?

Ms. HIDALGO. Thank you very much, Congressman, for that question. And we are actually studying the data to figure out where we can provide relief for small business contractors. Fortunately, what is amazing about these congressionally created programs is that it is close to \$150 billion a year that is contracted through small businesses which helps, has a significant impact on the well-being of contractors and firms, small businesses around the country during uncertain economic times. And so we are looking to see where we can adjust thresholds working with the Office of Federal Procurement Policy to issue guidelines, as well as adjust any of our rules or regulations that will provide relief on inflation for small businesses and our contractors.

Mr. MEUSER. I have limited time. I was going to ask about the technology contract that you are engaged in. I am sure that is a lot of fun. But good luck with it and I will have follow-up questions on that in writing. Thank you.

Ms. HIDALGO. Thank you.

Mr. MEUSER. I yield back, Madam Chair.

Chairwoman VELAZQUEZ. The gentleman yields back.

Now we recognize the gentleman from Louisiana, Mr. Carter, for 5 minutes. Mr. Carter?

The gentleman from Pennsylvania, Mr. Evans will be recognized for 5 minutes.

Mr. EVANS. Thank you, Madam Chair.

In the latest budget request, SBA is sort of thumbing—for a new initiative known as the Manufacturing Hub proposal. Could you please expand on the scope of this issue and how SBA envisions it will work?

Ms. HIDALGO. Thank you very much, Congressman, for that question.

The president has been very focused on increasing manufacturing within the United States, and he and our Administrator see small business manufacturers as being the pioneers in bringing back manufacturing to our shores. And so as a result, this is why we responded with the proposal to create a Manufacturing Hub office focusing more of our technical assistance and outreach to manufacturing firms, understanding some of their challenges and ways that we can leverage, for example, some of the contracting tools so that they can get the much needed supplies that they need to partner with our federal agencies. And so basically, our proposal is taking a laser focus on the ways that we can support our nation's pioneers in manufacturing and ensure that more of our products are made right here in America.

Mr. EVANS. Contracting vehicles have only gotten larger and more complex in recent years. What is SBA doing to make sure that these vehicles are not hurting small businesses and chances of winning contracts?

Ms. HIDALGO. This is an excellent question, Congressman, and it is top of mind for us every day. Most recently, we saw an award, a bundled contract that was going to be a total of \$7.7 billion without any small business set-asides. And so my office immediately negotiated with the agency, was very steadfast, and as a result, we

were able to negotiate \$2.85 billion within that bundled contract just for small business set-asides. But the reality is this is our PCRs and our government contracting team and policy teams were critical to the success but the PCRs are so critical for monitoring contracts like these and if we are able to be able to get an increase in staffing, we will be able to have more of the PCRs monitoring these contracts across the government to ensure that there will always be a large amount of set-asides for small businesses and that we continue to adhere to the Rule of Two across the federal government in setting aside contracts for small businesses.

Mr. EVANS. How is SBA working to make sure agencies hold larger contracts accountable to the subcontracting plans and how is SBA supporting small businesses especially new entries as they work as subcontractors?

Ms. HIDALGO. Thank you for that great question. It is something that we know needs to change as far as ensuring more accountability around subcontracting plans. With limited resources, we are trying to figure out administratively what we can do to ensure more of that accountability from having, for example, potentially firms indicate to the small businesses if they included them in their subcontracting plan, to having potentially, for example, I just recently met via satellite with a number of contractors in Guam who suggested that they be able to indicate what the cost involved was for them to help support a bid proposal and be able to attach that to those plans.

So we are looking at all the administrative tools that we have to make sure there is more accountability. The ESRS system, unfortunately, does not allow for real-time data analysis and that would be of significant support if we were able to find a way to enhance that system operated through one of our partner agencies to be able to track in real-time whether or not major contractors are following through on their subcontracting plans.

Mr. EVANS. Thank you. I yield back the balance of my time. Thank you, Madam Chair.

Chairwoman VELAZQUEZ. Thank you. The gentleman yields back.

Now we recognize the gentlelady from California, Ms. Kim, Ranking Member of the Subcommittee on Innovation, Entrepreneurship, and Workforce Development for 5 minutes.

Ms. YOUNG KIM. Thank you, Chairwoman Velázquez, and Ranking Member Luetkemeyer, for holding this important hearing. And I want to thank you, Ms. Hidalgo, for joining us and testifying before our Committee. And also for sharing your inspiring story.

Like you, I am an immigrant from South Korea, and I can tell you that America has also opened the door for me for, you know, a better future for me and my family now. And I am a grandma, so I am working really hard to ensure that we leave America better for our future generations. So I hope we can work together to preserve that American dream for all Americans, but especially for small businesses to prosper and succeed because small businesses are the backbone of our economy as we heard this millions of times.

But unfortunately, according to the National Federation of Independent Businesses survey, small business owners, their expectation for better business conditions over the next 6 months are at

their lowest in nearly 50 years. And small business owners are increasingly pessimistic about the economy because of the increasing costs, rising inflation, supply chain disruptions, and chronic workforce shortages. As a Ranking Member on that Subcommittee on Innovation, Entrepreneurship, and Workforce Development, this is really a critical and important issue for me.

And given the economic headwinds main street is facing, it is extremely important that SBA is laser focused in fulfilling existing mandates and providing business development assistance in a timely manner.

There was an IG report February 2022, this year. The 8(a) program found that SBA has regularly misused mandated deadlines to report to Congress on program performance because the data reliability issues would certify. Additionally, the report also states that SBA does not have established standardized procedures for business opportunity specialists to use to monitor program participants.

So, have you met with the inspector general to discuss the findings of that report?

Ms. HIDALGO. Thank you very much, Congresswoman, for those important questions. Business development is really top of mind for our team, our dedicated team of civil servants and everyone across the agency. And I am very grateful for the plus-up that we received in 7(j) technical assistance funding from Congress. We have requested additional resources as well for fiscal year 2023 so we can continue to enhance our technical assistance and business development.

But that said, as you mentioned with the data and the report to Congress, given that there was a conversion from paper to digital in 2018, now our team has been catching up in their data analysis and we are on track to catch up with the reports this year.

Ms. YOUNG KIM. Is that the reason for the delay in coming up with a solution, conversion from paper to digital?

Ms. HIDALGO. That is one of your questions in terms of reports, you know, reporting out to Congress, that was the reason for the initial delay was that conversion. And now we have actually addressed that and the team is on track to catch up on our report to Congress on business development for 8(a) firms.

And then apart from that, the wonderful issue that you mentioned of Business Opportunity Specialists, we see that there is a great opportunity there. And this is top of mind for Administrator Guzman. And so my team just recently met with the leads of all 68 offices around the country to develop an approach for more training with Business Opportunity Specialists to support our small business contractors.

Ms. YOUNG KIM. Thank you. You know, I am also hearing that SBA's service to small contractors may be falling. For instance, the 8(a) small business was referred to the wrong specialist, an economic development specialist, rather than business opportunity specialist when seeking contracting assistance. District offices also may be more preoccupied with SBA's other programs like its lending programs. Failing to realize they also have a duty to offer business development assistance to small businesses. So my question is, are you aware of these issues?

Ms. HIDALGO. We are very aware that over time there has not been as much emphasis at the district level on business development and more on compliance. And so we would like to strike more of a balance to ensure that across the board there is more support for business development. And connection with our PCRs and CMRs. So we are making sure that there is that streamlined communication across offices.

Chairwoman VELAZQUEZ. The gentlelady's time has expired.

Ms. YOUNG KIM. Thank you. My time is up. I yield back.

Chairwoman VELAZQUEZ. Now we recognize the gentleman from Louisiana, Mr. Carter, for 5 minutes.

Mr. CARTER. Madam Chair, thank you very much for the opportunity.

Ms. Hidalgo, can you share with me the percentage of African-American contractors in the 8(a) program?

Ms. HIDALGO. So, in terms of percentage, we have well over 1,000. About 1,500, I believe, African-American firms owned in the 8(a) program.

Mr. CARTER. And can you share with me the percentage of contracts that are awarded to these African-American contractors?

Ms. HIDALGO. So for the first time in history, we released disaggregated data on race and ethnicity. And of all federal contracts, 1.67 percent are awarded to small businesses that are African-American owned.

Mr. CARTER. How many have you lost? My understanding is that the program has been somewhat diminished and there has been a decrease in the amount of African Americans that actually participate in the 8(a) program. Can you share with me some light on that?

Ms. HIDALGO. We are trying to make sure that across the board small businesses can compete in federal contracting. So the programs that Congress has created, the five contracting goals are really important for ensuring that all small businesses can participate, including African-American owned firms. And so as a result, we are making sure that we are doing outreach across the board in urban areas, as well as in rural areas. We are trying to figure out ways that individually owned businesses can participate in more of these ordering vehicles, the contract vehicles. Our work in trying to dismantle contract bundling also has an impact on African-American owned businesses, and especially African-American women-owned businesses in being able to compete for these opportunities.

But what we wanted to do is have transparency and establish a baseline so that we have an understanding of where we are and where we need to go to ensure that there is access across the board for all small business contractors.

Mr. CARTER. And forgive me. I do not want to appear to cut you off but we have limited time, so if I do, please forgive me. It is not being rude.

Share with me very quickly what plans you have or what you are doing to increase African-American participation not only in the program but for those that are in the program to ensure that they are getting a fair share of contracting opportunities. What are your aggressive steps or marketing efforts?

Ms. HIDALGO. Well, part of it is certainly marketing but also it is providing more assistance to applicants across the board, making sure, I have asked to make sure that our pre-screeners work with all the businesses. So if we receive any incomplete applications, rather than being rejected, we are having our prescreening and screening team work with them to make sure that they can get all the important documents in for the application.

And then I asked my team to think about Certify in the same way that you would when you get your iPhone and it guides you through the process in setting it up. So they should not have to—

Mr. CARTER. Ms. Hidalgo, could you share with us in writing the percentages that I asked in question, if you can submit them to the Committee for our review, the percentages of African-Americans and other minorities that are in the program against what percentage of contracts are being awarded to them, that would be very helpful.

Lastly, before my time elapses, I mentioned this before. 8(a) program was disrupted greatly during the pandemic. I know there was a restoration of theoretically a year. That year was actually truncated. It was not a full year. We know that the impacts of COVID still exist and it hurt 8(a) contracts. I have consistently asked for some relief that we consider how we can yet again advance and grant additional time to those 8(a) contractors so they can enjoy the full complement of their term of an 8(a) contractor.

Can you share with me any actions that are being taken along those lines and your thoughts?

Ms. HIDALGO. Thank you very much, Congressman. That is a very important question and I am asked all the time by small business owners if we will extend it an additional year. We would welcome that opportunity to extend it. I have asked my team if there is anything we can do administrative, and unfortunately, we cannot. It would need to be by statute. And so we welcome any opportunity to extend it an additional year and we would be pleased to work with your office or with any of the Members of the Committee here for that purpose.

Mr. CARTER. I would love to visit with you on that and to work with our Chair and our Ranking Member to come up with a bipartisan measure that will give us the opportunity to extend it to make up for the tremendous loss that many of our small and emerging businesses had to suffer at the hands of something that was beyond any of our control, COVID>

Thank you very much.

Chairwoman VELAZQUEZ. The gentleman yields.

Mr. CARTER. If you could get back to us with that information, particularly those areas of interest relative to contracting opportunities and percentages, I would greatly appreciate it.

Ms. HIDALGO. I would be happy to. I will have my team circle back with you promptly, Congressman.

Chairwoman VELAZQUEZ. The gentleman's time—

Mr. CARTER. As well as the (8)a opportunity extensions. Thank you so much.

I yield back, Madam Chair. Thank you.

Chairwoman VELAZQUEZ. The gentleman from Florida, Mr. Donalds, is recognized for 5 minutes.

Mr. DONALDS. Oh, my apologies, Madam Chair. Thank you so much.

Ms. Hidalgo, thanks for being here. We really do appreciate it here in the Committee. I also commend you on everything you have done personally in your life. You know, this country, I think people sometimes think that success is easy. Success is really, really hard. It requires a ton of sacrifice. So that is a credit to you and to your family. But it also requires an environment that allows for these sacrifices to come to fruition. And it is crystal clear that examining the globe, it is just not possible in so many other places the way it is possible here in the United States. So it is really a credit to you, your family, and it is a credit to the bedrock of our society here in America.

Obviously, dealing with governmental contractors, can you speak to some of the inflationary pressures that the contractors are having to face right now considering the fact that I think it was said earlier in the hearing that the contracts are what they are from the federal government. Yet, business owners have to procure product or deliver services, whether that is procuring employees to do the work, whether it is procuring other products to assemble for the federal government to use. Can you speak to the inflationary pressures that the contractors are faced with today?

Ms. HIDALGO. Thank you very much, Congressman, for that important question and for your initial comments. I much appreciate it regarding my family and their coming here to this country.

So this is very top of mind for us and we have been looking at any which way that we can provide relief for our small business contractors.

I will give you an example of a firm that, for example, is having trouble getting retractor bags and they are on the cutting edge of fighting super bugs, a small business. And the costs are high. And so one of the requests we got is, are there ways that we can look to using some of the schedules, even though they have impacted the small businesses, but could we use some of the schedules to get supplies at lower costs for small businesses, particularly since they are part of our government contracting portfolio. So we are looking across the board at all types of solutions to address any type of inflationary pressures that businesses are facing at this time.

Mr. DONALDS. Have you guys had an opportunity to engage the administration to talk about potential regulatory relief, frankly, in the economy overall. I understand the purpose of this hearing is with governmental contractors but, you know, if it works for a government contractor, it will work for any other business in the United States. Have you guys had an opportunity to engage the White House about proposals on regulatory relief which would actually really open up a lot of these issues that businesses across the country are facing?

Ms. HIDALGO. Yes, definitely. Thank you. That is a great question. And that is one of the reasons why I met across the board with our PCR team and other staff to figure out how we can use regulations to provide relief to businesses. And we are working now on that and hope to be having relief sometime soon working with OMB to provide relief on some of the thresholds.

Mr. DONALDS. Switching gears, back under Section 1683 of the NDAA from fiscal year 2013, the SBA has to submit a report on suspension and disbarment to Congress. What is the status of that report? How come that report still has not been provided to Congress? Is there any discussion within SBA about that report actually getting to the Hill?

Ms. HIDALGO. Yes. We are right now working on updating all of our reports. It is top of mind for the Administrator and me to make sure that we follow through on our duty to Congress to report back. And so the team has been working extremely hard in updating and getting our reports to you and being timely going forward. That is of utmost importance to me and the leadership at SBA.

Mr. DONALDS. Final question and I will turn you back over to the Committee, I guess.

The 2019 OIG audit of SBA's suspension and disbarment process found that SBA had not established sufficient guardrails to prevent ineligible entities from participating in small business programs. What is happening right now at SBA to address the OIG's findings?

Ms. HIDALGO. Thank you, Congressman. This is really important to us and to the Administrator. And I will give you an example. Because of our reviews in fiscal year 2021, we were able to ensure that \$5.28 billion in contracts were redirected to legitimate small businesses because of some small businesses that were no longer legitimate small businesses. So this is an example of the kind of work we are doing to make sure. And I have a top team in place that is very focused on this to make sure we have the controls in place, working with the Fraud Risk Management Board that Administrator Guzman also recently created, to make sure that the businesses that Congress intended to benefit from these programs are, in fact, benefitting from the programs.

Mr. DONALDS. All right. Thank you.

Thank you, Madam Chair.

Chairwoman VELAZQUEZ. Time has expired.

Now we recognize the gentlelady from California, Ms. Chu, for 5 minutes.

Ms. CHU. Ms. Hidalgo, from 2010 to 2019 we saw a steady decline in the number of firms participating in the 8(a) program. That was under the previous administration. And I asked your predecessor what steps the office was taking to address this decline. However, since then, data does show that under the Biden administration, the SBA was able to reverse this downward trend in 2021. And for the first time in 10 years, increased the number of small businesses in the program.

So Ms. Hidalgo, can you talk about what factors contributed to last year's growth? And what steps your office is taking to ensure that we keep up that growth and continue to bring more firms into the program?

Ms. HIDALGO. Thank you very much, Congresswoman. This is such an important issue, and we are all working, the dedicated team of civil servants and staff are working diligently to try to reverse this trend. And so, by tracking new entrants, we now have a requirement across the federal agencies to track new entrants.

And as a result, we are seeing results. The agencies are reaching out to us on a regular basis asking for lists of firms that are new to the federal marketplace. We want to make sure that we are being welcoming to firms that want to contract with the federal government because of the opportunity it provides contracting with the largest purchaser in the globe. And so by tracking and also putting the goals and performance evaluations, the KPIs of our senior executives across all 3,000 buying offices, that is where we are seeing a whole of government approach to ensuring that we do not only increase the dollars but we also increase the number of businesses that can benefit. That is what is so extraordinary about these programs is just the impact that it can have on our small businesses across the country in communities and our nation.

Ms. CHU. Well, thank you for that because it has truly made a turnaround. But however, I did want to ask about other programs. I know under the previous administration the federal government failed to meet the subcontracting goals for three programs—the Small and Disadvantaged Business Program, the Service-Disabled Veteran-Owned Small Business Program, and the HUBZone program. These subcontracting goals are so critical to ensuring these underserved small businesses have a fair shot at competing for federal contracts. And I had asked your predecessor under the previous administration what they were going to do to remedy this. Now, I do not know what the current results are for those goals under the current administration. Nonetheless, what do you know about whether you are meeting the subcontracting goals for these three areas and what steps your office is taking to make sure that we do meet these goals going forward?

Ms. HIDALGO. Thank you very much, Congresswoman. We are trying to figure out what we can do to have more accountability with the major primes' subcontracting plans. And we have limited resources in terms of direct monitoring, so we are looking at ways to issue more administrative guidance on this front. And we are working closely with the White House and office of Federal Procurement Policy now to take a more laser focus on subcontracting in particular. If we were able to track in real time through the ESRS system, whether or not primes are following through on their subcontracting plans, that would make quite a significant difference. But my understanding is that system would need a lot more additional resources in order to be able to do real tracking. And I think if we were able to do that we would see an increase in billions of dollars going to our nation's small business subcontractors.

Ms. CHU. Well, in fact, I know that the SBA requested an additional \$5 million to be divided between 8(a), HUBZone, and Women-Owned Small Business programs for staffing resources. Can you explain the purpose of this and how this funding would be divided between three programs and whether you think it will increase participation in these programs.

Ms. HIDALGO. Yes. Thank you very much. And definitely, we want to make sure—

Chairwoman VELÁZQUEZ. Ms. Hidalgo, time has expired. Will you please send a written answer to the Committee in response to that question?

Ms. HIDALGO. Yes, I would be happy to follow up on that, Congresswoman. Thank you.

Chairwoman VELAZQUEZ. Thank you.

The gentleman from Minnesota, Mr. Stauber, is recognized for 5 minutes.

Mr. STAUBER. Thank you, Madam Chair, and Ranking Member Luetkemeyer for holding this. Ms. Hidalgo, thanks for being here and presenting your testimony.

I think you have a very tough job to try and defend this disastrous administration with the inflation and materials, increase in materials pricing for small businesses that are being devastated today.

Do you know how many billions of dollars of additional regulations the Biden administration has put on small businesses last year alone?

Ms. HIDALGO. Congressman, thank you very much for your question and for your support of the programs. I do not—

Mr. STAUBER. I can answer that for you. It is \$201 billion of additional regulations that you put on small business. That is just unacceptable.

So in the fiscal year 2022 National Defense Authorization Act, I was able to successfully add an amendment that will help reduce fraud in government contracting programs. The amendment requires firms to update their status in SAM within 2 days if they have received a final adverse decision against their status. If they do not, SBA is required to update it.

Could you tell me how the implementation of this provision is going thus far?

Ms. HIDALGO. Thank you very much, Congressman. We have implemented that and my team has briefed me on that. Exactly as you said. They have 2 days, and if they do not put the information in SAM.gov then my team does.

Mr. STAUBER. I appreciate that.

What other controls have you put in place to reduce the number of government contracts from going to ineligible firms?

Ms. HIDALGO. So as I mentioned, I hired a team that is very focused on this issue in particular. We are pleased that most of the IG audits and GAO audits on any of this have been closed out. And as I mentioned, the Administrator created the Fraud Risk Management Board so that we are cohesive as an agency in addressing any issues related to fraud. And I am pleased that in fiscal year 2021, we were able to redirect \$5.28 billion in contract dollars to legitimate small businesses that had been previously awarded to businesses that were not legitimately small.

Mr. STAUBER. One of the things that I hear from small businesses back home, again, as I said, the regulations and the frustrations of government interference, and to me it is unacceptable having been a small business owner myself for 31 years.

Do you actively seek out feedback from small contractors on the regulations which are holding them back?

Ms. HIDALGO. Thank you, Congressman. That is very important to me. I have met with many small businesses around the United States. And asked them regularly for their feedback on what we have been doing, how we can provide relief. For Administrator

Guzman, it is very important that any regs we adopt are not overly burdensome for our firms, and that is what she often asks us to look at, how we can relieve any burdens for the businesses.

Mr. STAUBER. And do you have a list of those that you can send the Committee here—

Ms. HIDALGO. A list of—

Mr. STAUBER.—the recommendations that the small businesses around the country that you spoke to?

Ms. HIDALGO. I am happy to circle back with you, Congressman, to see what I can provide to you. Yes.

Mr. STAUBER. So when you circle back, what timeframe would you be circling back?

Ms. HIDALGO. I am happy to get you any additional information on ideas that we have heard from businesses sometime in the next few weeks.

Mr. STAUBER. Few weeks?

Ms. HIDALGO. Mm-hmm.

Mr. STAUBER. Okay. I appreciate that.

And the last thing is, on the regulations, when you are listening or hearing the small business feedback on the regulations that are opposite of what this administration has put forward, for example, the WOTUS rule. Are you pushing back on behalf of small businesses?

Ms. HIDALGO. I am sorry, Congressman—

Mr. STAUBER. Waters of the United States rule, are you pushing back on behalf of small businesses?

Ms. HIDALGO. We are looking at, the President wants to make sure that all of our regulations are fair and balanced. And so we are looking across the board at making sure that whatever we do, the regulations are reflective of being fair and balanced to all of our small businesses.

Mr. STAUBER. We are seeing that WOTUS is one rule that is definitely disastrous for farmers and small businesses.

Madam Chair, I yield back.

Chairwoman VELAZQUEZ. The gentleman yields back.

Now we recognize the gentlelady from New York, Ms. Tenney, for 5 minutes.

Ms. TENNEY. Thank you, Madam Chair and Ranking Member Luetkemeyer. I really appreciate—I am over here. I am live over here. Yeah, thank you much. I want to just echo the sentiments of my colleague. Your personal story is really compelling and as Americans, we love freedom, and we love the idea of entrepreneurship in the small business community and what they bring. And I am a small business owner as well. And we have seen just incredible issues facing our small business community in light of the pandemic.

And I also have to echo the sentiments of Mr. Stauber. I cannot imagine trying to explain what you have to explain for this administration. I understand that you have got to defend it but, I mean, our small businesses are suffering under incredible inflation. And that is the biggest tax that you can have on any business right now, the inflation that we are seeing at such a high percentage. Among the highest that we face is our sales tax burden in the

State of New York. But the inflation rate is now even higher than our sales tax burden. So that is even a bigger tax on us.

We also have supply chain issues. Energy is a huge issue for our business, especially my cousins in farming and others are suffering under the huge costs of fertilizer who is also affected by that.

But also, you know, we are talking about taxes, inflation, excessive burdens that are put on small businesses that cannot afford to bear the costs of government and compliance like the big competitors have. So when it comes to government contracting, you know, we see the small business at a huge disadvantage.

And one of the questions I wanted to ask you about on the small business contracting side is often these small businesses do not end up getting the higher value contracts. They get the smaller contracts. What is your plan for trying to get these small businesses that are now overburdened by inflation, supply chain problems? How do we get them access to higher value federal contracts? Is that something you are specifically working on? If you could give me one or two ways that the administration is doing that so I can get an opportunity to actually be in this ecosystem.

Ms. HIDALGO. Thank you, Congresswoman, for that excellent question.

We are often discussing ways that through competition—so for example, the limitations on the 8(a) program, the sole source cap, if it is competed through an ordering vehicle, then they are able to qualify for a higher value contract award. I also understand that Congresswoman Salazar has introduced legislation on increasing the cap on the 8(a) sole source award. And so we welcome the opportunity to work with the Committee in ushering or providing any technical assistance on that legislation. But higher value contracts are really important to ensure that we not only increase small business contracting but that the businesses themselves can continue to generate wealth and employ people in more meaningful jobs. And contract bundling is another issue that really impacts the question that you have stated of higher value contract awards. When contracts are no longer set aside for small businesses and bundled, that decreases the opportunity for the firms. And so we are every day on the frontlines monitoring these contracts and trying to make sure that the agencies are following the Rule of Two.

Ms. TENNEY. Okay. While I say that I want to just also ask you, you stated in your testimony that the top priority of the Small Business Administration is to boost the number of certified small businesses receiving federal contracts behind the current goal of 23 percent. Are you concerned at all that by expanding this goal, it may cannibalize contracting opportunities for some of the medium-sized businesses and also some of the growing emerging businesses that are also in competition for those as we continue to try to make sure that we always talk about quality and the ability of these companies to do those contracts.

If you just answer quickly because I have one follow-up question on that for you.

Ms. HIDALGO. Thank you, Congresswoman.

We want to make sure that all businesses have the opportunity to continue to grow and compete. Given that we are the largest purchaser in the globe with over \$500 billion in opportunity each

year, we feel that there is significant opportunity for all businesses that want to compete. And so, you know, we feel that we want to continue to see the firms grow. We also recently released our 5-year review of the NAICS codes, so that 59,000 small businesses are eligible for small business set-asides. So we are doing—

Ms. TENNEY. I want to just say one thing because I know you have got to go back to the president of the United States and I would just wish he would please, to our small business community which provides 94 percent of the jobs in our community, stop playing the blame game. Help us out. We are paying record high gas prices, inflation. It is affecting everyone across our agro communities, our small business community, and every sector. Let's solve these problems. And I think SBA can be part of the solution but stop blaming these small business owners. We are struggling just like everyone else.

And thank you. I appreciate your testimony.

Chairwoman VELAZQUEZ. The gentleman from Wisconsin, Mr. Fitzgerald, is recognized for 5 minutes.

Mr. FITZGERALD. Thank you, Madam Chair.

Ms. Hidalgo, the Small Business Act requires the SBA to compile an annual report on the government-wide bundling and its impact on small businesses. But what we are hearing is that the SBA has indicated that the report is either difficult to compile or is oftentimes incomplete due to the challenges in and around getting this information. A lot of times either the agency is just flat out declining to compile this information and provide it. So, let me ask you this first. Is this accurate? I mean, is this really happening? And if it is, what I would like the Committee to do and I am working on a bill to force them to actually compile this and provide it for SBA.

Ms. HIDALGO. Thank you very much, Congressman. This is critical to ensuring that more contracts are set aside for small businesses. And I have asked the White House if we can make sure that we take an even more laser focus now that we have issued the reforms on category management on contract bundling. And what would make a significant difference is if our PCRs and the OSDBU offices are on the front end of these contract ends rather than the back end. Otherwise, we are given 30 days' notice to contest any bundled contracts. However, if we are on the front end before any of the bundling takes place, we are going to be able to negotiate quite significantly much more opportunity for small businesses. And so I welcome to work with you and your team to ensure that we have more accountability around this and that we get more opportunity to the small business contractors.

Mr. FITZGERALD. So Madam Chair, I would suggest, I think it is a laudable thing for the Committee to work on and probably a pretty simple bill to just once again put a directive in place that all that information should be provided.

Let me just switch quickly to in my district, the 5th District in Wisconsin, DoD is in the middle of that implementation on the cybersecurity maturity model. And along with that, what I am hearing from some of the DoD contractors or those that participate in that process, that what they are finding is that the compliance costs are so astronomical that, especially those that are on the

smaller end of the scale, are almost throwing up their hands saying it is not worth it because it is such an abstract kind of program and they are having difficulty in not only participating in the program but also, you know, kind of getting across the finish line saying we have done everything we have been asked to do. So is this something you are aware of? And is it something that you are working on?

Ms. HIDALGO. Yes. Thank you very much, Congressman. This is so critical for our small business contractors. And the Administrator has talked with the Deputy Secretary of Defense, and I talk regularly with the head of the small business office to make sure that whatever is ultimately implemented is fair and supportive of our small businesses and the costs associated with this. So my understanding is DoD has been taking quite a strong look at ensuring that ultimately whatever is adopted does not unfairly hamper the businesses. And they are also getting additional resources to support them on these costs associated with these requirements.

Mr. FITZGERALD. So Madam Chair, once again, I think it is another issue that this Small Business Committee could deal with. And if my office is getting a steady stream of these contacts, I am sure there are other Members of Congress that are getting the same thing. So I would hope it would be something that we could take a look at related to small business. And I yield back.

Chairwoman VELAZQUEZ. The gentleman yields back.

Now we recognize the gentlelady from Texas, Ms. Van Duyne, Ranking Member of the Subcommittee on Oversight, Investigations, and Regulations.

Ms. VAN DUYNE. Thank you very much, Madam Chairwoman.

So I want to follow up on those questions about the cybersecurity maturity model certification. You said that they were working on it. That they were taking steps. Can you give us more detail? What steps are they taking?

Ms. HIDALGO. Thank you very much, Congresswoman.

We have talked extensively with DoD about how this could unfairly burden the small business owners. We have been hearing from them as well, their concerns directly. And so DoD has promised to keep us apprised of any ultimate steps that they are going to take. But one, they are well aware of the costs involved and are trying to figure out ways to alleviate those costs and where they can provide extensions on implementing the program to make sure that ultimately it does not unduly burden the businesses but that we continue to keep national security top of mind. And so—

Ms. VAN DUYNE. And I appreciate that. I appreciate that. But what can we do to expedite that? Because they cannot wait years. I mean, some of these companies are already coming off, you know, the pandemic, 2-1/2 years of, you know, falling revenues. They cannot wait that long. What can we do to be able to expedite that?

Ms. HIDALGO. Well, one of the things DoD has done is contracted with a firm to provide free training to any small business contractors on this issue, and so part of it is getting the word out on those resources and the training that the DoD is providing. And then additional technical assistance for the firms would make a significant difference. So any resources that Congress can provide on

that would have an impact on ensuring that the firms are CMMC ready.

Ms. VAN DUYNE. Okay. According to NFIB's May Jobs Report, the labor shortage continues to be a challenge for small businesses with over half of them reporting job openings that they could not fill. And I have seen this directly in my district up in North Texas. This is up four points from April. Can you tell me what the SBA is doing to address this growing labor shortage?

Ms. HIDALGO. Thank you very much, Congresswoman.

It is really important for our small business contractors to continue to create very meaningful jobs. And as a result in the increase that we are seeing in contracting and new entrants, they are able to create more meaningful job opportunities and so that is very top of mind because we know that this incredible resource through congressional goals has an impact on ensuring that more small businesses can employ and provide meaningful job creation in districts all—

Ms. VAN DUYNE. I appreciate that you saw it but I want to make sure, we have a very short time, what are the steps that you are doing? I see that you understand the problem but what exactly are the steps that SBA is doing to address the labor shortage?

Ms. HIDALGO. Well, thank you, Congresswoman. This is a very important issue for the Administrator and for the President. We want to make sure that small businesses have the support they need to be successful.

Ms. VAN DUYNE. And I appreciate that. But what are the steps that you are taking?

Ms. HIDALGO. We are looking at everything from where we can focus on rules and administrative guidance to provide relief to small businesses. Every day it is top of mind that we use the vast resources that Congress has provided us to provide support and technical assistance to our firms.

Ms. VAN DUYNE. And I appreciate that. But when I get calls from, you know, our businesses, what can I tell them that you are doing?

Ms. HIDALGO. So we have very much focused on creating the opportunities that lead to more meaningful job creation, and as a result, allows for the businesses to provide excellent opportunities for their employees. And that—

Ms. VAN DUYNE. So we have the jobs. The jobs are available. It is not job opportunities. It is actually the labor shortage that we are looking. We have got a number of job openings. The problem is filling those.

Ms. HIDALGO. Yes. And that is why government contracting is so critical because as the labor market is looking for meaningful opportunity, that is what government contractors provide.

Ms. VAN DUYNE. Okay. Thank you very much.

Chairwoman VELAZQUEZ. The gentlelady's time has expired.

Now we recognize the gentleman from New York, Mr. Garbarino.

Mr. GARBARINO. Thank you, Chairwoman, and the Ranking Member for holding this hearing. Thank you for the witness for her testimony.

I will follow up on Ms. Van Duyne's questions. I would love to actually find out what SBA is doing to help. I am hearing from

every different aspect, every small business and they are all having the same problem. And this is where I think the SBA needs to help them. So if you actually do have a list of things that you are doing and I can send them to your office for that would be very helpful. So I want to thank my colleague for asking those questions.

Last hearing, the witness was questioned whether pursuing access to the SBA's contracting programs was worth it. And in light of her observation that an increasingly higher proportion of small business opportunities are found through governmentwide contracts rather than individual set-aside opportunities. What is your response to her observation?

Ms. HIDALGO. We see that the increasing reliance on these governmentwide vehicles does have an impact on small businesses' ability to compete because as you heard in the hearing last week, it's fewer and fewer firms that are able to get onto these contract award vehicles. We are working closely with GSA to figure out if there is a way to have more frequent onramps, which is another issue that you heard last week. And so that more small businesses can participate in these ordering vehicles.

And then apart from that, by our success in getting all the socioeconomic firms onto Tier 2 of category management. So as these agencies are rated in their performance, it includes contracting with small businesses that are separate from the ordering vehicles.

Mr. GARBARINO. Okay. So you heard what she said and you guys are actually coming up with issues to address it. So I appreciate that.

Another question, according to payroll data, head counts at companies with fewer than 50 employees declined in 3 of the past 4 months. In your opinion, why do you believe this decline is happening and what can the administration do to reserve the decline?

Ms. HIDALGO. We are very focused on making sure that we leverage all the tools that we have at our disposal, from the socioeconomic programs to the small business set-aside to our technical assistance programs, to make sure that the small businesses can compete and they have the employees and staff and resources to do that. And fortunately, because of these programs and the enormous impact it has on the U.S. economy. They are able to create meaningful jobs. And these jobs are key, are critical in addressing the labor shortage.

Mr. GARBARINO. I mean, the jobs are there, and my colleague made this point before. It seems the employees are not. The jobs are there. There are signs everywhere, you know, jobs available. So, I mean, what, again, this goes back to my previous colleagues, why are people leaving the companies? Why are the headcounts going down and what is the administration doing to change it? Is it a payroll problem? I mean, what is the issue. The jobs are there; it is the employees that are not.

Ms. HIDALGO. Right. And I think part of it is when I am talking about or referencing meaningful jobs that the firms are able to provide more competitive opportunities to employees and that makes a difference in being able to hire and find top quality talent.

Mr. GARBARINO. All right. I appreciate your answer.

One last question. I am concerned that the rising use of joint ventures for the SBA's Mentor-Protégé Program is creating a de-

pendency among small businesses on them to be competitive. It is a problem since up to 60 percent of the work performed by a joint venture and corresponding revenues can be obtained by a large mentor. These are dollars specifically designated for small businesses that large businesses can now easily access. Please share your own assessment of the Mentor-Protégé Program and the formation of joint ventures' impact on these small businesses.

Ms. HIDALGO. Well, it is definitely an important tool for our small businesses to be able to partner with other companies to go after contract opportunities and create more value. We have seen a marked increase in applicants to the Mentor-Protégé Program thanks to the All Small Mentor-Protégé Program. We are now tracking regularly the impact that it is having and we are seeing a significant increase in revenue for the small businesses as a result. So it is yielding outcomes and we are continuing to monitor all the rules and regulations to ensure that ultimately the small business benefits most from this important resource that the SBA is able to provide.

Mr. GARBARINO. I appreciate it. I am out of time.

Chairwoman VELÁZQUEZ. Time has expired.

I would like to thank Associate Administrator Hidalgo for appearing here today.

Strengthening the ability of small businesses to compete for and win federal contracts is one of this Committee's top priorities. A robust Office of Government Contracting and Business Development is integral to achieving this goal. Today, we have covered issues facing the office, and we will work on a range of potential solutions to help the office operate more efficiently and effectively.

Without objection, Members have 5 legislative days to submit statements and supporting materials for the record.

If there is no further business to come before the Committee, without objection, we are adjourned. Thank you.

[Whereupon, at 11:44 a.m., the committee was adjourned.]

A P P E N D I X



Testimony of

Bibi Hidalgo
Associate Administrator
Office of Government Contracting and Business Development
U.S. Small Business Administration

Before the

Committee on Small Business
U.S. House of Representatives

Hearing on

"SBA Management Review: Office of Government Contracting and Business Development"

June 23, 2022

Testimony of Bibi Hidalgo
Associate Administrator, Office of Government Contracting and Business Development
U.S. Small Business Administration

Good morning, Chairwoman Velazquez, Ranking Member Luetkemeyer, and distinguished members of the committee. On behalf of our Administrator, Isabella Casillas Guzman, and the entire Agency, thank you for the opportunity to appear before you today to discuss the important role that government contracting plays in investing in and empowering small businesses across the United States.

The Federal Government is the largest purchaser of goods and services in the world, leveraging its immense spending power of over \$500 billion annually on everything from biopharmaceutical research to cybersecurity improvements to green building architecture. And time and time again, it is our nation's small business contractors who are driving these kinds of innovations, bolstering our supply chains, moving our economy forward, and keeping our country secure.

For many small businesses, there is real power that comes with getting to say that the United States Government is one of their clients. At the same time, the Federal Government and the American taxpayer benefits from partnering with our nation's small business innovators to create jobs in every community across our nation.

Under the leadership of President Biden, we have seen a governmentwide overhaul in how federal agencies, from contracting offices all the way up to front offices, approach and promote small business procurement. This Administration has shown over the past year and a half that it believes in advancing the cause of small and socioeconomic business contracting not only for the sake of our Congressional goals, but also for the health, security, and prosperity of our industrial base. In so doing, President Biden and Administrator Guzman have prioritized breaking down historic barriers to create opportunity for American entrepreneurs. I am proud to be a part of this Administration's work to ensure that every person can take that leap of faith into the challenging, but endlessly rewarding, world of business ownership.

By way of background, I am the daughter of Cuban exiles who came to the United States after the Cuban Revolution. The day of the Bay of Pigs invasion the Cuban militia stormed into my Grandparent's house in Havana and took my Grandfather, my Mom, who was only 17 years old, and her two sisters, to prison. Though deprived of their freedoms for 39 days, America soon offered an open door for a better future—a future for my mom and dad to start their family, raise five children, and teach each of us about grit and determination. And based on our deep Ignatian faith, we were taught the importance of working in service of others.

These are the values that guide me in public service, as I have worked to promote small business interests under two U.S. Presidents. I was a small business owner myself – starting a business with my younger brother Patrick to serve Fortune 500 companies in developing strong supply chains. During our time working on a start-up, I faced many of the same challenges that I hear about from small business owners that I meet across the country today. I understand the challenges with making payroll or landing a contract. I also understand the reward and satisfaction when that first check arrives.

As Associate Administrator of SBA's Office of Government Contracting and Business Development, my team and I work daily to widen the doors of access and opportunity for all small businesses looking to share their wealth of talents and innovations in the federal marketplace.

24 Agencies and Us

SBA advocates on behalf of small business contractors on a national scale. We work to monitor the progress of all 24 CFO Act agencies towards the Congressionally mandated goals for small business contracting, including the 23 percent goal for all small business concerns, the 5 percent goal for Small Disadvantaged Businesses, the 5 percent goal for Women-owned Small Businesses, the 3 percent goal for Service-disabled Veteran Owned firms, and the 3 percent goal for HUBZone firms. SBA works with our partner agencies to reach and surpass these Congressional goals, translating to almost \$150 billion in small business contracts per year.

On the first day of the new Administration, President Biden signed an Executive Order on Equity and Underserved Communities which directed the government to use federal procurement strategies that expand access for socioeconomic firms. The President also announced an all-of-government effort to grow federal contracting spend with Small Disadvantaged Businesses to 15% by 2025. That adds up to tens of billions of additional dollars over five years. Together with our overall small business goal, women-owned business goal, service-disabled veteran owned goal and HUBZone goal, these federal commitments represent a once-in-a-generation opportunity to invest in all of our nation's skillful small business and turn their ideas into the very real solutions that the U.S. government needs to take on its greatest challenges.

While SBA negotiates and monitors agency-specific goals throughout the fiscal year, we also have a dedicated team of Procurement Center Representatives (PCRs), who negotiate with contracting officers across federal agencies to create billions of dollars in new small business set-asides. As just one example among many, one PCR worked to appeal an agency's recent \$7.7 billion IT acquisition strategy, which not only would have displaced pre-existing small business contracts, but which also did not include set-asides for small business concerns. Because of my team's efforts, they were able to secure a commitment from the agency to set a 37 percent goal for prime contracting with small businesses, equivalent to \$2.85 billion. That amounts to thousands of quality, good-paying jobs being created or maintained at small firms across the country over the next decade.

Bundling Impairs our Communities

Given the unprecedented spikes in contract bundling occurring across the federal government, SBA's work advocating for small business spending has never been more important. Increasingly, federal contracts are being consolidated until they are no longer within reach for many small businesses, removing them from the competitive process and effectively, from the federal marketplace. As context, in the 10 years prior to FY2019, the government bundled a total of \$44 billion in contract work that had been performed by small business but that had since been consolidated into large-business contracts. In just the past three fiscal years, however, the federal government has bundled a total of \$112 billion—averaging almost a full decade's worth of bundling each year.

Data demonstrates that bundling practices, present one of the largest barriers to entry to federal contracting. Just eleven years ago, the Federal Government contracted with more than 131,000 small businesses; today that number is closer to 80,000. That is a 39 percent drop in our small business industrial base. Over the same time period, there has been a 60 percent decrease in new small business entrants to federal contracting.

As part of the President's commitment to Equity in Procurement, SBA has worked with the White House, the Office of Management and Budget, and our partner agencies last year to announce five major policy changes for federal contracting to ensure that socioeconomic firms have a strong footing on which to compete in the federal marketplace. These changes improve on five key areas—Access, Delivery, Accountability, the Playing Field, and Transparency, or as we have dubbed them in my office, ADAPT.

First is Access—SBA and the White House are committed to tracking new entrants to the federal marketplace to expand the domestic supplier base, to reverse the past decade's decline in the number of small businesses contracting with the government, and to ensure that prospective government contractors can compete and win awards.

Delivery—As was mentioned earlier, President Biden committed this Administration to raising the governmentwide Small Disadvantaged Business goal to 15 percent by Fiscal Year 2025. Earlier this year, SBA negotiated with all Cabinet and procurement agencies to establish ambitious, agency-specific goals around SDB contracting so that, governmentwide, we reach 11 percent in Fiscal Year 2022.

Accountability—Agencies have been directed to add small business goals into the yearly performance evaluations for Senior Executive Service officials in program offices overseeing contract activities. When similar policies were introduced under the Obama Administration, we were able to achieve the 23 percent small business goal for the first time in nearly a decade. Now, we hope that reintroducing the goals to performance evaluations will spur even more set-asides for small and disadvantaged businesses, while also cutting down on the bundling of federal contracts.

The Playing Field—SBA fought to ensure that federal contracting guidelines for small business set-asides are being followed and to add new guardrails and even more windows of opportunity for small firms to work directly with the Federal Government. Based on new guidance developed collaboratively between the White House, the Office of Management and Budget, SBA, and our partner agencies, more than 30,000 socioeconomic small businesses—that's all Small Disadvantaged Businesses, Woman-owned Small Businesses, Service-disabled Veteran-owned firms, and HUBZone firms—are now automatically provided Tier 2 credit for Category Management. As a result, contracting officers are incentivized to take maximum advantage of socioeconomic small businesses both through open market transactions and on existing vehicles, all with a close eye towards growing the small business supplier base.

And finally, Transparency—For the first time in history, SBA has publicly released data on the percent of federal dollars that went to Black, Latino, Asian American, Native American, and tribally owned small businesses. According to Consulting Economist Jon Wainwright, "...large, adverse, and statistically significant disparities are found to exist for minority businesses in the great majority of cases throughout the United States, in the economy as a

whole, and in each major procurement category and industry sector.” Disaggregated data represents an important tool to ensure that we are not missing out on partnering with talented CEOs on the cutting edge of innovation. In particular, by housing this data on the SBA.gov website, we can better track our progress toward achieving the President’s bold vision for partnering with small and socio-economic firms.

Creating a Customer-Centered Approach to GCBD’s Certification Processes and IT

At the start of the Biden-Harris Administration, SBA’s certification IT ecosystem was in need of significant process review and improvements. That is why we worked to overhaul the certification application IT systems, including to Certify, beta.Certify, and the HUBZone Certification Tracking System (HCTS). These changes have come in two forms—first, as client-facing improvements to the system itself, such as streamlining the application process and improving webpage performance; and second, as staff-facing improvements to the system that have heavily cut down on processing times. As part of the governmentwide Customer Experience initiative and Administrator Guzman’s customer-centric focus agencywide, we also launched a Customer Survey so that we can collect ongoing feedback on our IT systems and put the voice of the customer at the center of our development efforts.

Our reforms are making a difference: SBA is processing certification applications over 20 percent faster than statute requires. In fiscal years 2019 and 2020, the average processing time for an 8(a) Business Development Program application was 137 days. Since President Biden took office, that number has dropped to 94 days. In the past year alone, the HUBZone program reduced application processing time by 40 percent, resulting in a 3-week turnaround time for getting application decisions to firms. In just the past few months, process improvements in the WOSB program have led to a 35 percent increase in the number of applications that move forward from initial review to be considered for certification.

Moreover, just last month, our Information Technology team deployed a large set of improvements to Certify.sba.gov that were based on recent feedback, commercial usability best practices, and federal plain language guidelines to accomplish two major areas of improvement: re-design of the Certify.sba.gov website and simplification of the program application.

Where more support is needed by the applicant, we provide a clear pathway to Small Business Development Centers and Procurement Technical Assistance Centers nearby to connect them with our network of business specialists and counselors. Our application simplification effort has reduced the number of questions presented to applicants by 10 percent, and it has revised 80 percent of questions to reflect federal plain language standards.

The lessons learned from these and other critical reforms to our certification processes have played an important role in reshaping the application experience for our nation’s small business contractors. At the same time, they have helped to establish best practices that will form the baseline for the Veteran’s certification program that is transitioning from the Department of Veterans Affairs to SBA on January 1, 2023. America’s Veteran community has come to expect a standard of care from the Veterans First Contracting program at the VA, and SBA has been working diligently with the VA and stakeholder groups to stand up a program that embodies that same level of care and attention that our Veterans deserve. By having all small business

certification, technical assistance, and business development programs under the same roof at SBA, we will serve as a one-stop shop for veteran entrepreneurs to access resources and trainings to support their growth and success. For example, already in our Mentor-Protege Program, 31 percent of participants are Service-disabled Veteran-owned firms, receiving everything from trade education to financial assistance to technical trainings in order to build capacity to compete in the federal marketplace. With veteran and service-disabled veteran-owned small business certifications fully incorporated at SBA, we can open the doors to even more veteran-owned firms to take advantage of our programs.

My technical team's work is driven and prioritized directly by the voice of the customer, and with Administrator Guzman's technology forward approach to the work we do here at the agency, we look forward to many new technology releases that ease small business entry into the federal marketplace and support their development as market competitors.

Conclusion

The resulting economic crisis from the pandemic continues to have an unprecedented impact on America's small businesses. Entrepreneurs across America—especially the smallest of the small in urban, rural, and Tribal areas, businesses owned by women and people of color—struggled to stay afloat, and many still live with the lagging effects of limited work and lost revenues.

As we recover from the pandemic and support a new generation of entrepreneurs, ensuring that small businesses can access the immense resources of SBA and the federal government through contracting is more important now than ever. With a wealth of cutting-edge ideas and inventions from small businesses across the nation, the federal government is poised to help deliver greater value for taxpayers through government contracting.

Thank you again Chairwoman Velazquez, Ranking Member Luetkemeyer, and distinguished members of the Committee for the opportunity to appear before you today. I look forward to your questions.

**SBA Responses to Questions for the Record
SBA Management Review: Office of Government Contracting and Business Development
June 23, 2022**

Questions for the Record from Ranking Member Blaine Luetkemeyer (MO-03):

1. I am concerned that an unbalanced approach to the increased use of governmentwide contracts utilizing contract bundling and consolidation strategies may be unduly excluding small businesses from most federal contracting opportunities. This may ultimately force many small businesses to leave federal procurement behind, ultimately resulting in a weakening of our national security and economic strength. What steps are you taking to mitigate these risks?
 - As part of the President's commitment to small business procurement, SBA worked with the White House, the Office of Management and Budget (OMB), and our partner agencies last year to announce a series of major policy changes for federal contracting to ensure that service-disabled veteran, women-owned, HUBZone and small disadvantaged businesses have a strong footing on which to compete in the federal marketplace. Specifically, on governmentwide vehicles and scoring programs like Category Management, SBA worked to ensure that federal contracting guidelines for small business set-asides are being followed and to add new guardrails and even more windows of opportunity for small firms to work directly with the Federal Government. Based on the new guidance developed between the White House, the OMB, SBA, and our partner agencies, more than 30,000 socioeconomic small businesses—that's all Small Disadvantaged Businesses, Woman-owned Small Businesses, Service-disabled Veteran-owned firms, and HUBZone firms—are now automatically provided Tier 2 credit for Category Management. As a result, contracting officers are incentivized to take maximum advantage of socioeconomic small businesses both through open market transactions and on existing vehicles.
 - We also worked with the White House and OMB to place all five congressional small business goals into the performance evaluations of senior executive program managers and acquisition officials in the US Government. And now, all contracting agencies will track new entrants to federal procurement to ensure that the industrial base is growing in the United States.
 - At the same time, over the past year, SBA has taken an active approach to protest, appeal, and oppose attempts by Federal agencies to continue the trend in contract consolidation and bundling. Recently, SBA led a multi-agency workgroup comprised of DHS, DLA, ED, OMB, and GSA in the development of a small business-centric category management training, which informed the federal acquisition and small business workforce on regulations surrounding bundling and its connection to category management.
 - The Administration will continue advocating for small business utilization in the federal marketplace and the careful consideration of small business equities as acquisition policies, regulations and practices are developed and implemented.
2. At a recent hearing, a witness questioned whether pursuing access to the SBA's contracting programs was worth it, in light of her observation that an increasingly higher proportion of

small business opportunities are found through governmentwide contracts rather than individual set-aside opportunities. What is your response to her observation?

- SBA recently released the FY21 Small Business Scorecard to showcase each agencies' performance in achieving the Congressionally mandated small and socioeconomic business goals. This year's release showed that the federal government reached record levels of contracting with small businesses, including Service-Disabled Veteran-owned firms, Small Disadvantaged Businesses, and HUBZone firms. This is an indication that federal contracting programs continue to invest in small businesses at historic rates. To ensure these efforts are matched going forward with an expanded small business supplier base, we are working with OMB on guidance and benchmarking tools that agencies can use to increase their attention to the diversity and depth of socioeconomic and other small businesses in their base, including the number of new entrants. These efforts, coupled with changes in category management scoring practices and actions to disincentivize bundling are designed to increase the likelihood a small business will receive work, whether through an existing contract or a new stand-alone contract. We will continue to work with OMB, the Domestic Policy Council, and others to ensure that government contracting practices are in line with the Administration's small business priorities and that agencies maximize their use of small business friendly practices when using currently existent multiple award contracts, such as small business set-asides, small business evaluation preferences, and more frequent on-ramps.
3. This year, the SBA delayed releasing its latest adjustments to the small business size standards by a wide margin. This delay was costly. In many instances, small businesses lost valuable work they could have continued to perform had the size standards been published in a timely manner. Can you account for this delay and provide the Committee with assurances that the SBA will publish future adjustments in a timely manner?
 - Recent changes to the Small Business Act required SBA to conduct substantial additional analyses for this batch of size standards updates, which added to the time required to issue final size standards. For instance, section 3(a)(6) now requires an economic analysis of the future effect of the size standard; section 3(a)(7) prohibits SBA from using common size standards without justification; and section 3(a)(8) requires SBA to calculate a unique size standard for each North American Industrial Classification System industry. This is the first size standards revision that implemented these new statutory changes. Additionally, SBA received more than 1,000 comments on the latest size standards during the proposed rule phase. This historic level of public input and SBA's diligent analysis of and response to each comment contributed to the delay. SBA endeavors to issue size standards in a timely manner while complying with the statutory requirements.
 4. The Government Accountability Office (GAO), in 2014 and again in 2019, found that the SBA lacked procedures to assess the performance of third-party certifiers for its Women-Owned Small Business Program. While the SBA agreed with GAO's recommendations, no plans were made to regularly monitor their performance.
 - Have such procedures been established following the GAO's recommendations? If so, what they are?

- Yes, procedures for oversight of third-party certifiers have been established within the WOSB Federal Contract Program's new SOP 06 08 02. SBA expects to issue this SOP within the coming weeks and can provide a copy upon request once published.
 - When was the last time the SBA assessed third-party certifier performance to determine if these entities are in compliance with program requirements and has this been appropriately documented?
 - SBA collects monthly reports from third-party certifiers on several categories, including the number of applications received, the number of applications approved and denied, and other information that SBA determines may be helpful for ensuring that third-party certifiers are meeting their obligations. SBA also conducts two types of reviews of third-party certifiers. The first occurs throughout the year and involves SBA collecting an audit sample of applications that were approved from each third-party certifier. An SBA analyst reviews the supporting documentation for each of these applications to determine if an appropriate decision was made. SBA has also resumed site visits of third-party certifying organizations which includes reviewing their procedures, systems, and staff. The most recent site visit was completed in early July 2022.
 - I am concerned about discrepancies in results businesses are given among the different third-party certifiers; one entity may agree to certify a business when another will not. Has this been resolved so that all entities, including the SBA, are playing by the same rulebook?
 - Over the past year, SBA has enhanced its oversight of each third-party certifying (TPC) organization to include monthly training-based sessions on the program's regulatory requirements. In these meetings, we discuss best practices and share program related updates with each certifier. We also use these trainings in conjunction with regular, individual sessions to discuss any reported concerns regarding a specific TPC organization, as well as any concerns the TPC may have. SBA also completes an annual audit of a sample of firms that were approved by TPCs to ensure effective controls are in place and application determinations are compliant with the program's regulatory requirements. Further, SBA has reinstated in-person site visits of TPCs to include interviews of staff, full review of each organization's WOSB Program certification process, and demonstrations of the technical systems used to process applications. For any identified inconsistencies or deficiencies identified by SBA during these review processes, SBA communicates that concern to the TPC and affords the organization the opportunity to correct the deficiency. SBA then follows up to ensure that the corrective actions were taken.
5. I am interested in your assessment of the SBA's HUBZone Program. The government has consistently failed to achieve its 3 percent goal, and the SBA issued new regulations in 2019 relaxing eligibility requirements in its bid to increase program participation. I am

concerned that relaxing eligibility requirements as the agency has done dilutes the spirit and intent of the HUBZone program, which is to assist underserved communities. Can you explain why the SBA made certain requirements easier to meet, such as the employee residency requirement, even though Congress specifically rejected taking this approach in its 2018 HUBZone reform legislation?

- The HUBZone Program has been reviewing data to assess the effectiveness of these provisions in meeting their intended objectives, including the importance of assisting and creating jobs in underserved communities. The program will be issuing a proposed rule to adjust these requirements as needed to ensure the integrity of the program's mission.
6. Has the SBA seen an increase in participation in the HUBZone program, following the legislative and regulatory reforms in 2018 and 2019?
- In FY20, the first full year following the roll out of some of the most comprehensive changes to the program in its 20-year history, the HUBZone Program received 2,651 application submissions, which represents a 49% increase over the prior year. In FY21, the program received a more modest increase in applications over past years, but HUBZone witnessed a 10% increase in the number of approved firms, leading to the largest approval rate in the past several years. The higher-than-average approval rate reflects the fact that more firms are availing themselves of the new pre-application resources SBA put into place to improve the quality of submissions, increase transparency, and reduce administrative/paperwork burdens. Moreover, the HUBZone Program Office has heard from firms that the program is much more appealing now because 1) certifications are processed significantly faster than the 60 days required in statute, 2) consistent and excellent customer service is available full-time, 3) paperwork burdens have been reduced, and 4) the frequency of HUBZone status protests has dropped dramatically. An economic impact study¹ conducted in 2019 found that every federal procurement dollar to a HUBZone certified firm generated nearly 2 times the economic activity for the state, through ancillary activities such as parking, meals at local establishments, office supplies, etc. This same report found that federal procurement to HUBZone certified firms supported more than 79,000 direct and indirect jobs. With more than \$14 billion in federal dollars flowing to certified small enterprises in HUBZone designated areas, the HUBZone Program is experiencing record federal investments in the entrepreneurial ecosystems of some of the nation's most underutilized business and commercial areas.
7. Given the government's inability to reach its HUBZone goal, what are the most significant barriers to agencies contracting with HUBZone companies and what can be done to encourage utilization from the agency's perspective?
- SBA is encouraged by the federal government's historic contract spend with HUBZone firms in FY21. This \$14.3 billion record represents continued progress towards finally achieving the government's 3% goal, with FY21 representing the

¹ U.S. Small Business Administration via Optimal Solutions Group, LLC, "HUBZone Economic Impact Report," February 2021. <https://www.sba.gov/document/report-hubzone-economic-impact-report>

fourth straight year of increases in Scorecard attainment, including the highest percent spend achievement in a decade. Awards to firms through HUBZone-specific contracting vehicles increased 16%, and more than half of all federal agencies met or exceeded their HUBZone goal last year. SBA is regularly meeting with Agency OSDBUGs and the contracting community to make sure procurement officials are aware of their options for engaging with HUBZone firms. In addition, given that Tribal lands qualify as HUBZones, the HUBZone Program Office is in conversations with tribally-owned firms to discern ways that we can make the program more accessible to their businesses. Moving forward, the HUBZone program team will build on this positive momentum and continue its robust outreach campaign to share tools, best practices, and resources with businesses and contracting officials across the government to make it easier for them to utilize the program.

8. I understand the SBA plans to issue a technology contract to implement its new Service-Disabled Veteran-Owned Small Business Program.
 - Can you tell us more about this technology contract, for instance what the requirements are and how much it is projected to cost?
 - SBA has awarded a contract for the development of a new Veterans Certification Management System (VCMS), a cloud-based system for application intake and processing and a public-facing searchable database of certified firms. VA has provided \$10 million to pay for the system development, with any remaining funds to be applied toward program operations costs.
 - Given the SBA GCBD's poor track record of technology investments, can you provide us with assurances that this contract will not be yet another failed investment?
 - The development of the Veterans Certification Management System will be informed by lessons learned from previous development projects related to its certification management systems, as well as the systems that supported the administration of SBA's COVID relief programs and VA's development of their VEMS system. The agency is in a much stronger position to develop and deploy cloud-based applications that leverage its enterprise cloud infrastructure. SBA is taking steps to ensure that the VCMS development employs human-centered design principles and that the technology decisions support integrations with VA and other SBA systems.
 - On that same note, I understand the SBA is moving toward a new cloud solution for all of its certification programs, the SDVOSB program among them. How will you align whatever product comes out of this technology contract with this new cloud solution?
 - The Veterans Certification Management System will be a cloud-based application hosted in the agency's enterprise cloud environment.
9. We have heard concerns from veteran-owned businesses certified by the Dept. of Veterans Affairs regarding the SBA's execution of Section 862 of the NDAA of Fiscal Year 2021,

fearing that they may lose their certified status and the contracts that come with it if the SBA is delayed or unsuccessful in its implementation of this contracting program.

- Please provide an update regarding this transfer.
 - i. SBA remains on target to fulfill our statutory obligation with regard to the January 1, 2023 transfer date. The vendor has done an excellent job in developing the new system.
- What assurances can you provide to these companies that the SBA will prioritize continuity and a seamless transfer of certifications between the Dept. of Veterans Affairs and the SBA?
 - i. SBA is committed to ensuring that no currently VA-certified SDVOSBs or VOSBs experience a lapse in certification as a result of the transfer. We are coordinating closely with the VA on the transfer of data, including how to handle applications that are in-process at the time of transfer.
- What is your communications strategy to veteran-owned small businesses regarding this transfer?
 - i. SBA and VA have been regularly communicating to currently certified firms, as well as the broader veteran's small business community. We have ramped up communications this fall to provide more concrete guidance around what to expect and what actions firms should take to prepare for the transfer. We are committed to a high-quality customer experience and are making all our decisions with veteran small business owners in mind.

10. This Committee has long been concerned with the data underpinning SBA's Scorecard, believing such numbers to be higher than they should be. For instance, an agency may claim 100 percent of a contract awarded to a joint venture as going to a small business, even if the large business partner claimed up to 60 percent of the work and corresponding revenue.

- Do you believe the Scorecard should accurately reflect dollars awarded to truly small businesses, or at least be as transparent as possible where there may be dollars funneled to large businesses?
 - i. The Scorecard serves the dual purposes of transparency—i.e., reporting to the public what the government has awarded to small business—and incentivizing action—i.e., encouraging agencies to set aside more procurements for small businesses. Historically, SBA has counted every prime dollar awarded to a small business (including a joint venture that qualifies as a small business) as a small-business dollar for the scorecard. Deviating from that principle would disincentivize agencies from using set-asides because they would not be assured of receiving small-business credit. Of note here, an agency does not know, at the time that it creates a set-aside, whether the awardee will be a joint venture. SBA believes a change to the scorecard calculation for joint-venture awards would not advance the Scorecard's goal of achieving transparency and may inadvertently deter additional small business preferences.

- Do you have any plans to amend or modify the Scorecard to more accurately reflect dollars awarded to truly small businesses?
 - i. SBA believes that the scorecard accurately reflects dollars awarded to prime contractors that are treated as small business under the law. This includes businesses that receive exceptions to affiliation in accordance with the Small Business Act, either because they are owned by Native entities or because they participate in the Congressionally authorized Mentor-Protégé Program.
11. An issue I have with the SBA's Scorecard and agencies focus on solely on the dollars is that it fails to account for the Small Business Act's directive that small businesses benefit most when opportunities are spread across all sectors, among a multitude of small businesses. What are you doing to encourage agencies to contract with more small businesses in more high-value industries?
- SBA includes in the scorecard a vendor-count metric that measures whether agencies are expanding their small-business vendor count by creating opportunities. This encourages agencies to focus not just on dollars but also on reversing the decline in the small-business supplier base. With regard to spreading opportunities across sectors, SBA works with each agency to ensure that they maximize small-business participation in new and emerging industries (vital to the nation's industrial capabilities). Agencies also look to the SBIR/STTR programs to find contractors that could create a broader supplier base.
 - Specifically for the Women-owned Small Business Program, SBA commissioned a disparity study² last year regarding WOSB firms' prevalence and performance across all areas of government contracting to identify the industries in which WOSBs and Economically Disadvantaged WOSBs (EDWOSBs) face inequities in federal prime contracting. Based on the results of that study, we increased from 364 to 646 the number of industries in which WOSB firms were eligible for set-aside and sole source preferences. We also increased the number of EDWOSB-eligible set-aside and sole source industries from 80 to 113 (with EDWOSB firms also having access to all WOSB preferences as well). In total, this expansion represents a 70% increase in industry access for women-owned small businesses in the federal marketplace. Now, WOSB and EDWOSB firms can have contract preferences in the industries that make up 92% of all federal spending.
12. As you are aware, agencies can count small business dollars toward multiple different socioeconomic small business goals, as long as the small business awardee holds that status. This, unfortunately, masks the actual number and amount of contract actions awarded through the SBA's small business programs.
- Does the SBA's Scorecard include and communicate this information in an easily understandable and accessible way, for each of its small business programs and corresponding goals?

² U.S. Small Business Administration via Optimal Solutions Group, LLC, "Women-owned Small Business NAICS Analysis," May 2021. <https://www.sba.gov/document/report-women-owned-small-business-naics-analysis>

- i. By statute, the SBA scorecard accounts for the “dollar value of prime contracts.” As a result, we need to demonstrate the dollar value of awards for all socioeconomic categories and cannot place preference on one socioeconomic category over another when determining credit on the scorecard. Otherwise, making such determinations could have an adverse impact on the socioeconomic categories individually. The number of contract actions is available through SAM.gov and based on the reforms that we rolled out in December of 2021; the federal government developed a tracking system for new entrants to federal contracting which will be implemented soon and will also have an impact on the number of contract actions.

13. The federal government continues to fail to meet most of its subcontracting goals. Why is this, and what is the SBA doing to ensure small business are awarded more subcontracting opportunities in the future?

- As noted in SBA’s July 2022 report to Congress on subcontracting, FY21 data indicate that 64% of all goals for small business subcontracting across federal subcontracting plans (on completed contracts) were met or exceeded, but over half of the socioeconomic small business goals were not met. The aggregate dollars lost by small businesses because of large contractors’ failure to fully achieve their goals amounted to more than \$1.5 billion in FY21. For Small Disadvantaged Businesses alone, these missed goals account for \$740 million in lost revenue.
- SBA plays a key role in conducting regulatory compliance reviews to monitor when firms are not meeting their subcontracting plans throughout a contract’s lifecycle. Our compliance reviews for subcontracting enable the Agency to evaluate the implementation of regulations across the Federal Government to promote prime and subcontracting opportunities for small businesses. The SBA, through its Commercial Market Representatives, targets large business prime contractors to ensure compliance with subcontracting tenets. In fact, SBA revamped its federal-wide Subcontracting Compliance Program by launching a diverse, cross-functional committee consisting of government contracting and field staff, legal counsel, and policy advisors to reexamine agency guidance in advance of the Government Accountability Office’s report titled, “Small Business Subcontracting: Oversight of Contractor Compliance with Subcontracting Plans Needs Improvement (GAO-20-464) (May 2020).” As a direct result of new guidance documents implemented in FY21 for our CMRs, the staff conducted 192 Performance Reviews, including at least one in each state, encompassing over 700 contracts containing subcontracting plans and equating to oversight of over \$15 billion awarded to small businesses. Separately, every year, the team looks at the top federal contractor in each of SBA’s six Areas, reviewing over \$1 billion in subcontracting awards to small businesses from these six firms alone. As a result of these six Subcontracting Program Compliance Reviews in FY21, all six of the companies reviewed received a “marginal” rating and had to submit a Corrective Action Plan to the CMR to highlight how the firms will come into compliance with their subcontracting plans to provide the maximum practicable opportunity to small businesses.

- Even with this oversight, subcontracting goaling and enforcement remains an agency-specific target. There are penalty enforcement mechanisms for contracting officers to impose when they find that prime contractors have failed to make a “good faith effort” to meet the goals in their Small Business Subcontracting Plans, but the contract officer still has discretion on whether to use the enforcement mechanisms. Finding a “lack of a good faith effort” requires an in-depth analysis by a contracting officer after contract completion, which is a very high bar to meet. Because of these circumstances, prime contractors are rarely, if ever, penalized for not meeting their subcontracting plan goals, which continues to concern the small business community and its supporters.
14. The SBA requested a \$20 million increase in its Fiscal Year 2023 Congressional Budget Justification to support implementation of Section 862 of the National Defense Authorization Act of 2021.
- Can you elaborate on how these funds would be spent, if granted?
 - i. As SBA takes on responsibility for administering the expansion of certifications for service-disabled veteran-owned small businesses (SDVOSB), the funding will support the cost associated with establishing the certification system, staffing increases, and contractor support related to the certification of these firms for the entirety of the federal government.
 - Are there any further efficiencies the SBA can seek to reduce the cost?
 - i. The Department of Veterans Affairs has delivered high-quality support to American veteran business owners. SBA seeks to deliver at the same standard to the veterans as the certification expands to federal contracts from all 24 CFO Act agencies. SBA anticipates the expansion of market opportunities for SDVOSBs will result in multiples of higher applications for certification as the business owners seek opportunities across the federal landscape. SBA is taking measures to run an efficient and effective program, but it is premature to project the level of potential cost reduction without the experience of running the program.
 - If the SBA were not granted this increase, is there a contingency plan to meet the requirements of Section 862?
 - i. SBA is committed to ensuring that no currently VA-certified SDVOSB or VOSB experience a lapse in certification. SBA appreciates Congress’ support of the FY23 Concurrent Resolution anomaly request to support the cost of establishing and implementing the government-wide certification program.
15. The SBA requested a small increase in its GCBD budget for Fiscal Year 2022. Can you tell us where these extra funds went?
- For fiscal year 2022, Congress appropriated a \$700,000 increase for the 7(j) Program. SBA is authorized to use this two-year funding to provide management and technical assistance through grants and cooperative agreements to qualified service providers who in turn provide technical assistance to eligible firms and individuals. These

funds are being used to help strengthen the business acumen of 7(j) eligible entities through trainings on business capture, marketing, accounting, contract management, compliance, and other key areas to support their ability to seek and win federal contracts more effectively.

16. I have heard anecdotal reports of Procurement Center Representatives (PCRs) failing to dispute procurements that were highly appropriate for small businesses, even when confronted with their responsibility to do so. Given the current contracting climate pushing small businesses further toward subcontracting opportunities, it is vital PCRs are actively engaged with their responsibilities and have the authority and drive to push back against the buying agencies in which they are embedded.
 - What oversight procedures are in place to ensure PCRs are carrying out their duties to the fullest extent?
 - i. PCRs work closely with acquisition personnel at the respective federal buying activities to identify opportunities for contracts that could be set aside for small business and the government's socio-economic contracting programs. SBA has approximately 40 PCRs who are supported and managed by six area managers and deputy area managers who focus on the top 300 buying activities. In recent years, the movement towards contract consolidation, bundling, and schedules have increased the complexity of PCR reviews, often extending the time required to conduct the analysis and negotiate a contracting framework. As these situations have become more common, the capacity of PCRs to dispute smaller procurements has lessened.
 - ii. More recently, SBA executive leadership has elevated support to PCRs and Area Managers to push back against bundling and consolidations actions that would otherwise limit opportunities for small business participation. This approach is in direct support of the Administrations goals of increasing the nation's industrial base and bringing in additional small businesses to the federal marketplace. As the dollars related to the contract consolidations and bundling have become increasingly larger PCRs have strategically worked to ensure small businesses have a reasonable chance to compete for federal contracts. For example, earlier this calendar year with the support of their area manager an SBA PCR pushed back on a planned contract bundling award that would have resulted in at least 12 small businesses losing \$170 million over the 10-year period of the proposed contract which was set to bundle \$7.7 billion and award the work to a single business entity. SBA's intervention and proposed adjustments were rejected multiple times before SBA's negotiations with the buying activity ultimately settled with a small business carve out that is expected to range from \$970 million to \$1.2 billion for small business participation at the prime contractor and sub-contractor levels.

- How often are PCRs assessed?
 - i. PCRs are assessed annually during performance plan reviews, which includes their success in reviewing acquisitions within their portfolio that were not fully set aside for small businesses, their performance in advocating for the maximum utilization of small businesses, their work to advocate against the consolidation or bundling of contract requirements, and their overall approach to customer service.
 - If it seems a PCR may be too deeply embedded within a buying agency, perhaps fearing retribution should they dispute a procurement, how might the SBA handle this situation?
 - i. It has been SBA's experience that some of the most fruitful outcomes for small business contracting opportunities arise where the PCR works collaboratively with the small business specialist and OSBDU team to aide in moving proposed full and open contract awards into small business set-aside. There are cases when the nature of a proposed acquisition strategy cannot be accepted by the PCR. SBA PCRs understand it is the primary responsibility to create opportunities for small businesses to participate in the federal marketplace and if the situation calls for the PCR to rebut the proposed acquisition approach, it is expected that the PCR will take the appropriate action and work with the area and/or deputy area director on the decline.
 - ii. PCRs understand that their ability to work in environments with sometimes conflicting priorities, and screening interview questions are targeted to identify candidates who will support a small business friendly procurement strategy that may conflict with the Procurement Center (PC) or program office priorities and maintain that perspective even though there is strong opposition. In instances where this has occurred, the first-line supervisor always has authority to oversee a PCR's work and provide direction that supports small business participation for a particular acquisition or matter. It would be incumbent upon this first-line supervisor to ensure that the PCR is advocating for and supporting small businesses at that PC. Moreover, Area Directors conduct a review and evaluation of a sampling of PCs in their geographical area on an annual basis to assess coverage and propose any necessary changes in coverage.
17. The Government Accountability Office issued a report examining PCRs in 2020, finding that PCRs failed to maintain reports summarizing their activities and accomplishments, and that the SBA failed to provide a centralized repository for PCRs to store this information and supporting documentation. Are you aware of this finding and what are you doing to close the GAO's recommendations?
- SBA worked with GAO to close out their recommendations from this report that the SBA Administrator develop a central repository for Procurement Center Representatives (PCR) to store the data they report on their activities. On January 22, 2021, SBA informed GAO that SBA issued a memorandum directing PCRs to begin

using the Prime Contracting Program PCR Data Repository established on SBA's SharePoint site as of February 1st, 2021.

- i. The memorandum clearly established the PCR Data Repository as the sole official records retention site for the SBA's Prime Contracts program and advised the information collected therein would include pertinent procurement information and corresponding activities. Additionally, it stated that the repository would classify all review information in an excel spreadsheet by fiscal year and federal agency.
- ii. Further, the memorandum declared PCRs would be responsible for entering, uploading, and maintaining the repository information no later than five business days after the end of the previous month, and that periodic review of the data's accuracy and completeness would be performed by Area Office management or their designee on a quarterly basis, along with consistency assessments by the Prime Contracts Program Manager biannually. To preserve the integrity of the data, it was advised that access to the repository was restricted to PCRs, the Prime Contracts Program Manager, Deputy Area Directors, Area Directors, the Deputy Director of Government Contracting, and the Director of Government Contracting. The documents in the electronic repository are maintained for nine years and three months.
- iii. SBA's central data repository is fully developed, and SBA has been successfully utilizing it as a "central repository" for PCRs to store the data they report on their activities, consistent with GAO's recommendation. In fact, within this central repository there are two data entry logs: (1) for small business co-ordinations/review of subcontracting plans and (2) for outreach/training. Each PCR has both logs under their name to maintain data integrity. At the end of the month, the individual logs are downloaded into one master log.

18. The SBA's Inspector General's 2022 Semiannual Report indicates 43 referrals were made to the SBA with only two closed as of March 31, 2022, with no suspension or debarment actions taken. Can you provide me with an update as to the remaining 41 referrals?

To clarify, the SBA OIG 2022 Semiannual Report states 43 referrals were made to SBA between October 1, 2021, and March 31, 2022. However, this is inaccurate because SBA reported to the OIG it received 43 referrals between October 1, 2021, and April 11, 2022. Out of the 43 referrals mentioned in the OIG's report:

- 17 were referred to SBA before the reporting period in the SBA's Inspector General's 2022 Semiannual Report (they were referred to SBA in August and September 2021)
- 3 were referred after the reporting period in the SBA's Inspector General's 2022 Semiannual Report
- 23 were referred to SBA on the last day of the reporting period (on March 31, 2022).

SBA has two Suspending and Debarring Officials (SDOs): the SDO for Financial Assistance Programs and the SDO for All Other Programs. In FY 2022, SBA took 27

suspension and debarment actions on the referrals mentioned in the SBA's Inspector General's 2022 Semiannual Report; these actions were taken by the SDO for Financial Assistance Programs. SBA is currently reviewing pending cases for action by the agency. The OIG made no referrals to SDO for All Other Programs during the reporting period.

19. How many suspension and debarment actions has the SBA processed this year? Please provide totals for 2021 and 2020 as well.

- This year, SBA has processed 41 suspension and debarment actions.
- In 2021, SBA processed a total of 12 suspension and debarment actions.
- In 2020, SBA processed a total of 83 suspension and debarment actions.

Note: Actions include suspensions, proposed debarments, debarments, and terminations of suspension. In addition to these four categories, the SDO for All Other Programs performed the following: "Show Cause" / pre-notice letters, Administrative Agreements, proactive engagements, post-notice engagements. The SDO for All Other Programs reviewed additional actions through referral from other agencies, contractor self-disclosure, or internal agency sources; these reviews resulted in either suspension or debarment actions by another agency or no formal action taken by SBA.

20. Have liquidated damages pursuant to a debarment action been pursued by the SBA or any other contracting agency in recent years, to your knowledge? If so, how much was recouped?

- SBA has not pursued any liquidated damages pursuant to a debarment action. SBA is not aware of any other contracting agency pursuing liquidated damages pursuant to a debarment action in recent years.

21. Do you think the threat of suspension and debarment poses a significant enough deterrent to ward off potentially fraudulent companies or other bad actors?

- The purpose of suspensions and debarments is to protect the federal government by excluding persons who are not presently responsible to do business with the federal government or participate in federal government programs. Suspensions and debarments are effective once they are taken because they are published and accessible to the public, which makes the excluded persons not eligible or prohibited from doing business with the federal government or participating in federal government programs. Suspensions and debarments are an administrative tool, that, together with civil and criminal penalties, assist in deterrence of fraud.

22. How many full time staff are dedicated to handling suspension and debarment actions for the SBA?

- SBA has four employees handling suspension and debarment actions. These employees are not exclusively dedicated to suspension and debarment functions.

23. It is my understanding that suspension and debarment officials have very limited powers of investigation. I believe this hampers their ability to pursue potentially fraudulent

companies and bad actors. Can you elaborate on the authorities or powers that these officials currently have, and what suggestions do you have to strengthen their ability to perform their duties?

- The authorities that the Suspending and Debarring Officials (SDOs) have are in Executive Order 12549--Debarment and suspension as implemented through OMB guidelines in 2 CFR 180 and 2700 as well as FAR Subpart 9.4. These authorities do not confer investigatory powers to the SDOs. The SDOs receive present responsibility referrals from the OIG after the OIG has investigated the cases and made exclusion referrals to SBA. The SDOs rely on OIG investigations and subsequently present responsibility referrals as well as Department of Justice actions. SDOs' access to information available to OIG investigators would certainly strengthen their ability to perform their duties.

24. This Committee has identified several small business challenges and concerns with the Office of Management and Budget's Category Management Initiative. Although I am aware of and pleased with the OMB's recent steps reacting to these concerns, I fear current efforts may not go far enough to adequately protect small contracting opportunities. What are your thoughts on Category Management and is the SBA actively engaged with the OMB to issue guidance on the treatment and prioritization of small contractors within the category management framework?

- We do agree that it is essential for the U.S. economy, to foster a competitive marketplace, and to spur innovation, that small business contractors take priority over category management initiatives. We worked closely with OMB and the White House as a result to make sure significant category management reforms were adopted. As a result, in OMB Memorandum M-22-03 on December 2, 2021, OMB clarified that small-business goals are of the upmost importance, as compared to category management goals. OMB, in collaboration with the White House and SBA, designated all socioeconomic awards (SDB, WOSB, SDVOSB, and HUBZone) as Tier 2 for Category Management, and SBA negotiated with OMB and WH to ensure that it has a seat on the Category Management Leadership Council once again. SBA continues to engage with OMB and the managers for each of the 10 Category Management categories at GSA to ensure that small businesses receive top priority within the Category Management framework.

25. I hear from small business contractor constituents back home that they are among those hardest-hit by inflation surges due to long-term fixed price contracts for construction or major military systems. What is your office doing to address this issue?

- SBA released an interim final rule to raise program participant thresholds, such as the net worth, gross income, and total contract revenue caps for the 8(a) program, to account for inflation. This includes SBA's continued support for an increase in the 8(a) sole source thresholds for individually owned firms. The Department of Defense (DoD) also issued guidance on how to adjust DoD contracts for price increases, which may have an impact on many small business contractors given DoD's outsize role in government contracting and spending. SBA also continues to conduct outreach to agency small business and procurement personnel to advocate on behalf of small businesses, including with regards to inflation concerns.

- Currently, our Procurement Center Representatives advocate for negotiating contract term and condition modifications (when determined to be in scope). These recommendations have had some success, though the contracting officer at the contracting agencies ultimately rely on their agency's legal counsel and operating practices to make a final decision. For example, SBA's procurement staff was able to work with the Defense Logistics Agency to adjust the terms of the contract for an industrial waste small business. They were able to do the same with a Department of Transportation Federal Transit Authority contracting officer to adjust terms for a fuel products small business in California. Our PCRs will continue to empower and advocate for small firms looking for support in contract renegotiations to better handle any effects of inflation. Even when the contracting officer chooses not to modify the contract to include an escalating cost clause or adjust pricing, PCRs can and will provide information to assist the small business in negotiating a "termination for convenience" so that they can exit the contract without incurring the unexpected heightened costs.
26. Does your office coordinate with the Office of Entrepreneurial Development to ensure that the Small Business Development Centers, Women's Business Centers, Veterans Business Outreach Centers, and the SCORE program are helpful to small business contractors?
- We see this as critical to ensuring that small business contractors have a significant range of opportunities to gain support and guidance among resource partners across the U.S. As a result, the Administrator realized it was important to have contracting expertise on the SBDC team. She named our former Deputy Director of the HUBZone program to be the Associate Administrator for SBDC's in the Office of Entrepreneurial Development. He is now working collaboratively across the two divisions to make sure there is synergy between contracting and our resource partner network. We're also looking at ways to leverage the contracting expertise of Procurement Technical Assistance Centers (PTAC's) to support our resource partners. In addition, we see the Veterans In Procurement (VIP) program as a model for developing contracting expertise at VBOC's around the country. Apart from determining strategy and policies, SBA's Office of Business Development, in collaboration with the Office of Field Operations, revised program marketing and education information toolkits for the 8(a), Mentor-Protégé, and 7(j) Programs, which were distributed to field marketing representatives and SBA's resource partners, including SBDCs, WBCs, VBOCs, and SCORE offices. SBA often delivers training sessions to resource partners to ensure that they have the most up-to-date information and tools necessary to support small businesses on the ground across the country. For example, SBA held a Government Contracting training session with SBDCs over the summer. Right now, the HUBZone Program is collaborating with SCORE to provide a training for SCORE mentors. The WOSB Program does provide regular training and support to SBDC, WBC, VBOCs and SCORE, including through contracting office hours and training toolkits.
27. How is your office assisting small business who are fighting inflation and labor shortages?
- As noted, SBA released a final interim rule on participant thresholds, such as the net worth, gross income, and total contract revenue caps for the 8(a) program, to account

for inflation. This includes SBA's continued support for an increase in the 8(a) sole source thresholds for individually owned firms. The Department of Defense (DoD) also issued guidance on how to adjust DoD contracts for price increases, which may have an impact on many small business contractors given DoD's outsized role in government contracting and spending. SBA continues to conduct outreach to agency small business and procurement personnel to advocate on behalf of small businesses, including with regards to inflation concerns. We are fortunate that under President Biden's leadership, unemployment is at historic lows, currently sitting around 3.5 percent. Even still, through federal government contracting, small businesses can provide more competitive job opportunities in communities across the United States, making SBA's certification programs and governmentwide oversight of small business contracting (and therefore job creation) as important as ever.

- Through the SBA Mentor Protégé program, SBA connects protégé small businesses with more experienced and better resourced firms who are able to provide guidance to the protégé firm. Coupled with a Joint Venture agreement, these mentor-protégé arrangements are helping small businesses leverage resources, connections, and insights of the larger firm. Additionally, SBA anticipates delivering specialized training via the 7(j) program to help firms better plan and manage through the economic cycles.

28. With ongoing supply chain disruptions presenting challenges for small businesses across the country, what steps if any has your office taken to address this specific concern?

- SBA is engaged in the Administration's "whole of government approach" with the White House Task Forces on Supply Chain and Made in America. As an active member of the Made in America Council, we also continue to look for opportunities to maximize opportunities for America's small business manufacturers. Through these initiatives, SBA is committed to ensuring that small businesses play a role in revitalizing the supply chain and driving our country and economy forward. For example, there are 1,433 small businesses in the semiconductor industry, including 550 small manufacturers. In Battery Storage and production, there are 1,007 registered small business contractors, including 217 that registered as manufacturers.
- SBA has been identifying ways for the Agency to invest further in America's innovative small businesses so that they can bolster the supply chain. SBA worked with DOD earlier this year to include language in their defense-critical supply chains report on the use of SBA funding programs to support revenue-based investment and long-term loans to small businesses manufacturing mission critical materials.
- SBA also continues to reexamine its current suite of loan products designed to support small businesses. SBA currently offers 7(a), 504, and microloans, which provide businesses with up to \$5 million for working capital and major fixed assets, such as for equipment financing. We also produced a communications strategy to inform more small manufacturers about the opportunities for resources and financing available through SBA.

29. In the SBA OIG's most recent report on the most serious management and performance challenges facing the SBA, the OIG identified management and monitoring of the 8(a) business development program as one of these top management challenges. The 8(a)

program is essentially designed to ensure that when companies graduate from the program, they would have the skills necessary to become viable competitors in the federal contracting arena without further federal assistance. Yet the OIG's most recent report notes that the SBA still has no method for consistently determining if 8(a) participants have demonstrated the ability to compete in the marketplace without 8(a) assistance. What steps have the SBA taken to address this?

- SBA has clarified and enhanced the established annual review of business plans to institute a process for regular assessment of an 8(a) participant's achievement of its business goals designed to advance their growth and ability to compete through stronger business knowledge and capability. In August 2022, SBA issued a significant update to its Business Opportunity Specialist (BOS) Annual Review Workbook that target specific aspects of the participant's business plan including any updates, progress toward short-term and long-term goals, and feasibility to support business growth and profitability of operations following the participant's completion of the 8(a) program.

30. In the OIG's review of the 8(a) program, the OIG notes that the SBA's written policies state that specialists will assess a firm's progress by reviewing business plan goals, discussions with the business owner, and site visits, but there are no effective procedures in place for objectively making the assessment that firms are making progress toward individual business development goals. Can you provide an update on how the SBA is addressing this issue?

- As stated above, SBA has clarified and enhanced the established annual review of business plans to institute a process for regular assessment of an 8(a) participant's achievement of its business goals designed to advance their growth and ability to compete through stronger business knowledge and capability. In August 2022, SBA issued a significant update to its Business Opportunity Specialist (BOS) Annual Review Workbook that target specific aspects of the participant's business plan including any updates, progress toward short-term and long-term goals, and feasibility to support business growth and profitability of operations following the participant's completion of the 8(a) program.

31. In the SBA OIG's 8(a) program review, the SBA program officials reported that 40 firms per one Business Opportunity Specialist is an ideal benchmark which was based on an internal study performed in 2010. Despite that objective measure of how the work should be allocated, the agency's current benchmark does not appear to balance workloads and resources across field offices. The Washington Metro Area District Office for example is averaging nearly 90 firms for each Business Opportunity Specialist. How are you addressing these disparities amongst the field offices and are you concerned about the inconsistent services firms may receive based on their region?

- Program officials continue to collaborate on efforts to rebalance 8(a) Program portfolio needs to ensure equitable servicing to 8(a) Program Participants. The Office of Field Operations conducted a portfolio analysis of 8(a) distribution for the purpose of evaluating District Offices that do not have a BOS to ensure that appropriate skills and staffing are available to service their 8(a) portfolio. Through the analysis, SBA is assessing the staffing and resource allocation to District Offices and developing a

Portfolio Realignment Strategy to ensure fair and equitable servicing of 8(a) program participants. The goals of the realignment are to 1) align SBA's 8(a) BD program portfolio with OFO resources; 2) ensure compliance and business development requirements are completed in a consistent manner and in accordance with statutory guidelines; and 3) improve 8(a) program participant customer experience. The Portfolio Realignment Strategy represents a collaborative effort between GCBD and the Field Office to best serve our small businesses in every part of the country.

32. Government watchdogs have consistently criticized the SBA for failure to collect, track, and keep records of important program data. This failure impacts the SBA's ability to assess effectiveness. What have you done to improve the SBA's performance in this regard? What measures or metrics are you using to assess the SBA's performance within its contracting programs and can you elaborate on what the data shows?
- GCBD has made significant strides to modernize data collection. New tools for the 8(a), Mentor-Protégé, WOSB and HUBZone programs have been implemented using PowerBI technology. These new tools have begun to track improvements in metrics for all government contracting certification programs to measure applications received, processing times, and certification decisions. These tools provide effective management tracking that improve visibility of certification processing and aid leadership in decision-making. Of note, the tools have allowed SBA to track program offices' improvements to application processing times, which for HUBZone and WOSB completed applications remain well below the 90-day statutory threshold. The dashboards also allowed SBA to identify past customer service issues where firms with partially incomplete applications were being turned away. Now, because of Administrator Guzman's customer-centric approach to all of SBA's services and products, certification programs no longer reject incomplete applications, but rather, walk small business owners through the process of submitting any additional materials. Based on our most recent round of customer service survey responses, from May 2022 through August 2022, the average respondent gave SBA's Certify system a 4 out of 5 rating for customer satisfaction.

