



October 2021

SMALL BUSINESS CONTRACTING

Actions Needed to Implement and Monitor DOD's Small Business Strategy

Accessible Version



A Century of Non-Partisan Fact-Based Work

GAO Highlights

Highlights of [GAO-22-104621](#), a report to congressional committees

Why GAO Did This Study

In fiscal year 2020, DOD recorded more than \$80 billion in contract obligations to small businesses for goods and services. In October 2019, DOD published its Small Business Strategy, as directed in the National Defense Authorization Act (NDAA) for Fiscal Year 2019, to facilitate contracting opportunities for small businesses.

A Senate Report relating to the NDAA for Fiscal Year 2021 includes a provision for GAO to review DOD's small business contracting efforts. This report examines defense small business contracting trends and the steps DOD has taken to monitor the implementation of its 2019 Small Business Strategy.

GAO analyzed data from the Federal Procurement Data System and reviewed DOD's 2019 Small Business Strategy, other small business documentation, and relevant studies and reports. GAO also interviewed DOD officials, academics, researchers, and representatives of small businesses and industry associations.

What GAO Recommends

DOD should (1) develop an implementation plan for its Small Business Strategy; (2) develop a policy to guide the implementation of a unified management structure; and (3) establish a formal process by which DOD can monitor and report on its progress in implementing the Small Business Strategy. DOD agreed with all three recommendations.

View [GAO-22-104621](#). For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

October 2021

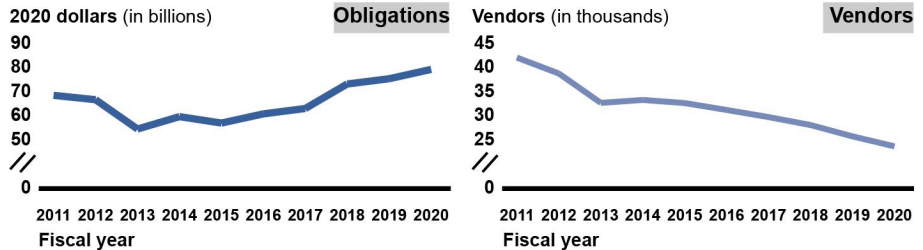
SMALL BUSINESS CONTRACTING

Actions Needed to Implement and Monitor DOD's Small Business Strategy

What GAO Found

The Department of Defense's (DOD) contract obligations to small businesses increased from fiscal years 2011 to 2020, while the number of small businesses contracting with DOD declined. The trend of higher obligations to a lower number of businesses applied to both small businesses and larger businesses.

Department of Defense Small Business Contract Obligations and Vendors, Fiscal Years 2011–2020



Source: GAO analysis of Federal Procurement Data System data. | GAO-22-104621

Data table for Department of Defense Small Business Contract Obligations and Vendors, Fiscal Years 2011–2020

Fiscal year	Obligations to small businesses	Number of vendors
2011	\$69,733,784,515	42723
2012	\$67,932,609,733	39408
2013	\$55,772,443,042	33312
2014	\$60,906,635,418	33911
2015	\$58,243,698,370	33270
2016	\$62,048,741,384	31839
2017	\$64,290,957,378	30360
2018	\$74,444,027,280	28711
2019	\$76,629,742,796	26364
2020	\$80,498,559,025	24296

Source: GAO analysis of Federal Procurement Data Systems data. | GAO-22-104621

DOD engages in many efforts across the department to leverage small businesses to meet its acquisition needs and leverage technological innovation. Such efforts are carried out by many different offices in the department and include a variety of outreach initiatives, such as vendor events, trainings, and other activities to contact and educate small businesses on working with DOD. Its 2019 Small Business Strategy describes these efforts and other initiatives to improve the effectiveness of DOD's small business programs. However, GAO found that DOD lacked key mechanisms to implement the strategy and better monitor and coordinate its small business contracting efforts.

- DOD has not developed the strategy's implementation plan, which is required by law. Such a plan would help ensure the initiatives described in the strategy are carried out and coordinated across DOD.
- DOD has not created a policy to guide the implementation of a unified management structure, as called for in the strategy. Doing so could improve communication and coordination among DOD staff who engage in small business efforts across the agency.
- DOD does not have a formal process for monitoring and reporting on the implementation of its Small Business Strategy. Establishing such a process would better position DOD to assess and communicate department-wide progress in implementing the strategy.

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Abbreviations

COVID-19	Coronavirus Disease 2019
DFARS	Defense Federal Acquisition Regulation Supplement
DIU	Defense Innovation Unit
DLA	Defense Logistics Agency
DOD	Department of Defense

eSRS	Electronic Subcontracting Reporting System
FAR	Federal Acquisition Regulation
FPDS	Federal Procurement Data System
HUBZone	Historically Underutilized Business Zone
NAICS	North American Industry Classification System
OSBP	Office of Small Business Programs
OMB	Office of Management and Budget
OUSD	Office of the Under Secretary of Defense
SBA	Small Business Administration
SBIR	Small Business Innovation Research
STTR	Small Business Technology Transfer
USD	Under Secretary of Defense

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October 14, 2021

Congressional Committees

The Department of Defense (DOD) relies on thousands of suppliers—including small businesses—to ensure it has the necessary weapons, supporting equipment, and raw materials to meet U.S. national security objectives and maintain U.S. military superiority. These suppliers, commonly referred to as the defense industrial base, contract directly with DOD, or through another company as a subcontractor to provide everything from highly specialized technology to commercial products and routine services, such as information technology support. However, some in the federal government and industry have raised questions about the department's acquisition strategies, including its small business contracting efforts, in supporting the resiliency of the defense industrial base and DOD's capacity to acquire new technologies quickly. For example, the Section 809 Panel—which advised DOD on acquisition practices—found that many small businesses unfamiliar with DOD struggle to find clear points of entry into the defense marketplace.¹

The John S. McCain National Defense Authorization Act for Fiscal Year 2019 directed DOD to implement a small business strategy that aligns small business programs, manufacturing and industrial base policy, and procurement functions under a unified management structure.² The strategy was also required to clarify points of entry into the defense market and include other measures to facilitate DOD contracting opportunities for small businesses. In response to this mandate, DOD published its Small Business Strategy in October 2019.

Senate Report No. 116-236 includes a provision for us to review DOD contracts with certain small business concerns, as well as the department's progress in implementing its small business strategy.³ This report examines (1) small business contracting trends at DOD and (2) the

¹The Section 809 Panel was created in the National Defense Authorization Act for Fiscal Year 2016 and consists of acquisition policy experts charged to deliver recommendations on DOD acquisition practices. Section 809 Panel, *Report of the Advisory Panel on Streamlining and Codifying Acquisition Regulations* (Arlington, VA: January 2018).

²Pub. L. No. 115-232, § 851, 132 Stat. 1636, 1883-84 (2018)(codified at 10 U.S.C. § 2883).

³S. Rep. No. 116-236, at 252 (2020).

steps DOD has taken to monitor the implementation of its 2019 Small Business Strategy.

To describe DOD small business contracting trends, we analyzed data from all DOD contracts recorded in the Federal Procurement Data System (FPDS) during a 10-year period from fiscal years 2011 through 2020, the last year for which data were available. We selected data elements from FPDS that would provide information on contract and vendor characteristics, including amount obligated, military service branch or agency—i.e., Air Force, Army, Navy, or Defense Logistics Agency (DLA)—North American Industry Classification System (NAICS) code, contracting officer's determination of small business status, use of competitive procedures, use of small business set-aside procedures, and number of offers received.

We analyzed FPDS data to determine the number of small and larger businesses awarded contracts with DOD in each fiscal year. To identify trends in new entrants by fiscal year, we counted the number of and total obligations to new entrants from fiscal years 2016 through 2020. For purposes of this report, we defined new entrants as small businesses for which FPDS recorded a contract action with DOD after recording no contract actions in the previous 5 years. We assessed the reliability of FPDS data by performing electronic testing and reviewing existing information about FPDS and the data it produces. We determined that the FPDS data were sufficiently reliable for the purpose of reporting aggregate figures to illustrate trends in DOD small and larger business contracting.

We reviewed relevant prior GAO reports as well as documentation from DOD and the Small Business Administration (SBA). We also reviewed reports and other documentation from the Aerospace Corporation, the Institute for Defense Analyses, the National Defense Industrial Association, and the RAND Corporation, in addition to academic publications.

To assess the steps DOD has taken to monitor the implementation of its 2019 Small Business Strategy, we reviewed DOD's Small Business Strategy, as well as strategic plans from small business offices in the military service branches and DLA. We also reviewed relevant sections of the National Defense Authorization Acts for fiscal years 2019 and 2021

and associated congressional reports.⁴ We also reviewed metrics on small business contracting maintained by the service branches, DLA and DOD's Office of Small Business Programs (OSBP), as well as documentation on specific DOD initiatives targeted to small businesses.

For both objectives, we interviewed DOD officials in the DOD OSBP; Office of Industrial Policy; OSBPs for the Army, Navy, and Air Force, and selected commands within those branches; DLA; and other relevant offices.⁵ We selected these offices for having roles in small business acquisition policy or for having a focus on leveraging small businesses for technological research and development. We asked these officials about topics that included coordination and collaboration on small business contracting efforts, initiatives described in the Small Business Strategy, their engagement with small businesses, and metrics associated with their small business contracting efforts.

We also interviewed former DOD officials, academics and researchers, representatives from the National Defense Industrial Association, and owners and executives of five small businesses to obtain their perspectives on trends in DOD small business contracting, DOD's Small Business Strategy or small business efforts, and the role small businesses play in the defense industrial base.⁶ The views expressed by these individuals and groups may not be representative of the views of their sector, area of practice, or broader community of the defense industrial base.

We conducted this performance audit from November 2020 to October 2021 in accordance with generally accepted government auditing

⁴John S. McCain National Defense Authorization Act for Fiscal Year 2019 § 851; William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021, Pub. L. No. 116-283, § 861, 134 Stat. 3388, 3775 (codified at 10 U.S.C. § 4901 note (Initiatives to Support Small Businesses in the National Technology and Industrial Base)).

⁵Other OSBPs within the service branches that we spoke with include Army Materiel Command, Army Futures Command, Marine Corps Systems Command, Office of Naval Research, and Air Force Research Laboratory. Other relevant offices whose officials we spoke with include the Office of the Under Secretary for Acquisition and Sustainment, Office of the Under Secretary for Research and Engineering, Small Business and Technology Partnerships Office, and the Defense Innovation Unit.

⁶We spoke with academics and researchers from the Institute for Defense Analyses, the Center for Strategic and International Studies, the Center for Government Contracting at George Mason University, and the RAND Corporation. Small business representatives we spoke with were identified by the National Defense Industrial Association's small business division.

standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Small Business Contracting Goals

The Small Business Act requires federal agencies to establish annual small business contracting goals that provide small businesses with contracting opportunities to the maximum extent practicable.⁷ Pursuant to the act, goals are established with respect to both prime contracting and subcontracting, as well as for various socioeconomic subcategories of small businesses. These small business subcategories are small disadvantaged businesses, women-owned small businesses, service-disabled veteran-owned small businesses, and businesses located in Historically Underutilized Business Zones (HUBZone).⁸ The small business contracting goals are established jointly by the Small Business Administration and federal agencies, including DOD. For example, DOD's fiscal year 2021 goal for small business prime contracting is 21.95

⁷The act also establishes minimum statutory contracting goals on a government-wide basis for small businesses and socioeconomic subcategories. See 15 U.S.C. § 644(g)(1). The Federal Acquisition Regulation (FAR) generally defines a small business concern as a concern that is independently owned and operated, not dominant in the field of operation in which it is bidding on government contracts, and qualified as a small business under the Small Business Administration's criteria and size standards in 13 C.F.R. part 121. Such a business is "not dominant in its field of operation" when it does not exercise a controlling or major influence on a national basis in a kind of business activity in which a number of business concerns are primarily engaged. FAR § 2.101. Determination of size varies by industry and is generally based on the number of employees or the amount of annual receipts of the business. See 13 C.F.R. § 121.201. Congressional Research Service, *Small Business Innovation Research and Small Business Technology Transfer Programs*, R43695 (Aug. 26, 2014). Section 809 Panel, *Report of the Advisory Panel on Streamlining and Codifying Acquisition Regulations*, vol. 1 (January 2018).

⁸SBA defines a small disadvantaged business as a concern that is unconditionally owned and controlled by one or more socially and economically disadvantaged persons. The disadvantaged person or persons must be both socially and economically disadvantaged, and the firm must be considered small according to SBA's size standards. 13 C.F.R. §§ 124.101-112, 124.1001. SBA's HUBZone program helps small businesses located in designated urban and rural communities gain preferential access to federal procurement opportunities.

percent of all contract obligations that are eligible for small business participation. SBA reports federal agencies' progress toward prime contracting, subcontracting, and socioeconomic category goals on its procurement scorecards.⁹

Agency contracting officers have the authority to enter into, administer, or terminate contracts and are responsible for helping agencies meet small business goals, including by setting aside contracts for small businesses as authorized by the FAR.¹⁰ Contracting officers conduct market research to determine whether a contract should be set aside for small businesses—that is, only small businesses may bid—or offered for full and open competition. For certain large contracts that are not set aside for small businesses, contracting officers are responsible for evaluating small business subcontracting plans submitted by the prime contractor.¹¹

DOD Offices Engaged in Small Business Contracting Efforts

Many DOD offices are tasked with overseeing and executing the department's small business contracting efforts. The DOD OSBP is responsible for negotiating DOD's small business contracting goals with SBA, developing policy to ensure maximum practicable opportunity for small businesses in DOD procurement, and managing the department's

⁹SBA's procurement scorecards assess agencies' small business contracting performance using a numeric score that SBA converts to a letter grade on an A+ through F scale. We previously reported on SBA's 2017 revision of the scorecard methodology. We recommended that SBA complete an evaluation to assess the effectiveness of the procurement scorecards and that SBA institute a process to review the scorecards for accuracy and a mechanism to identify when issued scorecards have been revised. SBA implemented our recommendations. GAO, *Small Business Administration: Actions Needed to Improve Confidence in Small Business Procurement Scorecard*, [GAO-18-672](#) (Washington, D.C.: Sept. 27, 2018).

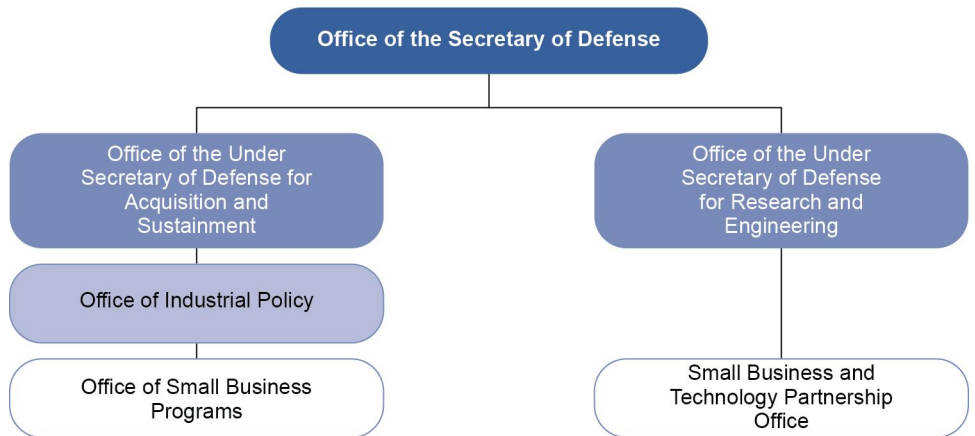
¹⁰FAR subpt. 19.5. The FAR is a federal regulation, codified in 48 C.F.R. pts. 1-53, that generally governs acquisitions of goods and services by executive branch agencies. It addresses various aspects of the acquisition process, from acquisition planning to contract formation to contract management. With respect to DOD, the FAR is supplemented by the Defense Federal Acquisition Regulation Supplement (DFARS), codified at 48 C.F.R. pts. 200-253.

¹¹See, e.g., 15 U.S.C. § 637(d), FAR subpt. 19.7, and 13 C.F.R. § 125.3.

Mentor-Protégé and Indian Incentive programs.¹² This office is housed within the Office of Industrial Policy and falls under the Office of the Under Secretary of Defense (OUSD) for Acquisition and Sustainment, as shown in figure 1.

¹²The Mentor-Protégé Program helps small businesses develop technical capabilities and expand their participation in the defense industrial base by partnering with larger companies, which use them as subcontractors or suppliers on DOD contracts. GAO, *Small Business Contracting: DOD Should Take Actions to Ensure That Its Pilot Mentor-Protégé Program Enhances the Capabilities of Protégé Firms*, [GAO-17-172](#) (Washington, D.C.: Apr. 11, 2017). The Indian Incentive Program serves as an economic multiplier for Native American communities by providing a 5 percent rebate to a prime contractor on the total amount subcontracted to an Indian-owned economic enterprise or Indian organization. See FAR subpt. 26.1 and DFARS subpt. 226.1.

Figure 1: Simplified Organizational Chart of Secretary of Defense Offices Responsible for Overseeing Small Business Programs



Source: GAO. | GAO-22-104621

Text of Figure 1: Simplified Organizational Chart of Secretary of Defense Offices Responsible for Overseeing Small Business Programs

- 1) Office of the Secretary of Defense
 - a) Office of the Secretary of Defense for Acquisition and Sustainment
 - i) Office of Industrial Policy
 - (1) Office of Small Business programs
 - b) Office of the Under Secretary of Defense for Research and Engineering
 - i) Small Business and Technology Partnership Office

Source: GAO. | GAO-22-104621

In addition, the OUSD for Research and Engineering administers offices and programs dedicated to research, development, and technology maturation and adoption. Many of these innovation-focused programs are designed to leverage small businesses.¹³ Specifically, the OUSD for Research and Engineering’s Small Business and Technology

¹³These small business programs include SBIR, STTR, Rapid Innovation Fund, Manufacturing Technology Program, Manufacturing Innovation Institutes, National Security Innovation Network, and Defense Innovation Unit, all of which fall under the purview of the OUSD for Research and Engineering.

Partnerships Office administers the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs for DOD. These programs stimulate high-tech innovation by encouraging small businesses to engage in federal research and development with the potential for commercialization.

There are also OSBPs for the Army, Navy, and Air Force, as well as for various commands within those service branches, and for a variety of agencies throughout DOD, including DLA. Broadly, the OSBPs in DOD aim to maximize small business participation, monitor progress toward SBA goals, conduct outreach to small businesses, and advise on small business policy.

Contract Obligations to Small Businesses Increased, but Fewer Businesses Participated

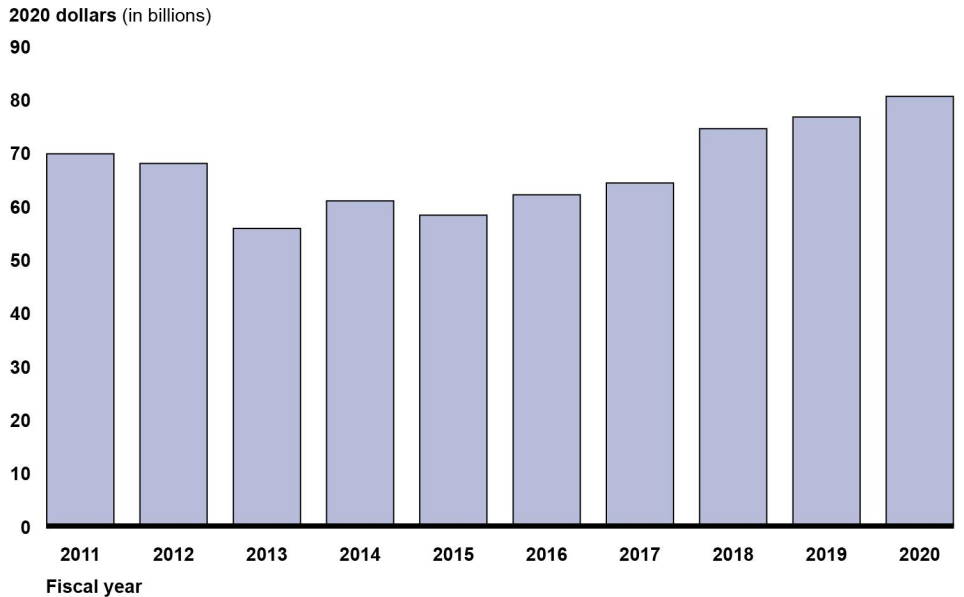
Contract Obligations to Small Businesses Increased from 2011 to 2020

Our analysis of DOD contracting data showed DOD contract obligations to small businesses were higher in 2020 than in 2011, after adjusting for inflation.¹⁴ DOD obligated more to small business contractors in fiscal year 2020 (\$80.5 billion) than any other year in the previous decade.¹⁵ Obligations to small businesses declined by an average of 4 percent per year from 2011 through 2015 and increased by an average of 7 percent per year thereafter (see fig. 2). Contract obligations to small businesses were at their lowest in 2013 (\$55.8 billion). DOD exceeded its SBA annual goal for small business prime contracting each year from 2014 through 2020.

¹⁴Federal contracting data from FPDS report the contracting officer's determination of whether the selected contractor meets the small business size standard for the NAICS code applicable to the contract. For purposes of this report, we refer to "small businesses" as those that met the small business size standard as determined by the contracting officer, and "larger businesses" as those that did not.

¹⁵All dollar figures are in fiscal year 2020 constant dollars, unless otherwise noted.

Figure 2: Department of Defense Contract Obligations to Small Businesses, Fiscal Years 2011–2020



Source: GAO analysis of Federal Procurement Data System data. | GAO-22-104621

Data table for Figure 2: Department of Defense Contract Obligations to Small Businesses, Fiscal Years 2011–2020

Fiscal year	Obligations to small businesses
2011	\$69,733,784,515
2012	\$67,932,609,733
2013	\$55,772,443,042
2014	\$60,906,635,418
2015	\$58,243,698,370
2016	\$62,048,741,384
2017	\$64,290,957,378
2018	\$74,444,027,280
2019	\$76,629,742,796
2020	\$80,498,559,025

Note: Obligation amounts were adjusted for inflation using the Gross Domestic Product price index.

Source: GAO analysis of Federal Procurement Data Systems data. | GAO-22-104621

Contract obligations to larger businesses also declined from 2011 to 2015 by an average of 9 percent per year, and increased by an average of 8 percent per year thereafter. Obligations to larger businesses had not

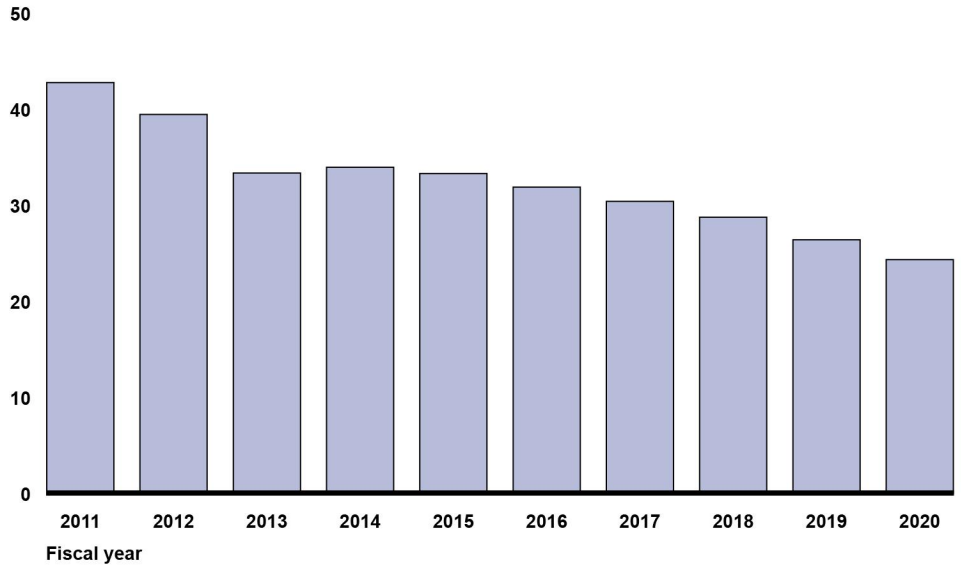
returned to 2011 levels by 2020, after adjusting for inflation. Contract obligations to larger businesses were at their lowest in 2015.

Number of Small Businesses Receiving DOD Contract Awards Decreased from 2011 to 2020

The number of small businesses contracting with DOD has significantly declined since 2011. Small businesses receiving contract awards decreased from 42,723 in 2011 to 24,296 in 2020, a decline of 43 percent (see fig. 3). The Army, Navy, Air Force, and DLA all awarded contracts to fewer small businesses in 2020 than in 2011.

Figure 3: Number of Small Businesses That Received Contract Awards from the Department of Defense, Fiscal Years 2011–2020

Small businesses (in thousands)



Source: GAO analysis of Federal Procurement Data System data. | GAO-22-104621

Data table for Figure 3: Number of Small Businesses That Received Contract Awards from the Department of Defense, Fiscal Years 2011–2020

Fiscal year	Number of Small businesses
2011	42723
2012	39408
2013	33312
2014	33911
2015	33270

Fiscal year	Number of Small businesses
2016	31839
2017	30360
2018	28711
2019	26364
2020	24296

Source: GAO analysis of Federal Procurement Data Systems data. | GAO-22-104621

Overall, DOD awarded contracts to almost 25,000 fewer businesses in 2020 than it did in 2011, with the number of larger businesses contracting with DOD decreasing at a similar rate to small businesses. The number of larger businesses receiving contract awards fell by 7.3 percent per year on average from 2011–2020, while the number of small businesses receiving contract awards fell by 6 percent per year.

Our analysis of DOD contracting data found that the number of new entrants declined from 2016 through 2020, in line with the decline in the overall number of small businesses contracting with DOD (see table 1).¹⁶ Because the total number of small businesses contracting with DOD and the number of new entrants both declined, the proportion of new entrants was relatively stable from year to year. Research by the Center for Strategic and International Studies found that the number of new small businesses contracting with DOD peaked in fiscal years 2004 and 2005 and then declined through 2016.¹⁷

Table 1: New Entrants in Department of Defense Small Business Contracting, Fiscal Years 2016–2020

Fiscal year	Number of new entrants (percentage of total small business contractors)	Obligations to new entrants (percentage of total small business obligations)
2016	7,083 (14.6)	\$2.02 billion (3.2)

¹⁶For purposes of our analysis, a new entrant is a small business that had at least one contract action recorded in FPDS after having no recorded contract actions in the previous 5 years. The FAR defines a contract action as any oral or written action that results in the purchase, rent, or lease of supplies or equipment, services, or construction using appropriated dollars over the micro-purchase threshold, or modifications to these actions regardless of dollar value. Contract action does not include grants, cooperative agreements, other transactions, real property leases, requisitions from Federal stock, training authorizations, or other non-FAR based transactions. FAR § 4.601.

¹⁷Andrew P. Hunter and Samantha Cohen, *New Entrants and Small Business Graduation in the Market for Federal Contracts* (Washington, D.C.: Rowman & Littlefield, 2018).

Fiscal year	Number of new entrants (percentage of total small business contractors)	Obligations to new entrants (percentage of total small business obligations)
2017	6,709 (14.2)	\$1.79 billion (2.8)
2018	6,212 (13.8)	\$2.12 billion (2.8)
2019	5,523 (13.1)	\$2.13 billion (2.8)
2020	5,526 (13.9)	\$3.30 billion (4.1)

Source: GAO analysis of Federal Procurement Data System (FPDS) data. | GAO-22-104621

Notes: For purposes of this report, new entrants are small businesses that had at least one contract action recorded in FPDS after having no recorded contract actions in the previous 5 years (beginning in 2011). Total small business contractors are all small businesses that had at least one contract action recorded in FPDS during the fiscal year. Obligation amounts were adjusted for inflation using the Gross Domestic Product price index.

DOD officials, small business owners and executives, and researchers we spoke with identified potential factors contributing to the decline in the number of small business contractors from fiscal years 2011 to 2020, including:

- Government-wide contracting initiatives.** Since 2005, government-wide initiatives led by the Office of Management and Budget (OMB) have encouraged agencies to consolidate and coordinate their purchases of common products and services. OMB’s ongoing category management initiative, in effect since 2016, intends to help federal agencies buy like a single entity so they can leverage the government’s buying power, save taxpayer dollars, and eliminate duplicative contracts.¹⁸ OMB has stated that small business utilization is a priority for the category management initiative and that a balanced approach can help agencies leverage the government’s buying power while maintaining opportunities for small businesses. OMB set an overall goal to allocate at least 30 percent of annual category management obligations to small businesses. For fiscal years 2017–2019, federal agencies met or exceeded the 30 percent goal.¹⁹ However, DOD officials and small business executives told us

¹⁸In a November 2020 report, we made 10 recommendations to OMB related to the category management initiative, including that OMB work with appropriate agencies and organizations to develop additional training about small business opportunities under category management. OMB agreed with the substance of the 10 recommendations but, as of August 2021, had not taken actions that fully implement them. GAO, *Federal Buying Power: OMB Can Further Advance Category Management Initiative by Focusing on Requirements, Data, and Training*, GAO-21-40 (Washington, D.C.: Nov. 30, 2020).

¹⁹OMB also sets category-specific small business goals in coordination with category managers. Federal agencies fell short of certain category-specific goals in fiscal years 2017–2019. GAO-21-40.

the category management initiative reduces opportunities for small businesses, which may have difficulty participating in large government-wide contracts such as the initiative's Best in Class contracts.²⁰ DOD officials told us they intend to provide better information to small businesses about how to join government-wide contracts. Officials also told us they intend to improve category management training for DOD small business specialists who will assist small businesses in joining government-wide contracts.

- **Administrative difficulty of working with DOD, including new cybersecurity requirements.** DOD officials, small business executives, and researchers told us the DOD contracting process can be difficult to manage and many businesses prefer to work instead with the private sector because it offers more administrative flexibility. For example, small business executives said contracting with DOD often involves unpredictable and burdensome delays in award selection decisions, security clearances, work start dates, and payment dates. In addition, several DOD officials and small business executives said new requirements associated with the Cybersecurity Maturity Model Certification posed a challenge for small businesses.²¹ Small business executives told us cybersecurity certification requirements have been difficult to understand, difficult to implement, and expensive. DOD's Small Business Strategy includes plans to address small business cybersecurity challenges, and DOD officials said they are seeking approaches to implementation of the certification requirement that would reduce barriers for small businesses. In December 2019, DOD OSBP launched Project Spectrum, a platform to provide cybersecurity information, tools, and training to small- and medium-sized businesses and the defense industrial base.

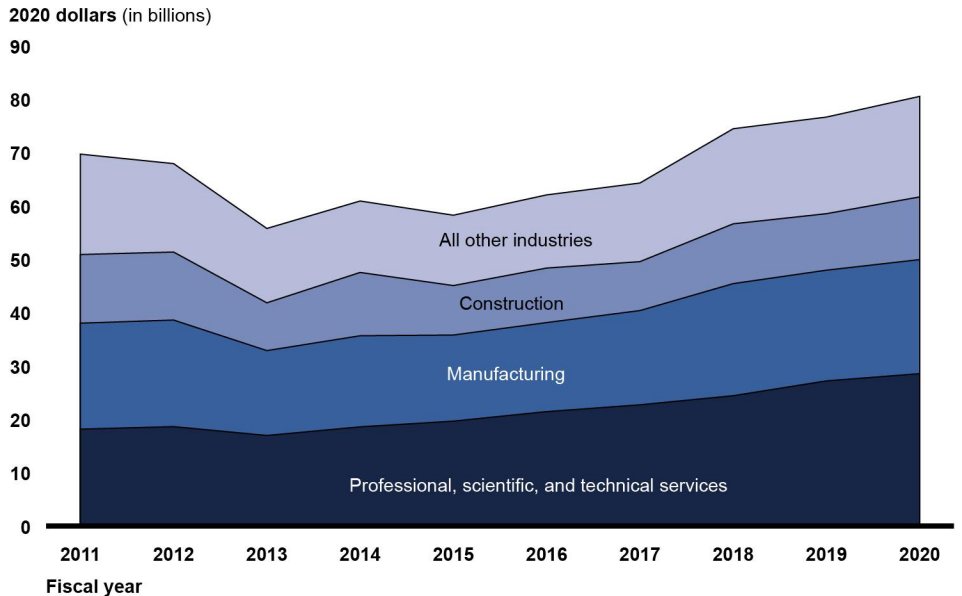
²⁰OMB designates certain preferred government-wide contracts as Best in Class. Criteria for a Best in Class designation include rigorous requirements and planning and management processes, appropriate pricing strategies, and data collection to establish category management strategies and measure performance.

²¹The Cybersecurity Maturity Model Certification is a framework that includes procedures for certifying that companies have implemented certain cybersecurity processes and practices. DOD is implementing the framework through a phased rollout plan covering fiscal years 2021 through 2025. We have an ongoing review focused on the Cybersecurity Maturity Model Certification, and we previously reported on DOD's efforts to improve cybersecurity in weapon systems acquisition. GAO, *Weapon Systems Cybersecurity: Guidance Would Help DOD Programs Better Communicate Requirements to Contractors*, [GAO-21-179](#) (Washington, D.C.: Mar. 4, 2021).

Professional Services, Manufacturing, and Construction Industries Received the Majority of Small Business Obligations

From 2011 through 2020, the largest industries for small business contracting with DOD were professional services, manufacturing, and construction (see fig. 4).²² In fiscal year 2020, small businesses in these industries received \$61.7 billion in obligations out of a total of \$80.5 billion in obligations to small businesses (77 percent).

Figure 4: Department of Defense Contract Obligations to Small Businesses by Industry, Fiscal Years 2011–2020



Source: GAO analysis of Federal Procurement Data System data. | GAO-22-104621

²²We analyzed industries using NAICS codes. The three largest industries are NAICS 23 (Construction), 31-33 (Manufacturing), and 54 (Professional, Scientific, and Technical Services).

Data table for Figure 4: Department of Defense Contract Obligations to Small Businesses by Industry, Fiscal Years 2011–2020

Industry	All Other Industries	Sector 23— Construction	Sector 54— Professional, Scientific and Technical Services	Sectors 31-33— Manufacturing
2011	18.81155	12.86246	18.15778	19.85449
2012	16.57044	12.73993	18.62777	19.97057
2013	13.9291	8.953828	16.96862	15.90413
2014	13.38477	11.86244	18.58505	17.06832
2015	13.18063	9.26747	19.65574	16.13353
2016	13.70661	10.21618	21.44152	16.68252
2017	14.73292	9.165734	22.71361	17.66076
2018	17.81765	11.20305	24.41982	21.00252
2019	18.10388	10.58406	27.19788	20.74447
2020	18.83431	11.74868	28.55391	21.36936

Note: Obligation amounts were adjusted for inflation using the Gross Domestic Product price index.

Source: GAO analysis of Federal Procurement Data Systems data. | GAO-22-104621

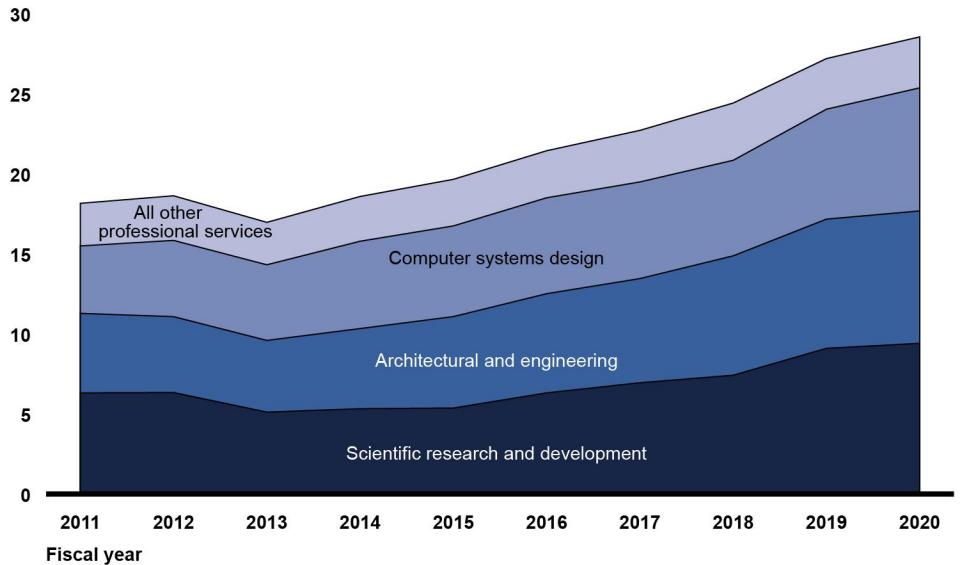
Professional, scientific, and technical services is the largest industry for small businesses contracting with DOD and the fastest growing among the three major industries. Contract obligations to small businesses in professional services grew from \$18.2 billion in 2011 to \$28.6 billion in 2020, or by 57 percent.

DOD purchases a broad array of professional services from small businesses, including legal services, accounting, and advertising. However, three categories of professional services comprise the bulk of DOD’s expenditures: architectural and engineering services, computer systems design services, and scientific research and development services (see fig. 5).²³ Contract obligations for each of these service categories grew faster than overall obligations to small businesses. Of the three categories, computer systems design services grew the fastest (83 percent from 2011 to 2020).

²³These professional services categories use NAICS industry codes 5413 (Architectural, Engineering, and Related Services); 5415 (Computer Systems Design and Related Services); and 5417 (Scientific Research and Development Services).

Figure 5: Department of Defense Contract Obligations to Small Businesses for Professional, Scientific, and Technical Services, Fiscal Years 2011–2020

2020 dollars (in billions)



Source: GAO analysis of Federal Procurement Data System data. | GAO-22-104621

Data table for Figure 5: Department of Defense Contract Obligations to Small Businesses for Professional, Scientific, and Technical Services, Fiscal Years 2011–2020

Fiscal Year	All Other Professional Services	Computer Systems Design and Related Services (5415)	Architectural, Engineering, and Related Services (5413)	Scientific Research and Development Services (5417)
2011	2.661342	4.21095	4.967878	6.317131
2012	2.786581	4.761865	4.74135	6.337973
2013	2.650602	4.723125	4.477939	5.116936
2014	2.795268	5.454305	5.005886	5.329589
2015	2.910507	5.662451	5.711714	5.371064
2016	2.938116	5.989313	6.195073	6.319023
2017	3.221215	6.03599	6.505393	6.951012
2018	3.575767	5.967111	7.456176	7.420769
2019	3.161411	6.866636	8.068006	9.101829
2020	3.18486	7.686417	8.271035	9.411602

Note: Obligation amounts were adjusted for inflation using the Gross Domestic Product price index.

Source: GAO analysis of Federal Procurement Data Systems data. | GAO-22-104621

Small Business Awards Were More Likely to Use Competitive Procedures

From 2011 to 2020, a higher proportion of DOD contract obligations to small businesses were awarded under competitive procedures than were contract obligations to larger businesses.²⁴ While federal acquisition laws and regulations generally require contracts to be awarded on the basis of full and open competition, they also permit federal agencies to award noncompetitive contracts in certain circumstances, such as when only one vendor can supply the needed goods or services. Generally, a low competition rate can contribute to increased costs of goods and services and decreased buying power. We have reported that competition is a critical tool for achieving the best return on investment for taxpayers.²⁵

Competition and Small Business Set-Asides

Federal acquisition laws and regulations generally require “full and open competition” for government procurement contracts, but they authorize federal agencies to limit competition in some circumstances. For example, agencies can set aside contracts exclusively for small businesses when the contracting officer reasonably expects to receive at least two offers from responsible small businesses and the award will be made at a fair market price. Contracts awarded under these set-aside procedures are competitive, but only small businesses may compete.

Source: GAO analysis of federal acquisition laws and regulations. | GAO-21-104621

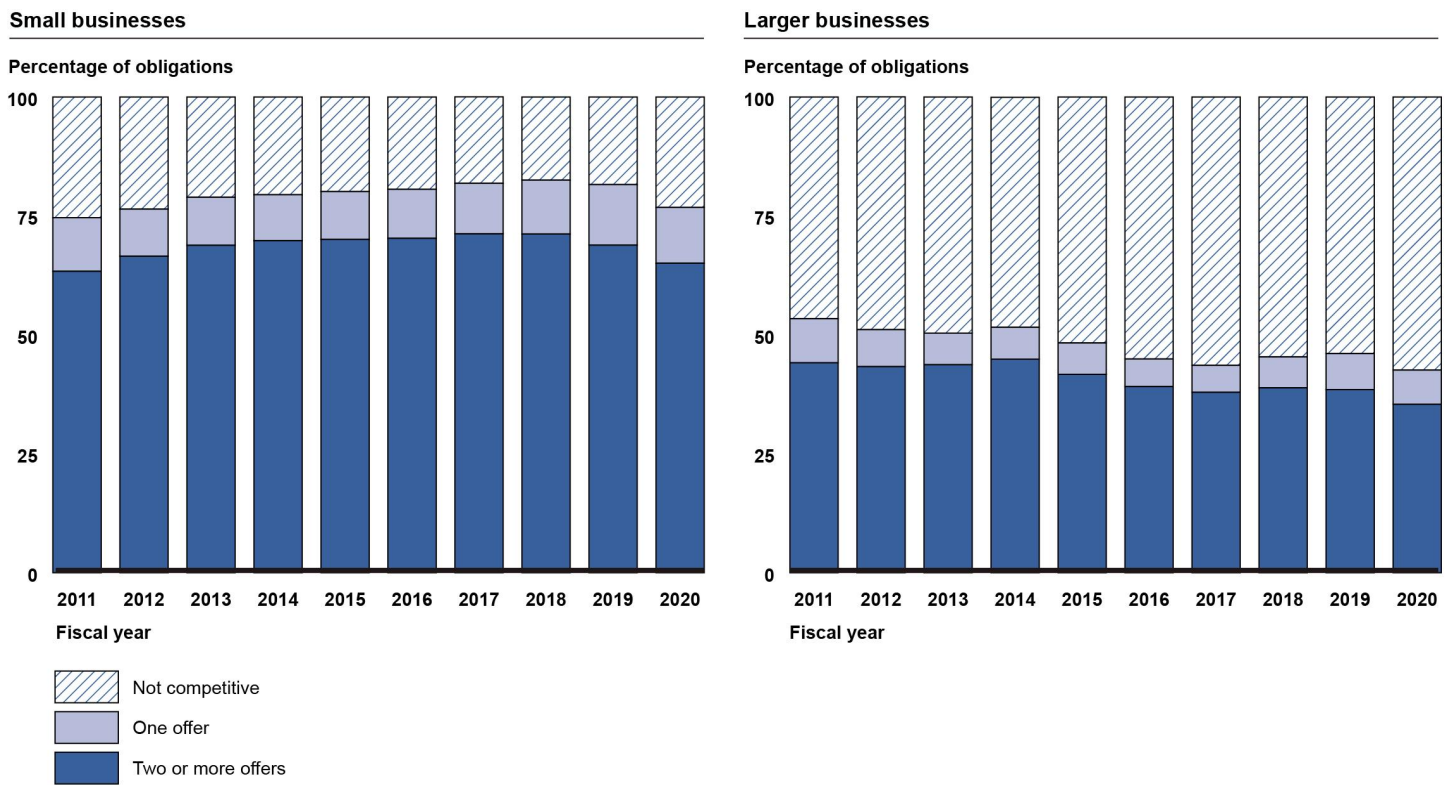
DOD contracting data showed that competition rates for awards to small businesses were significantly higher than competition rates for awards to larger businesses from 2011–2021 (see fig. 6). We have previously reported that DOD’s large acquisition programs, which typically award contracts to large businesses, operate in an environment of limited

²⁴For purposes of our analysis, competitively awarded obligations include those under contracts and orders coded in FPDS as “full and open competition,” “full and open after exclusion of sources,” and “competed under simplified acquisition procedures,” as well as orders subject to multiple award fair opportunity coded as “fair opportunity given” and “competitive set aside.” Noncompetitive obligations include those through contracts awarded using the exceptions to full and open competition listed in FAR Subpart 6.3 (Other than Full and Open Competition) and noncompetitive orders issued under multiple award indefinite delivery/indefinite quantity contracts.

²⁵GAO, *Defense Contracting: Early Attention in the Acquisition Process Needed to Enhance Competition*, [GAO-14-395](#) (Washington, D.C.: May 5, 2014).

competition.²⁶ Competition rates in our analyses count most small business set-asides as competed contracts (see sidebar). Overall, DOD used set-asides for about 60 percent of obligations to small businesses in 2020, up from about 56 percent in 2011.

Figure 6: Competition Rates for Department of Defense Contracts, Fiscal Years 2011–2020



Source: GAO analysis of Federal Procurement Data System data. | GAO-22-104621

²⁶GAO, *Weapon Systems Annual Assessment: Limited Use of Knowledge-Based Practices Continues to Undercut DOD’s Investments*, [GAO-19-336SP](#) (Washington, D.C.: May 7, 2019). We previously found that the most frequently cited exception to competitive procedures for DOD contracts was “only one responsible source.” GAO, *Defense Contracting: DOD’s Use of Competitive Procedures*, [GAO-15-484R](#) (Washington, D.C.: May 1, 2015).

Data tables for Figure 6: Competition Rates for Department of Defense Contracts, Fiscal Years 2011–2020

Small Businesses

Fiscal Year	Noncompeted	1 offer	2 offers
2011	25.37%	11.26%	63.37%
2012	23.57%	9.91%	66.52%
2013	21.09%	10.08%	68.83%
2014	20.54%	9.66%	69.80%
2015	19.88%	10.07%	70.05%
2016	19.39%	10.30%	70.30%
2017	18.14%	10.66%	71.21%
2018	17.49%	11.33%	71.18%
2019	18.39%	12.73%	68.87%
2020	23.20%	11.74%	65.06%

Larger Businesses

Fiscal Year	Noncompeted	1 offer	2 offers
2011	46.62%	9.24%	44.14%
2012	48.92%	7.76%	43.33%
2013	49.63%	6.66%	43.71%
2014	48.32%	6.69%	44.99%
2015	51.71%	6.59%	41.69%
2016	55.07%	5.81%	39.12%
2017	56.42%	5.64%	37.94%
2018	54.64%	6.51%	38.85%
2019	53.95%	7.56%	38.49%
2020	57.42%	7.20%	35.38%

Notes: Competitive contracts include those awarded using competitive procedures with exclusion of sources, such as small business set-aside procedures with competition among small businesses. The “one offer” category denotes contracts that were awarded under competitive procedures but received only one offer in response to the solicitation.

Source: GAO analysis of Federal Procurement Data Systems data. | GAO-22-104621

DOD Also Engages Small Businesses through Alternative Agreements and Subcontracting

DOD contracting data in FPDS do not capture the full extent of small businesses’ participation in the defense industrial base because they do

not include data from alternative agreements or from subcontracts, which are recorded in a separate data system.

Alternative Agreements

While DOD typically acquires necessary goods and services through contracts governed by the FAR, DOD also engages the defense industrial base—including small businesses—through alternative agreements such as grants and cooperative agreements. Alternative agreements can provide flexibilities and reduce barriers to creating new partnerships.²⁷ These agreements are governed by laws and regulations other than the FAR, and may not be reported in FPDS.²⁸ For example, small businesses working with DOD under cooperative research and development agreements are not recorded in FPDS because the agreements are nonmonetary.²⁹ Under these agreements, the government may not provide any funding but may provide personnel, services, facilities, equipment, intellectual property or other resources.

We previously found that DOD significantly increased its use of one type of alternative agreement—known as other transaction agreements for prototyping—from fiscal years 2016 through 2018.³⁰ We found the majority of DOD's obligations under these agreements were to consortiums, groups of companies that work together to achieve a

²⁷There are several types of alternative agreements authorized by various statutes. We recently reported on the Army's use of alternative agreements, which comprise cooperative agreements, cooperative research and development agreements, grants, other transactions for prototypes, other transactions for research, partnership intermediary agreements, and technology investment agreements. GAO, *Army Modernization: Army Should Improve Use of Alternative Agreements and Approaches by Enhancing Oversight and Communication of Lessons Learned*, [GAO-21-8](#) (Washington, D.C.: Oct. 1, 2020).

²⁸The FAR describes FPDS as a comprehensive tool for agencies to report "contract actions" and requires agencies to report a wide range of such actions in the system. While the FAR's definition of what constitutes a contract action expressly excludes grants, cooperative agreements, and "other non-FAR based transactions," the FAR permits agencies to report non-FAR based transactions, provided certain conditions are met. FAR §§ 4.601, 4.606(b).

²⁹Cooperative research and development agreements are authorized under 15 U.S.C. § 3710(a).

³⁰GAO, *Defense Acquisitions: DOD's Use of Other Transactions for Prototype Projects Has Increased*, [GAO-20-84](#) (Washington, D.C.: Nov. 22, 2019). DOD reports other transaction agreements in a separate module of FPDS, and we have reported limitations in the data for other transaction agreements. Our analysis of FPDS data for this review does not include other transaction agreements.

common objective, but more detailed data about each project conducted by the consortiums, which could be performed by small businesses, were not tracked. A 2021 report by the DOD Office of Inspector General found DOD contracting personnel did not properly track other transactions awarded through consortiums because FPDS was not set up to track awards through consortiums and because DOD did not have guidance for awarding projects to consortiums.³¹ The Office of Inspector General made 13 recommendations to DOD, including for the relevant DOD office to coordinate with the General Services Administration to update FPDS to more accurately capture data related to other transactions awarded through consortiums. As of August 2021, DOD management had proposed actions that would address all of these recommendations, but the Office of Inspector General had not yet verified that the corrective actions were implemented.

Other transaction agreements are exempt from the FAR and can help agencies provide flexibility to attract companies that typically do not do business with the government. For example, DOD's Defense Innovation Unit (DIU) aims to accelerate the military's adoption of innovative commercial technology. Officials told us DIU uses other transaction agreements to make awards more quickly and reduce burdensome FAR contracting requirements, allowing DIU to attract nontraditional defense contractors and keep pace with technological changes. As of 2020, 77 percent of DIU awardees were small businesses. Officials said DIU receives many proposals from small businesses because the requirements to work with DIU are not burdensome.

Subcontracting

DOD also leverages small businesses through subcontracts with larger firms. Federal acquisition laws and regulations require that federal contractors award subcontracting work in a manner that provides small businesses with the maximum practicable opportunity to participate.³² Above certain dollar thresholds, prospective contractors must submit subcontracting plans for each solicitation or contract modification that has

³¹Department of Defense, Office of Inspector General, *Audit of Other Transactions Awarded Through Consortiums*, DODIG-2021-077 (Alexandria, VA: Apr. 21, 2021).

³²See e.g., FAR § 19.702 (requiring that any contractor receiving a contract with a value greater than the simplified acquisition threshold must agree that small business concerns will have the maximum practicable opportunity to participate in contract performance consistent with its efficient performance).

subcontracting possibilities. Contractors use these plans to document subcontracting goals and must periodically submit a subcontracting report to the government describing progress toward these goals.³³ Contractors report subcontracting through the Electronic Subcontracting Reporting System (eSRS), a web-based government-wide system. We have previously found data limitations and incomplete reporting in eSRS and we did not analyze subcontracting data from eSRS for this report.³⁴

Each year, SBA negotiates with agencies to establish agency-specific small business subcontracting goals. DOD met its SBA small business subcontracting goal in 2020. Researchers and one former official told us many of the same small businesses work as both prime contractors and subcontractors, and small businesses can switch between roles when seeking contracts. One small business representative we spoke with participated in both prime contracting and subcontracting and had worked exclusively as a subcontractor for a number of years before beginning to win prime contracts. Another small business owner planned to continue working exclusively as a subcontractor because working directly with DOD would be administratively challenging. For certain technologies and larger acquisitions, small businesses do not have the capacity to work as prime contractors but can participate as subcontractors in supporting roles, such as supplying parts and performing repairs, according to researchers.

³³We previously reported that selected agencies, including DLA and the Department of the Navy, did not consistently follow all required procedures for oversight of small business subcontracting plans. We made 10 recommendations to strengthen oversight of these plans, including three recommendations to the Department of the Navy that it agreed with but had not fully implemented as of August 2021. GAO, *Small Business Subcontracting: Oversight of Contractor Compliance with Subcontracting Plans Needs Improvement*, [GAO-20-464](#) (Washington, D.C.: May 28, 2020).

³⁴[GAO-20-464](#); [GAO-18-672](#).

DOD Has Many Small Business Efforts but Lacks Key Mechanisms to Implement and Monitor its Small Business Strategy

Various DOD Efforts to Engage Small Businesses Support DOD's Small Business Strategic Objectives

As noted earlier, in October 2019, DOD published its Small Business Strategy, which describes its small business contracting and technology programs, outreach activities, and initiatives to address challenges small businesses encounter when working with DOD. The strategy has three strategic objectives:

- **Implementing a Unified Management Structure.** DOD's small business efforts are distributed across the military services and within different parts of the Office of the Secretary of Defense. According to the Small Business Strategy, the unified management structure will improve communication and coordination of small business efforts across the department, including greater coordination between the USD for Acquisition and Sustainment and the USD for Research and Engineering.
- **Aligning DOD's Small Business Activities with National Security Priorities.** The Small Business Strategy is meant to align DOD small business programs with the strategy and goals set forth in the December 2018 National Defense Strategy, January 2017 National Security Strategy, and Executive Order 13806 and its associated report, *Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States*.³⁵ These national security priorities include an emphasis on encouraging innovation and maintaining a healthy and resilient defense industrial base.

³⁵2018 National Defense Strategy of the United States of America, January 2018. National Security Strategy of the United States, December 2017. Executive Order No. 13806, *Assessing and Strengthening the Manufacturing and Defense Industrial Base and Supply Chain Resiliency of the United States*, directs the Secretary of Defense to conduct a wide-scale effort to identify the goods essential to national security, assess manufacturing capabilities and risks, and recommend actions in support of a strong manufacturing and defense industrial base—a critical aspect of economic and national security. 82 Fed. Reg. 34,597 (July 21, 2017).

- **Strengthening DOD’s Ability to Support the Warfighter and Serve Small Businesses.** According to the Small Business Strategy, DOD will seek to elevate the visibility of small businesses to acquisitions officials and ensure small businesses are considered at the earliest stages of the acquisition process.

Many of DOD’s efforts to engage small businesses support the strategy’s strategic objectives. For example, the strategy emphasizes the need for the various offices responsible for acquisition and research to work together to leverage small businesses to obtain technological superiority against U.S. adversaries. On March 5, 2021, DOD OSBP and the National Security Innovation Network—an innovation unit within the OUSD for Research and Engineering—signed a memorandum of agreement to partner on expanding the national security innovation base.³⁶ The new partnership is intended to establish an annual joint program plan to leverage the resources of DOD OSBP and the National Security Innovation Network to achieve shared objectives such as developing events and programs to engage small businesses in the National Technology and Industrial Base.³⁷ The director of DOD OSBP told us the partnership represents a step to bridge the gap between the USD for Acquisition and Sustainment and the USD for Research and Engineering as intended under the strategic objective to create a unified management structure.

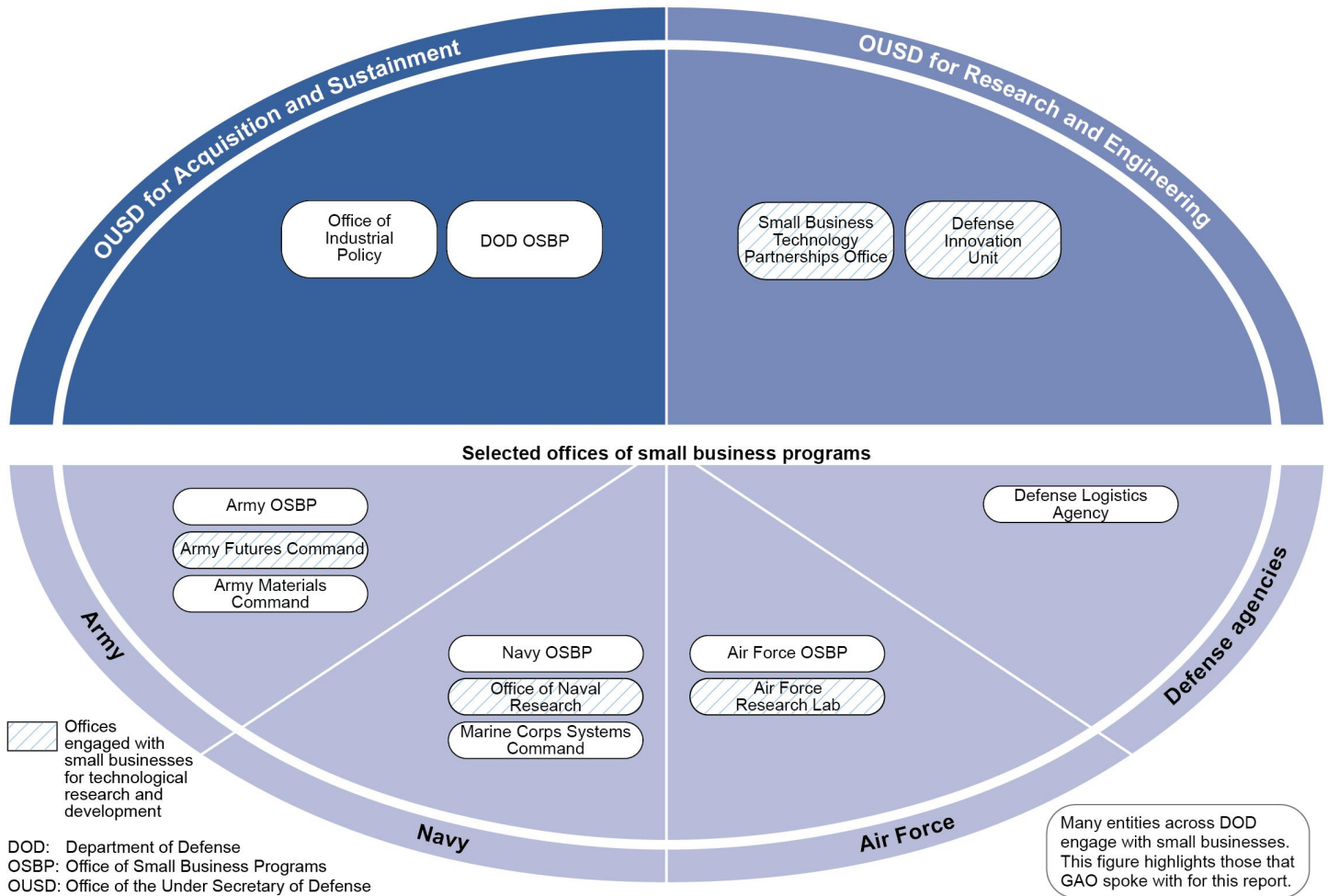
In addition, the Small Business Strategy identifies the Small Business and Technology Partnerships Office as a key organization that will help facilitate coordination under a unified management structure when it is implemented. Officials from the Small Business and Technology Partnerships Office meet regularly with DOD OSBP on matters related to small business. One official from the Small Business and Technology Partnerships Office told us that in addition to DOD OSBP, the office coordinates with other offices in the OUSD for Acquisition and

³⁶Department of Defense, “Partnership Expands Opportunities for New and Small Businesses to Work With the Department of Defense, Expand National Security Innovation Base.” News release. March 31, 2021.

³⁷The National Technology and Industrial Base consists of the people and organizations engaged in national security and dual-use research and development, production, maintenance, and related activities within the United States, Canada, the United Kingdom, and Australia. The National Technology and Industrial Base, as established by 10 U.S.C. §2500, is intended to support U.S. national security objectives, including supplying military operations; conducting advanced research and development and systems development to ensure technological superiority of the U.S. Armed Forces, securing reliable sources of critical materials, and developing industrial preparedness to support operations in wartime or during a national emergency.

Sustainment, including the Office of Industrial Policy and the Defense Pricing and Contracting Office. (See fig. 7 for examples of DOD organizations that engage small businesses.)

Figure 7: Examples of the Variety of Department of Defense (DOD) Organizations That Engage Small Businesses



Source: GAO. | GAO-22-104621

Text of Figure 7: Examples of the Variety of Department of Defense (DOD) Organizations That Engage Small Businesses

- **OSD for Acquisition and Sustainment**
 - Office of Industrial Policy
 - DOD OSBP
- **OSD for Research and Engineering**

- Small Business Technology Partnerships Office
- Defense Innovation Unit

Selected offices of small business programs

Defense agencies

- Defense Logistics Agency

Air Force

- Air Force OSBP
- Air Force Research Lab

Navy

- Navy OSBP
- Office of Naval Research
- Marine Corps Systems Command

Army

- Army OSBP
- Army Futures Command
- Army Materials Command

Source: GAO. | GAO-22-104621

The strategic objective to align DOD's small business activities with national strategic priorities states the importance of promoting technological innovation, a priority identified in both the National Security Strategy and the National Defense Strategy. DOD invests billions of dollars each year to advance scientific discovery and innovation and acquire weapon systems that maintain a technological edge over potential adversaries. DOD has programs in the service branches and other offices throughout the department that engage small businesses for the purpose of technological innovation. Under the USD for Research and Engineering, the Small Business and Technology Partnerships office administers the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR programs) for DOD. Through these

programs, federal agencies have sought to help small businesses develop and commercialize innovative technologies.³⁸

Examples of DOD Small Business Outreach and Communication Activities

- **Army:** Participated in over 40 outreach engagements in fiscal year 2020 such as keynote speeches, panel presentations, and matchmaking sessions, providing information and education on the most effective way to market to the Army buying commands, according to Army officials.
- **Navy:** Expanded social media presence with Facebook Live, Twitter, and a dedicated YouTube channel, allowing small businesses and nontraditional suppliers interested in working with the Navy to stay connected with real-time information and engage with key stakeholders during Facebook Live Industry Talks.
- **Air Force:** Holds “pitch days,” which are modeled after commercial investment pitch competitions and allow small businesses and startups to compete for awards using 1-day, one-page contracts.
- **Marine Corps:** Hosts “tech talks,” in which innovative industry partners that include small and nontraditional businesses are invited to brief Marine Corps officials on technological capabilities they may provide to meet Marine Corps needs, according to officials.
- **Defense Logistics Agency:** Published “Small Business Overview for Vendors” which provides information on the agency, as well as resources and contracting opportunities for potential small business vendors.

Source: Department of Defense (DOD) documentation and officials. | GAO-22-104621

An official from the Small Business and Technology Partnerships Office told us that its primary goal is to encourage small innovative businesses to work with DOD to solve defense technology challenges, and that the office works to increase awareness of the SBIR and STTR Programs within DOD. As previously noted, the Defense Innovation Unit (DIU) is another organization under the OUSD for Research and Engineering that engages with innovative small businesses. DIU’s mission is to strengthen national security by increasing the military’s adoption of commercial technology and to grow the national security innovation base.

The service branches also have offices that engage small businesses for the purposes of innovation. For example, the Army Futures Command was established in June 2018 to develop technology to achieve the modernization goals of the Army, in part, through increased access to innovation from small businesses. Similarly, the Air Force Research Laboratory—a scientific research organization dedicated to creating innovative new capabilities—obligates approximately \$2 billion per year on small businesses. The Office of Naval Research coordinates and executes the research investment priorities of the Navy and Marine Corps. The Office of Naval Research OSBP has hosted webinars in which they provide an overview of the office and discuss opportunities for small business.

One element of the strategic objective to strengthen DOD’s ability to support the warfighter and serve small businesses is to improve outreach and communications with small businesses. Documentation from the OSBPs in the service branches describe outreach to small businesses as a key function of their offices. Officials from OSBPs in the service branches and DLA described some of the outreach activities they conduct. For example, Navy OSBP has been conducting webinars during the Coronavirus Disease 2019 (COVID-19) pandemic to educate small businesses on working with the Navy. In addition, DOD officials told us they host vendor events, conduct trainings for small businesses, and

³⁸The SBIR and STTR programs define commercialization as the process of developing products, processes, technologies, or services and the production and delivery (whether by the originating party or others) of the products, processes, technologies, or services for sale to or use by the federal government or commercial markets. Small Business Administration, *Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) Program* (Washington, D.C.: Oct. 1, 2020).

leverage Procurement Technical Assistance Centers to contact and educate small businesses on working with DOD.³⁹ (See sidebar for further examples of such outreach.)

DOD Has Not Yet Completed an Implementation Plan for Its Small Business Strategy or a Policy for a Unified Management Structure

DOD does not have a plan for implementing its Small Business Strategy for the military services, agencies, and other offices responsible for administering small business programs. While the Small Business Strategy does refer to the implementation of particular initiatives, it lacks details on responsible parties or timeframes for meeting goals, without which it is unclear how and by when certain initiatives are to be carried out.

For example, in a section describing an initiative to maximize the use of existing programs and authorities for innovation and commercialization, the strategy discusses implementation by stating that DOD will “establish direct communication channels with industry on entry points to defense innovation programs.” However, the strategy does not identify the parties responsible for establishing communication. Also, the strategy does not provide timeframes in which these communication channels are to be established.

The National Defense Authorization Act for Fiscal Year 2021 required DOD to submit an implementation plan for the Small Business Strategy by June 1, 2021.⁴⁰ The implementation plan was to identify milestones and metrics, specific responsible individuals and organizations, and resources to support activities described in the plan. As of July 15, 2021, DOD had not developed or submitted this plan to Congress, according to DOD officials. Additionally, prior to the act’s requirement to submit an implementation plan for the Small Business Strategy, DOD had not taken

³⁹ Procurement Technical Assistance Centers help businesses pursue and perform contracts with DOD, other federal agencies, state and local governments, and government prime contractors. GAO recently reported that in 2020, these centers assisted over 57,000 clients and these clients won over 327,000 government contracts and subcontracts valued at about \$24.2 billion. GAO made three recommendations to DOD, which DOD agreed with. GAO, *Procurement Technical Assistance Program: Opportunities Exist for DOD to Enhance Training and Collaboration*, [GAO-21-287](#) (Washington, D.C.: Mar. 31, 2021).

⁴⁰William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021 § 861(c)(2).

specific steps to ensure the strategy was being implemented across the department, according to DOD OSBP officials.

According to DOD officials, several factors have contributed to the department not developing a plan for the implementation of the Small Business Strategy.

- *Staffing and resources.* DOD officials told us a decrease in DOD OSBP staff as well as budget reductions have hindered the office's ability to monitor the implementation of the Small Business Strategy. DOD officials noted that in 2016, DOD OSBP had 13 full-time equivalent employees. According to officials, the office had four full-time employees as of March 2021.
- *Leadership changes.* DOD OSBP experienced significant turnover at the director level from 2019 through January 2021, with five permanent or acting directors, resulting in a lack of continuity in leadership, according to officials.
- *COVID-19.* Only months after the Small Business Strategy was published, the COVID-19 pandemic started, which forced DOD to shift priorities department-wide.

DOD officials told us they are beginning to work on the implementation plan, but did not provide timeframes for when it might be completed or other details or documentation. Without an implementation plan for its Small Business Strategy, DOD will not be able to demonstrate to Congress that it has established a clear process for ensuring the initiatives described in the strategy are carried out and coordinated across the department.

In addition, DOD has not yet developed a policy to support one of its strategic objectives—implementing a unified management structure across DOD's small business workforce. DOD has undertaken activities that support this objective, such as the coordination between DOD OSBP and the Small Business and Technology Partnerships Office. However, DOD has not yet created a policy to guide the implementation of a unified management structure, the purpose of which is to coordinate small business efforts across the department. One DOD official told us this stemmed from the same factors affecting their ability to complete an implementation plan—resource constraints, leadership changes, and the effects of COVID-19.

The Small Business Strategy calls for DOD OSBP to publish a policy to guide the implementation of a unified management structure. Developing such policy would help ensure that a unified management structure is in place to improve communication and coordination of small business efforts and staff across the department—one of the goals of its Small Business Strategy.

DOD Does Not Have a Process to Monitor and Report on the Implementation of the Small Business Strategy

DOD has not established a formal process for monitoring and reporting on progress in implementing its Small Business Strategy across the department.

DOD does track some broad metrics that provide a department-wide view of small business contracting efforts. In particular, DOD OSBP tracks progress on SBA small business prime contracting and subcontracting goals. SBA reports DOD’s and other federal agencies’ progress in meeting small business contracting goals on its Small Business Procurement Scorecard. From fiscal years 2015 through 2020, DOD exceeded its small business prime contracting goals each year and awarded over \$397 billion in prime contracts to small businesses (see table 2).

Table 2: Department of Defense Small Business Prime Contracting Goals, Fiscal Years 2015–2020

Fiscal year	Small business prime contracting goal (percentage of total prime contracting awards)	Total awards (billions)	Small business awards (billions)	Small business percentage of total
2015	21.60	\$212.5	\$52.4	24.64
2016	21.26	\$252.0	\$57.8	22.94
2017	22.00	\$264.1	\$60.7	22.99
2018	22.00	\$298.4	\$71.2	23.85
2019	21.80	\$312.2	\$75.4	24.16
2020	22.05	\$328.2	\$80.4	24.50

Source: Department of Defense and Small Business Administration. | GAO-22-104621

The service branches and DLA track their own small business contracting goals, which are established by DOD OSBP. DOD OSBP consolidates these data and tracks small business contracting by DOD service branch and agency, which allows DOD to view how the various offices are performing against their small business contracting goals. DOD OSBP

also tracks data on small business contracting by industry sector—including professional services, weapons/ammunition, and transportation and logistical services—and by state.

The service branches and agencies maintain and track other types of data as well. For example, DLA tracks the number of small businesses in its industrial base supply chain, while the Army OSBP tracks the number of its small business outreach engagements on a monthly basis. In addition, Army Futures Command's OSBP tracks the year-to-year increase in the number of technologies from small businesses that advance to the stage in the contracting process where the technology is developed into an initial product.⁴¹

DOD officials described efforts to leverage metrics in their respective offices, but some noted that improved data sharing is needed. One DOD official told us that different organizations do not necessarily have visibility into each other's data and that better information sharing could give DOD a better view of the effectiveness of the department's small business efforts. DOD has reported that the strategy presents an opportunity to share information with internal stakeholders across the department's components and agencies.

Congress has shown ongoing interest in and mandated updates to both the Small Business Strategy and its implementation plan on a biennial basis.⁴² Additionally, in the 2019 Small Business Strategy, the Secretary of Defense stated that he hoped to build a more visible structure to better support the relationship between DOD and small businesses. A process for monitoring and reporting on DOD-wide progress in implementing the Small Business Strategy could help provide additional visibility into DOD's

⁴¹In a 2019 report, GAO made three recommendations to Army Futures Command, including that the command systematically track its small business engagement and develop command-wide performance measures to assess the effectiveness of its small business engagement. Army Futures Command subsequently took actions to implement these recommendations by establishing a process to systematically track its small business engagement through a monthly data call to all command elements that engage with small businesses, and by establishing short-term and long-term performance measures to capture and monitor information on small business engagements across the command and creating a database to track the progress of engagements and outcomes with small businesses. GAO, *Army Futures Command Should Take Steps to Improve Small Business Engagement for Research and Development*, [GAO-19-511](#) (Washington, D.C.: July 17, 2019).

⁴²See William M. (Mac) Thornberry National Defense Authorization Acts for Fiscal Year 2021 § 861.

small business efforts. Further, we have previously found that reporting on progress helps hold agencies accountable for achieving results.⁴³

While DOD does report some data related to meeting small business contracting goals, it does not have a formal process by which it could monitor and report on its progress in implementing its Small Business Strategy. Establishing such a process would help DOD assess and communicate progress in achieving its strategic objectives in its Small Business Strategy and inform the development of the strategy's biennial updates.

Conclusions

Small businesses provide critical goods, services, and technologies to DOD and contribute to the defense industrial base. DOD engages in several efforts across the department to engage small businesses to meet its acquisition needs and leverage innovation. While the Small Business Strategy describes many initiatives to improve the effectiveness of DOD's small business programs, opportunities exist for DOD to better monitor and coordinate its small business contracting efforts to implement its Strategy:

- By developing an implementation plan for its Small Business Strategy, DOD would have a clear process to ensure the initiatives described in the strategy are carried out across DOD.
- By developing a policy to guide the implementation of its unified management structure, DOD could improve communication and coordination of small business efforts across the agency—one of its Small Business Strategy goals.
- By establishing a formal monitoring and reporting process, DOD would be better positioned to assess and communicate progress on department-wide efforts to implement its Small Business Strategy.

Recommendations for Executive Action

We are making the following three recommendations to DOD:

⁴³GAO, *Managing for Results: Enhancing Agency Use of Performance Information for Management Decision Making*, [GAO-05-927](#) (Washington, D.C.: Sept. 9, 2005).

- The Director of DOD's Office of Small Business Programs should develop and submit an implementation plan for DOD's Small Business Strategy, as required by Section 861 of the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021. (Recommendation 1)
- The Director of DOD's Office of Small Business Programs should develop a policy to guide the implementation of a unified management structure as part of the Small Business Strategy. (Recommendation 2)
- The Director of DOD's Office of Small Business Programs should establish a formal process for monitoring and reporting on DOD's progress in implementing its Small Business Strategy. (Recommendation 3)

Agency Comments

We provided a draft of this report to DOD. We received written comments from DOD that are reprinted in appendix I. In its written comments, DOD stated that it agreed with our three recommendations.

We are sending copies of this report to the appropriate congressional committees, the Secretary of Defense and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix II.



William B. Shear
Director, Financial Markets and Community Investment

List of Committees

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The Honorable James M. Inhofe
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United States Senate

The Honorable Benjamin Cardin
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The Honorable Blaine Luetkemeyer
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Committee on Small Business
House of Representatives

Letter

The Honorable Betty McCollum
Chair
The Honorable Ken Calvert
Ranking Member
Subcommittee on Defense
Committee on Appropriations
House of Representatives

Appendix I: Comments from the Department of Defense

Mr. William Shear
Director, Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington DC 20548

Dear Mr. Shear,

This is the Department of Defense (DoD) response to the GAO Draft Report GAO-21-104621, "SMALL BUSINESS CONTRACTING: Actions Needed to Implement and Monitor DOD's Small Business Strategy," dated October 1, 2021 (GAO Code 104621).

Attached is DoD's response to the subject report. My point of contact is Khalil R. Mack who can be reached at Khalil.r.mack.civ@mail.mil and phone (571) 329-5704.

Sincerely,

MITHA.FAROQ Digitally signed by
MITHA.FAROQ,AMIN.
OO.AMIN.140 1403101385
3101385 Date: 2021.10.01
14:21:39 -0400
Farooq Mitha
Director, DoD OSBP

**GAO DRAFT REPORT DATED AUGUST 31, 2021
GAO-22-104621 (GAO CODE 104621)**

**“SMALL BUSINESS CONTRACTING: ACTIONS NEEDED TO IMPLEMENT AND
MONITOR DOD’S SMALL BUSINESS STRATEGY”**

**DEPARTMENT OF DEFENSE COMMENTS
TO THE GAO RECOMMENDATION**

GAO RECOMMENDATION 1: The Director of DOD’s Office of Small Business Programs should develop and submit an implementation plan for DOD’s Small Business Strategy, as required by Section 861 of the William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021

DoD RESPONSE: Concur.

GAO RECOMMENDATION 2: The Director of DOD’s Office of Small Business Programs should develop a policy to guide the implementation of a unified management structure as part of the Small Business Strategy.

DoD RESPONSE: Concur.

GAO RECOMMENDATION 3: The Director of DOD’s Office of Small Business Programs should establish a formal process for monitoring and reporting on DOD’s progress in implementing its Small Business Strategy.

DoD RESPONSE: Concur.

Text of Appendix I: Comments from the Department of Defense

Mr. William Shear

Director, Financial Markets and Community Investment

U.S. Government Accountability Office 441 G Street, NW

Washington DC 20548

Dear Mr. Shear,

This is the Department of Defense (DoD) response to the GAO Draft Report GAO-21-104621, "SMALL BUSINESS CONTRACTING: Actions Needed to

Implement and Monitor DOD's Small Business Strategy," dated October 1, 2021 (GAO Code 104621).

Attached is DoD's response to the subject report. My point of contact is Khalil R. Mack who can be reached at Khalil.r.mack.civ@mail.mil and phone (571) 329-5704.

Sincerely,

MITHA.FARO

Farooq Mitha Director, DoD OSBP

GAO DRAFT REPORT DATED AUGUST 31, 2021, GAO-22-104621 (GAO CODE 104621). "SMALL BUSINESS CONTRACTING: ACTIONS NEEDED TO IMPLEMENT AND MONITOR DOD'S SMALL BUSINESS STRATEGY"

DEPARTMENT OF DEFENSE COMMENTS

TO THE GAO RECOMMENDATION

GAO RECOMMENDATION 1: The Director of DOD's Office of Small Business Programs should develop and submit an implementation plan for DOD's Small

**Business Strategy, as required by Section 861 of the William M. (Mac)
Thornberry National Defense Authorization Act for Fiscal Year 2021**

DoD RESPONSE: Concur.

**GAO RECOMMENDATION 2: The Director of DOD's Office of Small Business
Programs should develop a policy to guide the implementation of a unified
management structure as part of the Small Business Strategy.**

DoD RESPONSE: Concur.

**GAO RECOMMENDATION 3: The Director of DOD's Office of Small Business
Programs should establish a formal process for monitoring and reporting on
DOD's progress in implementing its Small Business Strategy.**

DoD RESPONSE: Concur.

Appendix II: GAO Contact and Staff Acknowledgments

GAO Contact

William B. Shear, shearw@gao.gov, 202-512-8678

Staff Acknowledgements

In addition to the contact named above, Kay Kuhlman (Assistant Director), Jason Wildhagen (Analyst in Charge), Cheryl Andrew, Chelsea Carter, Julia Kennon, Jill Lacey, Loren Lipsey, Dan Luo, Sean Merrill, Marc Molino, Kirsten Noethen, Colson Palage, Shenandoah Sowash, and Tatiana Winger made key contributions to this report.

Related GAO Products

Procurement Technical Assistance Program: Opportunities Exist for DOD to Enhance Training and Collaboration. [GAO-21-287](#). Washington, D.C.: March 31, 2021.

Weapon Systems Cybersecurity: Guidance Would Help DOD Programs Better Communicate Requirements to Contractors. [GAO-21-179](#). Washington, D.C.: March 4, 2021.

Federal Buying Power: OMB Can Further Advance Category Management Initiative by Focusing on Requirements, Data, and Training. [GAO-21-40](#). Washington, D.C.: November 30, 2020.

Army Modernization: Army Should Improve Use of Alternative Agreements and Approaches by Enhancing Oversight and Communication of Lessons Learned. [GAO-21-8](#). Washington, D.C.: October 1, 2020.

Small Business Subcontracting: Oversight of Contractor Compliance with Subcontracting Plans Needs Improvement. [GAO-20-464](#). Washington, D.C.: May 28, 2020.

Defense Acquisitions: DOD's Use of Other Transactions for Prototype Projects Has Increased. [GAO-20-84](#). Washington, D.C.: November 22, 2019.

Army Modernization: Army Futures Command Should Take Steps to Improve Small Business Engagement for Research and Development. [GAO-19-511](#). Washington, D.C.: July 17, 2019.

Weapon Systems Annual Assessment: Limited Use of Knowledge-Based Practices Continues to Undercut DOD's Investments. [GAO-19-336SP](#). Washington, D.C.: May 7, 2019.

Small Business Administration: Actions Needed to Improve Confidence in Small Business Procurement Scorecard. [GAO-18-672](#). Washington, D.C.: September 27, 2018.

Related GAO Products

Small Business Contracting: DOD Should Take Actions to Ensure that Its Pilot Mentor-Protégé Program Enhances the Capabilities of Protégé Firms. [GAO-17-172](#). Washington, D.C.: April 11, 2017.

Defense Contracting: DOD's Use of Competitive Procedures. [GAO-15-484R](#). Washington, D.C.: May 1, 2015.

Small Business Innovation Research: DOD's Program Has Developed Some Technologies that Support Military Users, but Lacks Comprehensive Data on Transition Outcomes. [GAO-14-748T](#). Washington, D.C.: July 23, 2014.

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