HEARING ON CHALLENGES THAT SMALL BUSINESSES FACE ACCESSING HOMELAND SECURITY CONTRACTS

HEARING

BEFORE THE

SUBCOMMITTEE ON RURAL ENTERPRISE, AGRICULTURE & TECHNOLOGY

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

WASHINGTON, DC, OCTOBER 21, 2003

Serial No. 108–43

Printed for the use of the Committee on Small Business

Available via the World Wide Web: http://www.access.gpo.gov/congress/house

U.S. GOVERNMENT PRINTING OFFICE

93–005 PDF WASHINGTON : 2003

For sale by the Superintendent of Documents, U.S. Government Printing Office
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TUESDAY, OCTOBER 21, 2003

HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON RURAL ENTERPRISE, AGRICULTURE AND TECHNOLOGY
COMMITTEE ON SMALL BUSINESS
Washington, D.C.

The Subcommittee met, pursuant to call, at 10:05 a.m. in Room 2360, Rayburn House Office Building, Hon. Sam Graves [chairman of the Subcommittee] presiding.

Chairman GRAVES. Good morning, everybody, and welcome to the Small Business Subcommittee hearing, the Small Business Subcommittee on Agriculture, Technology and Rural Enterprise.

Today we are going to be looking at the challenges that small businesses face when it comes to accessing contracts with the Department of Homeland Security. I will go ahead and give my opening statement and then open it up to Mr. Ballance, and then we will open it up to other Members.

The federal government is one of the largest markets for U.S. business. Annually, the federal government spends approximately $200 billion on goods and services purchased from the private sector. The Department of Defense alone is the largest federal marketplace for business, accounting for over $120 billion in prime contract awards, more than 60 percent of all federal procurement dollars.

Congress set statutory goals for all agencies that 23 percent of all prime contracts should be given to small businesses. However, the benchmark is not always met. The Department of Defense has not succeeded in meeting this goal for the past two years, but it is not alone. Overall, the federal government has not met its small business prime contracting goal for several years.

On January 24, 2003, Congress created the Department of Homeland Security and brought 22 separate agencies under one roof to account for the safety and security of the United States. It is certainly a daunting task in the wake of September 11, and in order to ensure that the new department could function Congress allowed the Department to bypass the procurement regulations that other agencies have to adhere to.

Historically, small businesses have faced many barriers accessing the federal procurement marketplace. Contract bundling has been the most prevalent issue that small businesses face, bundled con-

tracts or combined contracts too large or too complex for small businesses to handle. Additionally, small businesses frequently face the difficulty of traversing the maze of agencies or finding the procurement officer that handles the applicable technology or specific contract.

Also, small business has been more productive and technologically innovative than their larger business counterparts. Additionally, small business has frequently been able to provide better goods and services at lower prices than the larger competitors. We have to find a way to ensure that small businesses receive its share of federal procurement opportunities.

This is not intended, and I just want to point that out. This is not intended to be a witch hunt or anything like that. We are just simply trying to explore this issue, trying to explore the problems and see what solutions we can find and move forward in that direction.

[Mr. Graves' statement may be found in the appendix.]

Chairman GRAVES. Right now I would like to recognize Mr. Ballance, the Ranking Member, for his opening statement.

Mr. BALLANCE. Thank you, Mr. Chairman. After listening to your opening statement, I could almost waive mine, but I will go ahead and give it.

The tragedy of 9–11 served as a wake up call for this nation. With the reality of this attack on our soil, we realized that reforms were needed. Last year, we responded by creating the Department of Homeland Security, DHS, and this was the largest reorganization of the federal government since 1947.

Congress understood that creating a new agency would not be an easy process, but felt that it was a necessary one. This process of creating this new department provided the opportunity to correct inherent problems. While the primary objective was to create a safer, more secure domestic front, it also offered a chance to review federal contracting practices.

The procurement reforms of the 1990s have been a disappointment as the government has not saved money, and small businesses have seen their share of procurement dollars decline. The federal government has increasingly failed to provide our nation's small businesses with the opportunities to succeed within the $235 billion federal procurement system. For small businesses, accessing the federal marketplace can mean increased productivity ensuring economic viability.

In an effort to ensure small businesses could fully participate in this new agency, the House last year adopted and passed certain changes. However, all of them did not make their way into the final legislation and conference. Most importantly, the legislation would have made this new department subject to the Small Business Act, which means the agency would be required to establish goals for doing business with small firms. Unfortunately, the final legislation did not include that and others.

The result leaves a great deal of uncertainty as to whether small businesses will thrive or even have a chance to do business with the Department. It is unfortunate that legislation creating DHS did not provide for small businesses to be fully integrated into the De-

partment. I am hopeful that Secretary Ridge shows a bold vision that fully incorporates entrepreneurs into DHS contracting.

Sadly, what we have heard is the opposite. Secretary Ridge said that the agencies contracting would not focus on small businesses, but rather on economies of scale. This is somewhat concerning to us because it, in my opinion, refers to contract bundling. This practice robs small businesses of millions of dollars in contracting opportunities.

Today we will look at what steps can be undertaken to direct the Department to work with small businesses. While the Department is telling small companies that they are important, they are not rewarding their innovation with action. The mixed message being sent is unfair to small businesses.

It is important to understand that creating a new department will not happen overnight. It is going to take time to effectively combine 22 separate entities with different regulations, et cetera. As this agency evolves, an important role for our Committee must be to ensure that in combining all of these different entities into one unit, small businesses are not squeezed out of the process.

I want to thank the witnesses for taking the time to attend today and look forward to hearing your insight.

Chairman GRAVES. Mr. Shuster?

Mr. SHUSTER. Thank you. I first want to take this opportunity to welcome our witnesses. I appreciate you being here and look forward to your testimony.

I would like to begin by thanking Chairman Graves for holding this important hearing. Having been a small business owner myself, this is an issue that is very important to me. We have all heard the statistics of the critical role small business plays in our economy. Small businesses account for 99 percent of our nation's employers and are responsible for creating thousands of new jobs across this country each year. In my home state of Pennsylvania, more than 97 percent of the state's employers are small business. These businesses are also responsible for over half of the state's employment.

Despite the incredible success of small businesses and the instrumental role they play in our economy, we find that too often these same businesses face many hurdles while attempting to do business with the federal government. Traveling throughout my district, I routinely have heard from many small business owners that say it is quite difficult to do business with the federal government. The process is complex, and often these firms do not have the start up resources or manpower to bring their innovations to the government.

The federal government is the largest buyer of goods and services, as we have heard here this morning, yet gaining access to this market is very challenging for small businesses. Contracting with the government is often thought to be an insider's game that favors larger firms.

Two of the biggest complaints that I have heard from small businesses in Pennsylvania are that it can be quite difficult to gain access to the individuals who make the decisions on awarding contracts and that paperwork can also be overwhelming. It impedes businesses with minimum manpower.

Additionally, many constituents have told me that if they were successful in winning a government contract, there can often be a significant lag time between when the work is completed and when they are paid. This can create a major drain on a business with limited resources and funds.

This is not to say that there are not success stories when it comes to small businesses winning government contracts. I saw in Mr. Barrera's testimony that 2002 awards to small businesses for federal government agencies increased by $3.6 billion to reach a level of $53.6 billion. This is good news and a step in the right direction. We must now focus upon building on that success and increasing opportunity for our nation's small businesses.

With the creation of the Department of Homeland Security in January, we are presented with a unique opportunity to once again evaluate how successful the government is to reaching out to our small businesses. It is often our nation's small businesses that formulate new and innovative technologies, and we must ensure that these businesses have the opportunity to market these new technologies to the Department of Homeland Security and that if awarded they are paid timely and in an efficient manner. This will not only help small business success, but additionally will create jobs at home and enhance our national security.

Mr. Chairman, thank you again for holding this hearing, and I look forward to the witnesses' testimony.

Chairman GRAVES. Thanks, Mr. Shuster.

[Mr. Shuster's statement may be found in the appendix.]

Chairman GRAVES. Dr. Christensen?

Ms. CHRISTENSEN. Thank you. Thank you, Chairman Graves and Ranking Member Ballance, also for holding this hearing to discuss the Department of Homeland Security's federal contracting opportunities for small business.

I want to take this opportunity to welcome Mr. Kevin Boshears, the director of the OSDBU Office, on his first appearance before this Subcommittee, and Mr. Michael Barrera from SBA in his new capacity, as well as the small businesses who are taking the time from their schedules to be here to offer us their insight into this matter.

Both Homeland Security and small business are two issues that are of particular importance to me. At the beginning of this year, I was given the distinct honor and opportunity to be named to the House Select Committee on Homeland Security, and I sit on the Subcommittees on Emergency Preparedness and Response, and Cyber Security Science, and Research and Development.

Having made a special request to remain on this Committee as well, the Small Business Committee, and I thank the chair and Ranking Member of the Committee for allowing me to do so, I have a unique opportunity I think to ensure that the needs of both are addressed.

Along with my colleagues who also are on both Committees, I want to assure you that we have made the small business contracting goal of the overall agency and their several sections a standard question when assistant secretaries and directors appear before the Committee.

While I will soon leave here to go to a Homeland Security hearing on first responder funding, I wanted to take this opportunity to assure you that you also have voices there and to let you know that along with Mr. Ballance and Mr. Graves you can call on us to let us know of your concerns and provide us with some guidance on how we can better accommodate the goals that are the subject of today's hearing.

As has been said, bringing this new Department on board with its 22 other agencies or parts of agencies and 170,000 employees has not been an easy process. While it is a challenge which I hope we on the Homeland Security Committee are meeting, it is also an opportunity, as has been said, to show the older, more entrenched agencies how to do certain things right and how to do them better.

I think it is very clear that small business contracting has to be one of those things that we can teach at Homeland Security. We can teach the Department of Defense and some of those other agencies that got Ds and Fs in our report how to do this better.

I want to thank again the Chair and Ranking Member for the opportunity to give this brief statement and for holding the hearing this morning.

Chairman GRAVES. Thank you very much.

All statements by Members and witnesses will be placed in the record in their entirety, and I would now like to welcome our first panel, Kevin Boshears and Michael Barrera, for being here today.

Mr. Barrera is the Acting Deputy Administrator for Small Business Contracting with the Small Business Administration. Mr. Barrera, I appreciate you for being here, and thank you for coming to Kansas City to our Small Business Expo too. I appreciate that very much. I turn the floor over to you.

STATEMENT OF MICHAEL BARRERA, ASSOCIATE DEPUTY ADMINISTRATOR, GOVERNMENT CONTRACTING AND BUSINESS DEVELOPMENT, U.S. SMALL BUSINESS ADMINISTRATION

Mr. BARRERA. Thank you. Good morning, Chairman Graves, Ranking Member Ballance, Congressman Shuster and Congresswoman Christensen, and distinguished Members of the Subcommittee.

Consistent with President George W. Bush's commitment to small business, the U.S. Small Business Administration is committed to maximizing opportunities for all of the nation's small businesses and the millions of people they employ. I am pleased to submit my written testimony for the record.

Small businesses help drive this economy and are the sources of innovative ideas and solutions in support of the mission and needs of federal agencies and prime contractors. The SBA programs and initiatives are designed to provide an environment where small businesses can be competitive in federal procurement.

When the President announced the establishment of the Department of Homeland Security in early 2003, Administrator Barreto sent a letter to Secretary Ridge congratulating him and offering to work with him to ensure maximum small business participation in procurements that support his mission.

We believe that leadership and accountability by the senior management at the agencies make all the difference for our nation's

small businesses. Reinforcing these principles, SBA has also met with the senior officials at Homeland Security to obtain their commitment to the small business programs and to achieve the government-wide small business procurement goals.

In June, we assigned a procurement center representative, PCR, to work with Mr. Kevin Boshears, Director, Office of Small and Disadvantaged Business Utilization, to review procurement opportunities and establish traditional small business prime and subcontracting goals for fiscal year 2004 and fiscal year 2005.

S.B.A. is pleased with the Department's commitment to achieve the statutory goals. The Department proposed an aggressive small business subcontracting goal of 40 percent, which includes a five percent subcontracting goal for women and SDBs and three percent for service disabled veterans and HUBZone firms.

S.B.A. continues to use the best practices of the marketplace to improve and modernize our programs so that an environment can be created for small businesses to succeed, create jobs and support economic growth. In fiscal year 2003, we implemented the following key initiatives to increase prime and subcontracting results:

The National Business Matchmaking Program. SBA held five nationwide business matchmaking sessions to introduce small business owners to potential buyers like federal agencies, corporations and state and local agencies. Over 7,500 one-on-one appointments were held between small businesses and these potential customers.

A key objective was to increase women-owned business participation at these sessions. At the Orlando and Chicago sessions, we achieved 36 percent and 37 percent women-owned business participation levels respectively.

These business matchmaking sessions facilitate small business access to future procurement opportunities, and we are also exploring ways to track and measure results. For information on future matchmaking sessions, small businesses can go to www.businessmatchmaking.com.

Contract Bundling. In October 2002, the President announced a nine point strategy that agencies must follow to avoid unnecessary contract bundling and mitigate the effects of justified contract bundling on small businesses. When agencies bundle contracts, small businesses often cannot compete, given the size and multiple contract requirements.

In January 2003, proposed changes to SBA's regulations and the Federal Acquisition Regulation were published to require, among other things, that agencies conduct bundling reviews of requirements for multiple award contracts and orders against those contracts, strengthen their compliance with subcontracting plans and improve oversight of their small business programs.

Simplification of the 8(a) Program Processes. SBA is committed to implementing an Internet based application for the 8(a) and small disadvantaged business certification. This automation will reduce the paperwork burden consistent with the Small Business Paperwork Relief Act and allow small disadvantaged businesses to obtain their certification much faster. This saves small businesses time and money.

Size Standard Simplification. We are developing a new approach to simplify and reduce the number of size standards by proposing

employee based standards. This will streamline existing processes and procedures and make them easier to use. We are developing the proposed rule.

Procurement Training Academy. At the 50th Anniversary National Conference and Exposition in September, SBA released a new CD–ROM based Procurement Academy to provide distance training to 7(j) eligible firms. This Training Academy can also be accessed at www.sba.gov/gcbd and click on the Procurement Academy.

When fully implemented, these initiatives will help to create an environment where small businesses will have better access to federal procurement opportunities.

This concludes my testimony, and I will be glad to respond to any questions the Subcommittee may have.

Chairman GRAVES. Thank you, Mr. Barrera.

[Mr. Barrera's statement may be found in the appendix.]

Chairman GRAVES. Kevin Boshears is with the Department of Homeland Security and Director of Small and Underutilized Businesses.

Mr. BOSHEARS. Disadvantaged Business Utilization.

Chairman GRAVES. I appreciate you being here very much and look forward to your testimony.

STATEMENT OF KEVIN BOSHEARS, DIRECTOR, OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION, U.S. DEPARTMENT OF HOMELAND SECURITY

Mr. BOSHEARS. Thank you. Good morning Chairman Graves, Congressman Ballance and distinguished Members of the Subcommittee. I am pleased to appear before you today to discuss the Department of Homeland Security's, DHS', small business procurement program.

I was designated the Director of the DHS Office of Small and Disadvantaged Business Utilization, OSDBU Office, in May 2003 in accordance with the Small Business Act. I am a career public servant, having previously served as the OSDBU Director for the Treasury Department and as a contracting officer for the Justice Department.

The role of the OSDBU is to assist, counsel and advise small businesses of all types on procedures for contracting with DHS. Additionally, the OSDBU works closely with each DHS organizational element to implement the Department's small business procurement assistance program.

I have had numerous discussions with Mr. Greg Rothwell, the DHS Chief Procurement Officer, and I have been impressed by his strong support for the DHS small business procurement program. He considers a strong small business program to be a significant part of building a world class acquisition program.

At DHS, our plan is to make the small business program part of our budget and acquisition planning by using small business considerations to further our mission and develop a climate of small business opportunity.

Since my arrival at DHS, we have undertaken numerous organizational projects to assist small businesses in overcoming the challenges involved and accessing contracts in the newly formed De-

partment. Due to the reorganization of some agencies that transferred into DHS, we first had to designate a small business specialist in each DHS organizational element.

S.B.A. asked us to establish several non-traditional goals for the remainder of fiscal year 2003. These goals, and our results, are included in my written statement.

Since providing information and guidance is a cornerstone of our work, we have also been actively participating in a wide variety of educational events and seminars for small business owners. In conjunction with the Department of the Treasury, we conducted vendor outreach sessions to give small business owners the opportunity to meet one-on-one with DHS small business specialists and program managers.

One of our major accomplishments was publishing, in hard copy and posting on the DHS Web site shortly after October 1, a fiscal year 2004 forecast of contract opportunities to assist Small Business's plan for upcoming contract opportunities.

For us to have a baseline since of how successful small businesses are with obtaining DHS contracts, we started compiling data last week for the March 1, 2003, through June 30, 2003, timeframe. This represents the starting date that the 22 agencies were transferred from their former organizations to form DHS and the third quarter of fiscal year 2003.

While this four months' worth of data provides only a brief snapshot and still requires final validation from the Federal Procurement Data Center, the overall numbers appear to be promising. Establishing this baseline set of statistics for the fiscal year 2003 DHS transition period will help strengthen the DHS small business program.

As we begin the first fiscal year as a department, we plan to continue an aggressive outreach program. Local vendor outreach sessions are already scheduled for the remainder of the fiscal year, and we will be participating in the OSDBU Interagency Directors Council Annual Procurement Fair in April. We will also be teaming up with SBA for the National Matchmaking Tour around the country.

We continue to receive numerous invitations to speak and participate in small business development seminars. Just in the next week, my staff will be speaking at two large scale seminars in San Diego and Chicago and at a local town hall meeting. We will continue to work with SBA to finalize our small business prime and subcontracting goals for fiscal year 2004.

Our forecast of contract opportunities will be updated as new information becomes available, and we plan to publish a subcontracting opportunities directory, along with a working tour establishment of a mentor protege program.

In conclusion, DHS will strive to meet or exceed our small business goals by making small business participation part of the DHS culture in support of our national mission. I would be happy to respond to any questions you might have.

Chairman GRAVES. Thanks, Mr. Boshears.

[Mr. Boshears' statement may be found in the appendix.]

Chairman GRAVES. We will now open it up for questions for our first panel.

I would just like to know, at least right now, as far as the Department of Homeland Security goes, and I understand the gravity of your mission and everything, but what do you see as the most or the toughest thing or the biggest hurdle that small business faces trying to get contracts with Homeland Security?

Mr. BOSHEARS. In speaking with small businesses regarding contracts with DHS and also in my previous work in this field, the number one hurdle that most small businesses face is access to the high quality information they need in order to participate in the program.

For example, sometimes a small business has an interest in the federal marketplace because they think they might have a good or a service that might be of interest to the federal government or DHS, but sometimes they do not quite know where to start so what we have found is that if we provide high quality, meaningful information, and what I mean by that is personal points of contact for my office, small business points of contact throughout the Department, a forecast of contract opportunities which gives a listing of individual upcoming projects with a point of contact for more information.

Combine that with information on how the federal procurement system works, and this begins to open the doors to access to the Department. We have found that once equipped with the right information, small businesses at that point tend to take over and lead the charge and pursue through a marketing effort those opportunities in which they have an interest.

Chairman GRAVES. I know you have not been up and running very long, but how close do you think you are getting right now to meeting the 23 percent at least? Of course, you do not have to adhere to that at this point, but as a benchmark if nothing else. How close would you say you are getting?

Mr. BOSHEARS. Well, we have collected some data representing the month of March and the third quarter of fiscal year 2003, which would be April, May and June, a four month snapshot. As of today, we would be slightly exceeding the overall small business goal of 23 percent.

Chairman GRAVES. Really? That is real good news.

Mr. Ballance?

Mr. BALLANCE. Thank you very much. Do you have, that is DHS, goals, first of all, for prime contracting and then for small disadvantaged businesses and then for the 8(a) program? Do you have these goals? If so, what are they?

Mr. BOSHEARS. When we first met with SBA in late May in fiscal year 2003, we did not establish numerical goals for the balance of 2003, but for fiscal years 2004 and 2005, in compliance with SBA's instructions, we proposed our goals to SBA.

Now, it is my understanding that they have not quite been finalized by SBA for the entire federal government, but I would be glad to share with you what we proposed to SBA.

Mr. BALLANCE. Yes. I would like to hear that.

Mr. BOSHEARS. Yes, sir. There are——.

Mr. BALLANCE. If you would, when you say your proposal to SBA, can you not establish your own goals?

Mr. BOSHEARS. Well, yes, sir. The way that that process works is that SBA, and I will defer to Mr. Barrera if we have additional information needed, is that SBA is in charge of establishing the goals for the entire federal government.

They start with a base of what statutory goals are, and then they work with each agency individually, and in effect we have a discussion to help establish goals for each department. We do establish our goals, but we work in concert with SBA to establish agreement on those goals.

Mr. BALLANCE. Let me just ask Mr. Barrera. What is your position in terms of goals for DHS?

Mr. BARRERA. I think the way we are going to work that, first of all, I want to say that I have been with the Department for two weeks, and I am learning about all the goaling that is going on, but I think where we are working with DHS is the federal goals are 23 percent, at least getting to that.

We were very impressed with DHS and the way they are being aggressive in their subcontracting goals, which is also very, very important to small businesses. Forty percent for subcontracting, and they are also committing to the five percent for small disadvantaged business, which is part of 8(a), which 8(a) is part of the 3 percent for HUBZones, 5 percent for women and 3 percent for veterans also.

We are working with them. Our staff is working with them on that. When he says that we are working with them on the goals, you are right. They established their individual goals. I think what we look at is to make sure that the individual goals at least meet the government wide goals and what they have. From what I understand, some agencies may want to have lower goals, and we want to make sure that the agencies are meeting aggressive goals for small businesses.

Mr. BALLANCE. I do not want to beat this horse too much, Mr. Boshears, but it is interesting what is being said. What I want to know is will there be a time when small businesses around the country and those of us who are here can hear from you definitively what these goals are?

Mr. BOSHEARS. Yes, sir.

Mr. BALLANCE. And do you have any idea when that might be?

Mr. BOSHEARS. Yes, sir. I understand late October.

Mr. BALLANCE. All right.

Mr. BOSHEARS. Congressman Ballance, I can also share with you, if you would like it in list form, what we proposed.

Mr. BALLANCE. Yes, I would like to have that.

Mr. BOSHEARS. We established prime contracting goals and subcontracting goals. Small business prime overall, 23 percent; small disadvantaged business prime, including 8(a), five percent; women-owned small business, five percent; HUBZone small business, three percent; service disabled veteran owned small business, three percent.

Changing gears to subcontracting, small business overall subcontracting, 40 percent; small disadvantaged business, five percent; women-owned small business, five percent; HUBZone small business subcontracting, three percent; and service disabled veteran owned, three percent.

Mr. BALLANCE. Thank you. Let me move to another area before my time runs out.

What do you think the Secretary meant, and I know you cannot read his mind, but by taking advantage of economies of scale? What does this mean to you?

Mr. BOSHEARS. When the Secretary addressed economies of scale, I took it to mean that part of an effort to look at strategic sourcing around the various parts of the Department.

For example, if you look across the board at all of the 22 agencies that came together with us, we might have contracts previously done separately for a number of those agencies. One idea on strategic sourcing is to see if there are any economies of scale, particularly in the area of products.

Now, what is important about that effort is that as part of our look at strategic sourcing to see if economies of scale can be identified, I serve as a member of the strategic sourcing group so that we can be on the lookout and have a discussion about any proposed contract bundling. That is the area of concern to small businesses.

Most small businesses that I have spoken to, and I have spoken to many, many now over my years of service, seem to understand the concept of strategic sourcing from the point of view of a taxpayer, and that is the way they have explained it to me, but in terms of our efforts where federal agencies can bundle contracts, this is the area where we have to keep a watchful eye on.

We believe, sir, that economies of scale do not necessarily exclude small businesses, nor should we not include small business participation as part of that in every decision.

Mr. BALLANCE. My time is up. Thank you very much.

Mr. BOSHEARS. Sir.

Chairman GRAVES. Mr. Shuster?

Mr. SHUSTER. Thank you, Mr. Chairman.

As I mentioned in my opening statement, I have talked to a number of small businesses that their concern and a big problem for them is that the government is slow paying.

I wondered what steps you are taking not only at Homeland Security, but maybe the other agencies across the government, if you can speak to that, Mr. Barrera, where you are trying to avoid or alleviate this problem.

As I said, a small business is working on a tight budget. If they are not getting paid for 120 days, it really is a tremendous strain on the business. Either one or both of you can——.

Mr. BARRERA. I will start. Actually, before coming over as the head of the government contracting I was national ombudsman. Many comments that we heard from small business was the problem they had with getting paid on a timely basis from the federal agencies.

What we have done is actually a lot of it is going to be working with the actual agencies and finding the right contact within the agencies that we can get to them and say this is not getting paid. We have to work on this.

We had a great example with the Department of Homeland Security. We had a business that when the agencies came together and formed Homeland Security we had a business contact us. They were a billing company. They were owed several hundred thousand

dollars, and it fell through the cracks when we came over to Homeland Security. They contacted our agency. We got a hold of Kevin's office very quickly, and this was resolved within a couple of days.

A lot of it is that we need to find out here from the companies when that is happening and then contact the SBA or Homeland Security directly, and we will go directly to them to let them know that this needs to be paid.

Mr. SHUSTER. Is there a standard policy on how many days? When they bid the contract and are awarded it, in the contract, in all contracts, is it stating you will be paid within 60 days or 30 days upon completion of the service or the product delivery?

Mr. BARRERA. I cannot speak for every agency. I know every agency probably has their own policy, and it probably depends on the particular contract, so I would let Kevin answer that as far as what Homeland Security's policy is on that.

Mr. BOSHEARS. We have been using the standard Federal Acquisition Regulation procedures for payment. The most common clause they use is nicknamed——.

Mr. SHUSTER. What is that?

Mr. BOSHEARS. It is nicknamed Net 30, the nickname of the clause.

I might share one other thing about payment that is very important to us as well as small business advocates. One special thing that has happened in the government, and it is an ongoing effort, but firms that do business with the federal government now sign up electronically for payment.

It is called CCR, the central contract registration database. It contains payment information, in addition to other information, where firms can be paid electronically so that their invoice payments are sent directly to their bank account. That has helped small businesses a lot in terms of getting paid.

Mr. SHUSTER. Are there any incentives in the contract for the government to pay? I know in business many times if you do business with somebody if you pay in 15 days they will give you an extra two percent discount, 30 days you pay the bill, that type of thing.

Mr. BOSHEARS. Yes. That is available to the federal government. Now, just from being an old contracting officer, that is typically done when we procure supplies or products.

Mr. SHUSTER. The second question I have on timelines. We had a business in my district that was dealing with DOD. Of course, we started the war with Afghanistan. The war on terrorism was going on, so I understand that some of those contracts were pushed aside and pushed back, but in this particular contract it was over a year before they awarded it, and it was dealing with supplying the military with sweatshirts. It was not a complicated piece of equipment.

It just seemed to me as I talked to the Department of Defense a number of times they kept telling me next month, next month. In the procurement process or when letting bids out there, is there a timeline on that bid that says this is the product we are looking for, this is the service, if you bid it we are going to award it within six months, four months, three months, anything like that so they

can have some definite idea of when something is going to be awarded? Anything like that in those contracts?

Mr. BARRERA. Without knowing more about that, I would have to look into it.

Mr. SHUSTER. Right.

Mr. BARRERA. If that person would like to contact us, please have him do that. We will look into it for them.

Mr. SHUSTER. My concern when you are letting a bid, companies in this case, and again there are other circumstances here, but if a small business, for instance, is trying to get a contract, is bidding on the contract, if they do not have some kind of timeline a lot of times they are either going to lay people off or keep people on, hoping that that contract gives them some certainty.

In the private sector, with contracts for highways, for instance, you pretty much know 30 days or 45 days after the bids are submitted they are going to be awarded, and if something happens they are going to let them know that we are rebidding it. We are not just going to keep dragging it on.

That would be something I think that would be very useful for small businesses when they are bidding a contract they know that date certain this thing is going to be awarded unless some circumstance comes up, some surprise circumstance that the government cannot control.

I hope that is something you would look into because, as I said, talking to a lot of small businesses they do not seem to have a firm date in mind when the contract is going to be awarded, and that hurts them on their planning and production or manpower.

Mr. BARRERA. I definitely agree.

Mr. SHUSTER. Thank you very much for being here today.

Chairman GRAVES. Mr. Boshears, I am curious how far up the pecking order, I guess you might say, is your office? Is it located close to the Director's office? Are you in the same building? I know you guys are scattered out all over the place.

Mr. BOSHEARS. We are scattered. I am physically located in the GSA Regional Office Building in Southwest across from L'Enfant Plaza.

Chairman GRAVES. Okay. I was curious about that.

I am also curious to know what action has been taken. Mr. Barrera, I know you mentioned the President's agenda when it came to contract bundling, but has any specific action been taken at this point or things moving in that direction?

Mr. BARRERA. Thank you, Mr. Chairman. We actually are very excited to announce that as of yesterday we have now published rules on contract bundling in the Federal Register, and what the rules are basically going to set out is part of the President's nine point strategy to absolve and really get rid of the contract bundling that is hurting small businesses.

One of the things that the proposed regulation will require now is that the agencies will now have to conduct bundling reviews of the requirements of multiple award contracts and orders against those contracts. They also need to strengthen their compliance with subcontracting plans, and the rule will also involve improving oversight of the small business programs. Again, this was published yesterday in the Federal Register.

Additionally, as a result of the new rule and the attention brought to these, we also submitted another rule, a companion proposed subcontracting rule, to provide guidance for agencies to use when determining whether or not a large business and prime contractor makes a good faith effort to comply with their subcontracting plans.

That is part of what the President has done, and we are going to be working with agencies a lot more on the oversight when they look at contract bundling. The multiple awards contract is a very big one for small businesses.

Chairman GRAVES. Any other questions?

Mr. BALLANCE. Yes, just a follow-up. Is that binding on Homeland Security?

Mr. BARRERA. It is on all of the agencies.

Mr. BALLANCE. You will agree with that?

Mr. BOSHEARS. Yes, sir.

Mr. BALLANCE. I read somewhere that maybe some of these regulations you were exempt from.

Mr. BOSHEARS. No, sir. Most of the Department of Homeland Security follows the FAR.

Mr. BALLANCE. All right. Now, I am being told that those regs do not apply, and I want to see how specific we can be here.

First for Michael. Is it your opinion that those will apply to the Homeland Security Department, the ones that you just published?

Mr. BARRERA. It is my understanding that they will.

Mr. BALLANCE. Mr. Boshears, it is your understanding they will also?

Mr. BOSHEARS. Yes, sir.

Mr. BALLANCE. The Transportation Security Department within your agency, will that be covered?

Mr. BOSHEARS. Now, that I think we will have to open for discussion. I would say likely no. It is my understanding that when the Transportation Security Administration, TSA, was first created about 18 months ago prior to the Department of Homeland Security, TSA was exempted from the FAR. Therefore, under the current guidelines they do not follow the FAR. However, the remainder of the Department does.

Mr. BALLANCE. I do not want to take too much time, but there are quite a bit of contracts, would you both agree, in TSA?

Mr. BARRERA. Sure.

Mr. BALLANCE. The bulk of the contracts, and that agency is not covered by this?

Mr. BARRERA. I was just informed the TSA is exempt.

Mr. BALLANCE. It is exempt. Maybe we can work on that.

Chairman GRAVES. Another other questions?

[No response.]

Chairman GRAVES. I thank both of you for being here. Mr. Boshears, if you have somebody that might want to stick around and listen to some of the testimony from some of the other witnesses too, I think it would be beneficial.

Mr. BOSHEARS. Yes, sir, I do. My colleague is in the back.

Chairman GRAVES. We will go ahead and seat the second panel real quick.

Mr. BOSHEARS. Thank you.

Chairman GRAVES. Thank you both.

[Recess.]

Chairman GRAVES. I want to thank all of you for being here today. We just got informed that we are going to have a series of votes anywhere between 11:15 and 11:30, somewhere in there. I would say it would probably be closer to 11:30, so we do not want to run over too much time on testimony.

If we do happen to have to break in there sometime, it will not take us terribly long to go over and vote and come back. We will just recess for a short time, but that happens once in a while. I apologize if that does. We might be able to get through everything.

We will start out with Daniel Lane, who is the CEO of the EMCOM Project from Independence, Missouri. Mr. Lane, I appreciate you being here today, and I will turn the mike over to you.

STATEMENT OF DANIEL LANE, CHIEF EXECUTIVE OFFICER, EMCOM PROJECT

Mr. LANE. Thank you. Mr. Chairman, Ranking Member Ballance, Members of Congress, staff, ladies and gentlemen——.

Chairman GRAVES. You might pull the mic right over there and turn it on.

Mr. LANE. Okay. Is that better? Is it on? It is on. Okay.

My name is Dan Lane, and with me today is Dr. Chris Powell, who will be issuing some alerts demonstrating EMCOM while I am telling you a little bit about EMCOM and our struggle to get recognition.

EMCOM is a product of Technical Legal Consulting. We are a forensic computer engineering company who develops and deploys software designed for legal, government and financial applications. EMCOM is the only existing fully integrated and immediately deployable, fully redundant all hazard emergency alert notification and integrated communication system in the world.

EMCOM is completely device and network independent. EMCOM uses whatever device or network is in the hands of the public and allows the public to pick and choose how they are notified. EMCOM is simple to use from a single point of interface, and any message can be targeted by any combination of groups or geographic areas. EMCOM also provides multiple layers of encryption for message and system security.

Chris has now keyed in one of the alerts on one of the devices and networks which will issue an alert received on cell phones, which we have asked the staff to keep on in the hearing room today, and on a nationwide satellite network device which we brought with us today, so things may start buzzing here in a minute.

EMCOM interfaces with just about every electronic device known. It is the most pervasive and useful emergency management system in the world. EMCOM gives the public multiple ways to receive a message, and it gives emergency management directors, EM directors, multiple ways to issue alerts or coordinate relief efforts, even if their command center is destroyed. This type of redundancy allows EMCOM to send messages from its single point of interface throughout all communication channels at once, achieving immediate notification.

One of the primary lessons we learned from 9–11 is not all communication methods will be operational after a disaster, and those that are operational may be overloaded. Therefore, even if a command center is destroyed an EM director can still issue an alert or direct relief efforts.

Chris is going to be issuing a second alert at this point in time using a second network and a second device, so we are going to see things start going off again certainly after this.

Alerts are received through our system within 30 to 45 seconds from issuance, assuming that we have—Chris is just getting the second alert now, which is anywhere from 500 to 800 times faster than the EAS. The public can receive alerts, and first responders can still be directed as long as they have any one of the communication means available, any communication means available to them.

EMCOM also provides for bidirectional interactive communication from the field by text, video or audio, allowing EM directors to issue and apply limited—there is the first alert. That is the satellite device. Allowing EM directors to issue and apply limited resources effectively.

Feedback loops and situation reporting are built in to allow quicker assessment in the field and for training purposes. First responders can be guided to the places they are needed most; in other words, better triage because, as we all know, where main communications are out those are the last places to get help.

EMCOM is the only network with a built in volunteer organization of community coordinators who are the last mile notification network and the first on the scene to report back in a disaster. The coordinators are able through EMCOM to work with first responders. Nothing like EMCOM exists, and it would take years to develop a similar system.

EMCOM began in 1997, starting with an extensive needs analysis and working with EM managers all over the U.S. In 1998, we had the first test of EMCOM with over 800 EM directors on line. Since then, extensive improvements in the system have been made, with 9/11 giving us new focus. By October 2001, the system was completed in a final deployable form.

In October 2002, we were invited to present the system to the Partnership for Public Warning, an organization to which Congress has contributed $10 million to define a system. PPW issued reports, portions of which we have included, showing the need for EMCOM. We have also included several articles from media urging adoption of such a system and reporting on the policy of Homeland Security to deploy such a system. These exhibits specifically describe EMCOM.

Initial attempts by EMCOM were made to contact the then Homeland Security Agency before it became a Cabinet position, particularly its Chief Technology Officer, Steve Cooper, by phone at his White House office.

Ike Skelton's office hosted some governmental contracting expos, which we have attended, at which NavAir, through Admiral Crowley, became interested in the project. There has never been a presence by Homeland Security at those conferences.

There is the second alert, so we all know the system works.

Because of the nature and importance of the product to the nation, we continued to pursue contacts with Congress and our technology contact with Homeland Security attempting to find some inroad as a sole source provider of new technology to either a contracting route—that is the cell phone alert that goes along with everything else we have.

We are attempting to find some inroad as a sole source provider of a new technology to either a contracting route or simply to make Homeland Security aware our product existed and filled an immediately articulated need by Homeland Security.

Initially in 2002, we were told no money existed in any Homeland Security budget, and they had no idea when and for what money would be forthcoming. Even though we had made contact with the office, no duty assignments had been made. No one claimed responsibility for finding or deploying an alert system. Even though it was a policy objective, no one could direct us to how or where to contact the appropriate person to talk contract.

We continued attempts to expand our contacts with Homeland Security by asking our congressional representatives to intervene. We continued to keep track of government contracting sites, but nowhere was there anything which could point either the legislative assistants or our staff to any policy or procedure that would allow EMCOM to be reviewed by Homeland Security or to allow EMCOM to be presented to Homeland Security for consideration. No one knew what the command structure would be and where the offices would be located. In essence, there was a face with no body or functionality.

To the credit of Congressman Graves and Senator Talent, their staffs continued to call people like Mike Brown, who by sheer accident we met in Tennessee and who provided us with contact information. This was passed along to the LAs, and finally we were able to get 30 minutes with Rose Parks, the CIO of FEMA, on May 14, 2003. In that meeting she had Gordon Fullerton and Tim Putprush.

By May, the organization of Homeland Security was still in progress. No one seemed to know what the responsibilities would be and where people would be physically located and what their phone numbers were. Mike Brown had just got his first administrative assistant.

FEMA indicated in those meetings that we were the most advanced and comprehensive system in existence, but, very simply put, we were not a big company, were not tested over a large network and, therefore, could not be immediately considered, even though there was nothing like it in the world.

Ms. Parks instructed her staff to follow up with appointments for EMCOM with NOA and the National Weather Service by the end of the summer and report back on the next steps to move forward with EMCOM. Even though we continued to call and make contact with FEMA, those appointments have never occurred.

We have not been contacted by either FEMA or Homeland Security since then. We have continued to make trips to D.C., call FEMA, monitor the contracting policies and procedures of Homeland Security, but nothing has happened.

Since then, there have been tornadoes all over the Midwest, flooding in the east, hurricanes, wars in Iraq causing substantial changes in the Homeland Security levels, untold lost children, chemical spills, escaped prisoners, boil orders, weather warnings and countless other emergency situations for which EMCOM would have been essential not only for warnings, but also for disaster relief and coordination.

TLC is a small business with great expertise. Our main programmer developed missile systems for the U.S. His expertise is recognized worldwide. TLC cannot afford a staff just to coordinate government contracting. It cannot afford to implement large test areas, but the system has been running for over two years and issuing alerts and being accessed without failure. EMCOM is reliable.

We cannot pledge the assets of a Fortune 500 company. However, neither could a Fortune 500 company have the foresight to develop and deploy EMCOM. It took the vision of a group of software designers in the Midwest who listened to what EM directors were telling them to make EMCOM a reality.

Since our journey began, we have enlisted the help of state and local governments to deploy EMCOM. Some of those are Gloucester, New Jersey, Rhode Island, Mississippi, Tennessee, Juneau, Alaska, Monroe, Washington, Nevada, Texas, and just recently Summit County, Ohio, has asked for a deployment of EMCOM. They have also supported and requested deployment available for immediate test areas.

We have had inquiries from companies who have not only seen the governmental, but the private utility of EMCOM. EMCOM could be privately funded, but all that does is drive up the cost of the system to the American people. EMCOM is a cost effective solution, its implementation estimated to be substantially less than anything else proposed to date.

On behalf of EMCOM, I would continue to knock on the door of Homeland Security and this Congress. Congress has opened the door and is listening. Based on what I have seen of this Congress, you do not believe the American people are expendable to either natural disaster or manmade disaster.

However, I have not seen a similar response from Homeland Security, either as a lack of organization or a lack of interest in its primary responsibility, which is the safety of the American people.

EMCOM is a sole source contractor with new technology, and has not been able either through your efforts or the efforts of state and local government to gain the attention of Homeland Security. Our sincere desire continues to be to work with Homeland Security and bring a comprehensive and affordable alert notification system to the people.

Thank you.

Chairman GRAVES. Thank you, Mr. Lane.

[Mr. Lane's statement may be found in the appendix.]

Chairman GRAVES. That is our vote, so we are actually a little early on votes. It will take us about 20 minutes to get over and go through two votes, a previous question and a rule vote, so it should not be very long.

We will recess for approximately that time until Mr. Ballance and I get back, but it should not take too terribly long so just sit tight for just a little bit. We will be right back.

[Recess.]

Chairman GRAVES. I apologize for the delay, and I thank everyone for their patience.

We will now move on to Benjamin Brink. He is the CEO of Data Search Systems, Inc., out of St. Louis, Missouri. Mr. Brink, I appreciate you coming all the way out, and I look forward to your testimony.

STATEMENT OF BENJAMIN M. BRINK, CHIEF EXECUTIVE OFFICER, DATA SEARCH SYSTEMS, INC., ST. LOUIS, MO

Mr. BRINK. Mr. Chairman, Ranking Member, distinguished Members of the Committee, thank you for inviting me to testify today.

My name is Ben Brink. I am the president and chief executive officer of Data Search Systems in St. Louis. I am also a Captain in the Naval Reserve and Commanding Officer of a Naval Intelligence Unit in Memphis, Tennessee.

My background includes approximately 25 years of technology company management, primarily in Silicon Valley and southern California. I began my career after my active duty Naval service and completion of a B.S. and M.S. at Stanford and an MBA at Harvard.

During my career, I have had the opportunity to lead a number of technology companies from start up to $35 million in revenues during stages of turnaround, transition and growth. Several of these companies have provided products and services to the federal government, primarily to DOD, either as a contractor or subcontractor.

DSSI is an early stage company commercializing technology developed by a team of four professors at Washington University in St. Louis. This technology enables very rapid searches of large, unstructured databases. We expect early applications of our technology will be relevant to intelligence, defense, homeland security and law enforcement. Later applications will address the needs of defense imagery, genomics research, medical, financial and other commercial databases.

DSSI and I have not to date had specific experience attempting to gain contracts with Homeland Security. In fact, our venture funding closed about three and a half months ago, and we are just ramping up operations. We have made the strategic decision in fact not to address Homeland Security first because of some of the problems discussed here today and the fact that we have limited band width as an organization to search through an organization, a Department still in formation. We are addressing primarily the established intelligence agencies in the U.S. Government.

This testimony is, therefore, more of a discussion based on my previous experience with small technology growth companies and the challenges that they have faced to do business with the federal government. Based on that experience, I will make several recommendations on how it may be done better, specifically with application to DHS.

This is a key time for such a hearing, and I commend the Committee for doing this now. The President's goal to make federal contracting accessible to small business is good not only for small business, but also for our nation's security. New, innovative companies develop new, innovative technology. We are in a new security environment. We face a new threat. The DHS is a new agency with new needs.

This embryonic Department's structure is still being formed and not set in stone. Now is the chance to review how the Department has done so far and in fact how other federal agencies have done and to get it right. In particular, it is important to support small, innovative businesses that can provide new, out-of-the-box solutions for our nation's security.

It has always been difficult for small and growth stage businesses to contract with any very large bureaucratic organization, especially the federal government. It is a little bit like a pond trying to do business with the ocean. The pond will become salty.

The mismatch in size between a large organization and a small one often causes two major problems. The large organization can swamp the small one with its demands for information, accounting, services, et cetera, at a level much greater than the small organization can handle.

Going the other way, the small organization can get lost dealing with the large organization. Where is the decision maker? Where is the information provider? Again, the small organization burns its very limited band width, its very limited personnel resources, just trying to get to the right person.

In the interest of time, I will just make comments on the eight recommendations I have. The full recommendations are in my written testimony.

Some of the best business practices which make sense is one stop shopping. The DHS testimony says they are working on that, but, like any small entrepreneur, I decided to do a web search to prepare for this testimony to find out where I might do business with DHS if I wanted to.

The page DHS took me to mentioned eight or nine agencies, gave a few links to regulations. I could not find anything about HSARPA on it, and in fact I found something about HSARPA by going to the Web site of one of your colleagues, Representative Steve Buyer, who had far better information on small businesses doing business with DHS than DHS did, and he had about 40 or 50 links.

Clearly, DHS needs to do a good job, take lessons from people like fellow Members of Congress who are doing a good job to help people find how to do business with them.

The second, which is a long-term complaint, and a couple Members of the Committee mentioned this, is on time payment by the federal government. Small companies do not have the cash resources, do not have the debt capacity to support 60 to 90 to 120 day payables.

Clearly, there are people of good conscience in the government trying to pay sooner, but it is very hard to get early payments from the federal government. Some sort of either ombudsman arrangement or, much better, just standard procedure to pay small companies on time would make DHS much more small company friendly.

Third is the federal government needs to use best business practices to be a reliable business partner and to be consistent. As an example, when I first moved back to St. Louis from California I was asked to run a small technology company, a development stage company also spun out of Washington University to see if I could save it.

The company had run out of money in the post dot-com era, had done very well, however, on about $2 million worth of SBIRs and had the expectations of a couple more million dollar revenues coming in over the next few years. About four weeks before the company was pretty seriously out of money, they were asked to bid on several SBIRs.

In the changeover between Administrations, there was a funding hold with the particular agencies that ran these SBIRs, and the company found itself absolutely out of revenues for eight months. We shut the company down, laid off 14 people, and I am now licensing the technology else. The government needs to be more consistent with small companies because they cannot survive those sort of revenue gaps that a larger company could.

Another area is DHS should develop, if it already has not done so, and I do not know about it, a separate semi-independent funding agency as the CIA has done with In-Q-Tel. In-Q-Tel is a federally funded venture capital firm which can invest in promising technology companies as a venture capital fund and is a strategic fund which seeks out and invests in technologies that are useful to the CIA. It also provides a link between those companies and the often hard to navigate paths of the intelligence community.

Very good concept, and it should be adopted elsewhere in DHS, especially with its current confusion of going from 22 agencies to one Department. This would be a real beacon of hope for small companies.

The next area is the first time that corporations try to get on the GSA list it is very hard, and it is very hard for companies to sell standard, commercial, off-the-shelf products without being on that list.

It would be interesting to discuss the possibility of creating not just for DHS, but perhaps for the whole government for technology products sort of a baby COTS list, a baby GSA list that could be opened with small companies which would have a lesser set of requirements or a set of requirements tailored for small business, as opposed to large business.

You talked a bit about contract bundling. Efforts should be looked at for perhaps separate bidding for subs along with the prime that may manage that so that small companies tend not to be quite so squeezed as often happens by their primes.

There is probably a lot of work to do there because clearly the government wants to get value for its money, but if more than just a set aside for small business you enable them to bid separately, that could protect their profitability, which they need to survive.

The SBIR policy for DHS needs to be clear. It needs to be clear for other agencies as well. I have an example in my written testimony of where a decision was made that venture funded companies that were owned more than 51 percent by venture firms were no longer considered small business.

What that did essentially with that SBIR money pot is it said if you are good enough to be invested in, the government does not want to support you, and so it tends to force that kind of money to the losers instead of the winners. It is not good for the companies. It is not good for the government.

Finally, since small businesses find it easier to work with small organizations, decomposing the DHS organization into smaller pilots makes sense to introduce small companies to doing business with the government, and also local pilots give companies like my colleagues to the right here a chance to prove himself in a smaller scale and not have to get over that hurdle that the acquisition officer might have to have him be acceptable to applying his technology to the whole country.

There is a pilot in St. Louis to do joint intelligence fusion centers. There is a small St. Louis company called Talisen Technologies, about a $20 million company in St. Louis, which is partnered with Boeing to address that. It is a good model, and that should be looked to being used elsewhere.

Thank you.

Chairman GRAVES. Thank you.

[Mr. Brink's statement may be found in the appendix.]

Chairman GRAVES. We will now move on to Tim May, who is the CEO of Advanced Interactive Systems in Seattle, Washington. I appreciate you coming all the way out, Mr. May. Thank you.

STATEMENT OF TIM MAY, CHIEF EXECUTIVE OFFICER, ADVANCED INTERACTIVE SYSTEMS, SEATTLE, WA

Mr. MAY. Mr. Chairman, Members of the Committee, I wish to thank you for the privilege and opportunity to appear before you, the Subcommittee, today. I want to address the challenges facing small companies such as ours when attempting to secure or do business with the Department of Homeland Security.

Let me begin by introducing you to our company. My name is Tim May, and I am president and CEO of Advanced Interactive Systems. AIS is a privately held company headquartered in Seattle, Washington. We employ more than 125 people in seven facilities in the U.S. and abroad.

Our company designs and manufactures high tech simulation systems, virtual reality systems and training facilities worldwide. It provides anti-terrorism training, including behavior pattern recognition. Using technology, we provide comprehensive training solutions when lives are on the line.

When the Office of Homeland Security was created, we were eager to bring these comprehensive solutions for training to this new branch of the federal government. The question was how. How do we get technology in front of the right people? Who are the right people? If we were fortunate enough to land a large contract, what was the best approach to managing it?

An analysis of the market led us to conclude that all roads led to teaming with large contractors if we were to have any real chance at securing business in this new arena, so we did just that.

In June of 2002, AIS was selected by Boeing to conduct the operator training for up to 30,000 baggage screeners at airports throughout the United States in connection with a contract install-

ing explosive detection devices and explosive trace detection equipment for the Transportation Security Administration.

The project required us to train more than 1,700 instructors and enabled them to deliver the curriculum provided by the government at more than 160 locations, all in less than six months. While this was a tremendous opportunity for AIS, it was fraught with challenges, many of which were unrelated to the basic task.

The difficulties AIS faced in this contract were typical of those that any subcontractor faces when it is teamed with a large contractor. We did not have direct access or contact with the ultimate customer, and there was too much time spent in managing the relationship with the prime contractor, as I think has been mentioned earlier, trying to determine particularly with the Transportation Security Administration which FARs were applicable and which were not.

We were keenly aware that this contract was AIS' chance for entry into a new market and the opportunities it could afford. However, since we were a subcontractor, success in this particular contract did not ensure us future success with the Department of Homeland Security.

As a result, when the contract ended we found ourselves back marketing to DHS as if we were the new kid on the block. That task is further complicated with the difficulties presented by ever changing personnel at the Department of Homeland Security.

With the experience of having successfully completed this contract, our business approach now has a dual focus—securing further business directly from the federal government and marketing directly to emergency responders. While we are making process, we are confronting some difficulties that were not faced in our other business sectors.

In the emergency responder community, we face the normal challenges one expects when marketing to state and local agencies. They are fragmented and require us to prioritize. AIS cannot easily and economically reach all potential customers, so we have opted to concentrate our marketing efforts on states and larger cities.

Virtually every law enforcement agency or firefighter agency we have demonstrated our technology and services to have been excited about our solution and are willing to contract with us, but they have a surprising dilemma. Despite all the media reports of the new and expanded federal funding being made available to first responders, we have found that even in major cities front line agencies do not know how to access those funds within their own states.

As a result, we have necessarily become a resource for them on how they can locate those funds. This is a difficult burden for a small business' shoulder inasmuch as it stretches our marketing and manpower budget and increases the sales cycle of our customer purchase.

Additionally, we have found that many in the first responder community are unsure of the procedures involved in contracting, so we are faced with having to learn the rules and procedures and even the identity of a myriad of state and federal contracting agencies. As you can well imagine, it is time consuming and places a costly burden on AIS and others in our position.

We have been in numerous meetings and discussions with the Department of Homeland Security about these issues and others related to doing business with DHS, and we sincerely appreciate the support and assistance they have given us. We are very aware, for example, that the DHS and other government agencies face a difficult task in taking a chance on awarding contracts, especially of a critical nature to small business. However, ignoring the benefits these smaller firms might bring simply because of perceived risks is an unfair and indeed an unwise policy.

I would like to offer some suggestions and solutions to assist small business. AIS would propose creation of a small business advisory board as part of the Department of Homeland Security with the intent being that this board will mirror, but not duplicate, what the Department of Defense does with small business; for instance, creation of a mentoring program, small business advocates and incentives for larger companies to work with small businesses and a program such as the DOD SBIR program.

My company and I are willing to assist in any way possible to make such programs a reality, and once again I thank you for your time and the privilege of addressing you.

Chairman GRAVES. Thank you, Mr. May.

[Mr. May's statement may be found in the appendix.]

Chairman GRAVES. We will now hear from Patricia Driscoll with Frontline Defense Systems here in Washington, D.C. Is that right?

Ms. DRISCOLL. Correct.

STATEMENT OF PATRICIA DRISCOLL, FRONTLINE DEFENSE SYSTEMS, LLC, WASHINGTON, DC

Ms. DRISCOLL. Thank you very much. I would like to first say I am extremely disappointed in the Administration by disappearing when all of us came here and took time off of our busy schedules, and you guys are still sitting here to listen to what we have to say and what suggestions we really think the Department can use to make things better for us, but I would like to say thank you to the Department of Energy for showing up here today.

Mr. Chairman, Members of the Committee, I appreciate this opportunity to come before you and tell you about my experiences as a small business. My name is Patricia Driscoll, and I am the CEO of Frontline Defense Systems. Frontline Defense Systems, a Nevada based corporation, is a certified woman-owned small business.

The company works with government agencies to develop and implement security programs and solutions for the borders, ports and federal facilities. FDS provides a complete package of unique security solutions and services. We do threat assessment and penetration of armed facilities, policy, planning and procedures, security development planning, hard and software.

We are some of the best in sensors, biometric solutions, infrared cameras, multi-spectral thermal imagers, wireless devices, network security solutions, X-ray and gamma ray high density cargo inspection, chemical and biological sniffing devices, license plate recognition systems, facility access control, signals, intelligence and temporary facilities. We also deal in integration, management training, systems support and operational and maintenance support of our equipment.

Frontline Defense Systems' companies have locations nationally and worldwide. FDS either owns or has an interest in over 25 small businesses that are the best in their field to provide services and products to the customer. Most of these companies have been in business for over 20 years. Our team is made up of technologies with a proven past performance history with the government.

Our customers include the White House Military Office of this current Administration, U.S. State Department, Department of Defense, classified sites of U.S. intelligence community, TSA, SOCOM, NRO, DTRA, Department of Energy, DIA, U.S. Army ECBC, DPG Life Sciences, DARPA, U.S. Customs, FAA, Department of the Interior, U.S. Coast Guard, Salt Lake City Olympics Operations Center, Centers for Disease Control, Ports of Baltimore, Charleston, Savannah, Honolulu and Guam, Johns Hopkins University, Los Alamos National Labs and Governments of Canada, Spain, Germany, the U.K., New Zealand, France, Taiwan and South Korea.

After seeing a list of customers like that, one might ask what do you have to complain about? Well, I am really not here to complain, but I am here to educate. If you notice, we do not do a whole lot of work with the Department of Homeland Security, but after looking at our qualifications you see that we should.

When it comes to chem/bio, we are the best, and we secure and are the referee system for the National Chemical Warfare Center. When it comes time to do covert operations or to go to war, who does the Special Forces community get their equipment from? Us. When Customs wants to inspect densely packed cargo or is looking for people in the back of a truck, instead of sending the truck trough a deadly radiation blasting device, who do they trust? Our system.

When the White House believed that it was very important to have a second set of eyes look at their security, who did they ask? They asked our team to come in. When people's lives are at stake or when the situation is critical, the government has called on us. Do our ports, borders and airports not deserve the same level of protection?

Let us get down to the problem as we see it. When the Transportation Security Administration was stood up, UNYSIS was brought in to handle the majority of the procurement. Instead of dealing with government officials, we had to pitch to a very large corporation who wanted to see all of our proprietary material. This is death to a small, innovative company.

In the past, we have been burned by the large integrators because they have used us to get qualified on a contract, abused us when they won by telling us that they wanted us to work for a price that we could not afford and then created a half-baked version of our solution for the customer. For this reason, we need the ability to procure on our own and not leave our livelihood in the hands of the big boys.

We also need a better standard for measuring the size of a business, the ability to update the changes and better oversight on contracting. The GAO report of March 18, 2003, stated that there is very little oversight in large contracts on true small business activ-

ity. The oversight is generally left to the integrator to tell the SBA their version of the truth.

I agree with the GAO that we should stop overwhelming our SBA people with tasks that have nothing to do with their job and allow them to go back to fighting for small businesses and have on-site reviews of these contracts.

The GAO also reported in May of 2003 that over $460 million in contracts were awarded to five large corporations posing as small businesses due to the lack of records on current business status and oversight by the government. How can I compete against big integrators when they are still posing as small businesses that they acquired 10 years ago?

Recently, the Bureau of Citizenship and Immigration Services let out a BPA, blank purchase agreement, worth $500 million citing the Paperwork Reduction Act. This statement of work was only one and a half pages long and included anything IT that BCIS intends to buy over the next few years. The way the BPA is currently written up, it will exclude any small business from getting a part, which is a great acquisition vehicle for small businesses to do business with the government easily.

This BPA was put on the street after the CIO of Homeland Security, Steve Cooper, said that he did not want the BPA to go out. Mr. Cooper and Undersecretary for Management, Janet Hale, said this BPA did not fit the new departmental guidelines' investment plan for IT or strategy for acquisitions that the Department has set up and would severely hurt the small business initiative put forward by the White House.

What is the point of having a CIO if he is not given budget control over the Department's IT? Giving him control of the IT money is the only way that we are going to see the Department start behaving differently and the only way we are going to see some real initiatives on sharing of resources.

Steve Cooper came in with the solid plan on doing business with small businesses. Mr. Cooper and Ms. Hale understand that small businesses are innovative, reasonable and get the job done quickly. I am asking you today what are you going to do to give people like this a really big stick to make a change in the Department of Homeland Security?

I can tell you from personal experience I have not seen anything change within these agencies over the last two years except for their name. Since there has been so much chaos in the last two years bringing these 22 groups together, you have not seen the amount of money that has been wasted or procured improperly. Today, our ports and borders are no safer than they were two years ago.

By having this hearing today, I feel that you have an understanding that things need to change, and I am encouraged that this Committee is taking the initiative to make a difference. I hope that you will strongly encourage the Department of Homeland Security to follow in the footsteps of the Diversity and Small Business Offices of Department of Energy, HUD, who is procuring 51 percent of all their contracts to small business, and the Department of Transportation, who is doing 42 percent. They have shown true

progress in helping small businesses obtain contracts and keeping an eye on contract bundling.

I hope that you will work to give the control of the money to agencies that follow good business practices and take it away from those who have repeatedly shown they have no interest in small business.

Thank you.

Chairman GRAVES. Thank you, Ms. Driscoll.

[Ms. Driscoll's statement may be found in the appendix.]

Chairman GRAVES. Marian Sabety with the Flywheel Group here in Washington. We look forward to your testimony.

STATEMENT OF MARIAN SABETY, PRESIDENT, FLYWHEEL GROUP, WASHINGTON, DC, REPRESENTING THE NATIONAL SMALL BUSINESS ASSOCIATION

Ms. SABETY. Thank you, Chairman Graves and Ranking Member Ballance and Representative Shuster. I appreciate the opportunity to be here.

My name is Marian Sabety, and I am here on behalf of the National Small Business Association, the nation's oldest nonpartisan small business advocacy group representing more than 150,000 small businesses across the country.

I am the president and CEO of the Flywheel Group, a small, woman-owned firm engaged in homeland security consulting. We conduct vulnerability assessments, threat scenario planning, risk quantification and technology evaluation. We work with organizations in both the private and public sector to plan programs and implement technologies that protect people, operations and assets in the event of a catastrophic event. Our particular area of technical expertise is document security and wireless technology.

I have been in the telecommunications and high tech sectors for over 20 years and made the leap to business owner with Flywheel Group in 2000, after working for such firms as AT&T, Sprint, AMS, American Management Systems, SAIC and Stanford Research Institute.

Though I am proud to report that my company has been profitable each year of operation, I know our growth rate could be much higher. Last year I successfully negotiated our IT schedule status, which took us I think 18 months of negotiating to meet those hurdles.

Several months ago, we responded to the call for technologies by the TSA for a solution that will compile actual event data from around the country and model the data against predictive indicators in order to track, preview, defend and plan response to potential disasters. We submitted a combination of proven patented technologies, one of which was already funded through several Department of Homeland Security and Department of Defense contracts.

Our solution included proven software that automates inventorying of assets through a simulated 3–D program for any type of threat so that prevention, protection and evacuation planning can be optimized with an integrated 911 computer dispatch system.

What I mean by this is by simulating scenarios using 3–D modeling, you can actually help to evaluate how you might respond if

the actual event occurred so that when the 911 call center gets a set of indicators based on calls that occur, they can go back to that scenario and make sure to pull together the right resources, and that is actually the value of this kind of modeling.

Not only would this solution provide more accurate planning and training, but it would enable municipalities to manage risk responsibly and coordinate with DHS, but not necessarily at the same threat levels commanded by DHS. We all know that this is a key factor today in the municipalities relative to budget control.

We proposed this program because portions of the solution were already in operation in the New York-New Jersey Port Authority and in the City of Tampa in Florida. It has been several months since we submitted this proposal. We have heard nothing. I can assure you, we have had the same intense follow-up on business development you have already heard in testimony this morning.

While I recognize that other firms may have submitted similar solutions, it is disappointing that our submission has not gotten any airtime at all. It meets the requirements head on and at a competitively lower price.

We have now turned our energies to organizations that are on the first responder front line to try to get a pilot for this proposed solution underway. For a $300,000 pilot, we are hoping to coalesce resources and partners to bring up the system by the end of the year. This pilot alone would guarantee creation of 25 permanent jobs.

As an expert in the field of risk management and security, I can tell you that the security of our nation is paramount, but it must be done with small businesses to ensure that economic growth that we so badly need. Small businesses do well by the government. Our margins are lower. We are creative. We deliver.

Yet, not all federal agencies are held to the same standards for meeting small business goals as established and promulgated by this very Committee. The TSA, as we all know, is an integral part of the newly organized Department of Homeland Security.

In preparing for my testimony, I did some on-line research into TSA. According to their Web site, TSA is non-regulatory in nature, meaning that they are exempted from the FAR, the Federal Acquisition Regulations, regulations that nearly every other government agency is expected to abide by. The head of acquisition for TSA has stated that while TSA uses FAR and FAA procurement guidelines, they are only used as benchmarks.

For small business owners like me, benchmarks and guidelines do not translate to real business. It is important that DHS and TSA live up to the government-wide accepted rules for small entity procurement. First of all, it is the right thing to do.

The people in this room are here because we are either small business owners or we care about small business. It is only fair that small businesses have equal access to opportunity for lucrative contracts within the federal government. You cannot say on one hand that a small business is a pathway to economic recovery and on the other hand allow TSA to operate outside that purview.

Secondly, small business procurement is important in creating jobs, and in the case of this one pilot alone I just described 25 jobs, permanent jobs. DHS was just approved for fiscal year 2004 a

$29.4 billion budget. Certainly small businesses should be a part of those contracts, yet with no compete bids and huge corporations taking on massive responsibilities, small business is being forgotten. You have heard testimony this morning that I can attest to as well, but will not take the time.

Early in the year, Ranking Member Velazquez unveiled her Scorecard IV to evaluate federal agencies on small business procurement. Though DHS could not be included on that report, it is worth noting that more than half of those evaluated got a D or an F. Keep in mind, these are agencies that must abide by FAR. I suspect that those outside the legal realm of FAR would leave much to be desired.

Successful contracting with the government is difficult. It takes inordinate energy and overhead, and you have heard some of that this morning, to successfully clear all of the hurdles that come with pursuing and winning government opportunities. Quality performance of government contracts is also challenging, but something I used to do for large corporations in my previous life.

I assure you, it is an entirely different ball game, though, for a small business. Getting your foot in the door is a challenge, and, frankly, even getting a call back is a challenge. There are government rules and regulations in place to help small businesses. When agencies are exempted from following those rules, it not only stunts the growth of small business, but it sets a dangerous precedent.

I thank you, Mr. Chairman and Ranking Member and the Committee, for your time, and I welcome any questions you have.

[Ms. Sabety's statement may be found in the appendix.]

Chairman GRAVES. Thank you, Ms. Sabety. You have not heard a thing? Yes? No?

Ms. SABETY. No.

Chairman GRAVES. Looking? Nothing like that?

Ms. SABETY. No.

Chairman GRAVES. Also, I am curious too with each one of you. How many employees? I will start with you, Ms. Sabety. How many employees approximately?

Ms. SABETY. I have nine employees.

Chairman GRAVES. Nine.

Ms. DRISCOLL. Our information is classified. We are still small.

Mr. MAY. We have 125 employees.

Mr. BRINK. We are a start-up with 12.

Mr. LANE. We are under 10.

Chairman GRAVES. I am curious too, Mr. May, and we will start out with you. You got a contract to train baggage screeners with TSA, which obviously you have to be one of the very first businesses to get any sort of a contract.

I was curious how that has worked out, what they were like to work with, the problems you faced. Was it different than other contracts you have had with the government? I would be very curious to know how that all worked out.

Mr. MAY. Well, yes. It has been extremely challenging. Obviously you have two issues, one in dealing with the TSA, who you mentioned earlier is not required to follow the FARs, and then from a small business in learning the nuances in dealing with all of the requirements of a large company like Boeing.

We have spent an extraordinary amount of time managing the relationship and managing how we do business with our prime contractor, in some cases more time than we spent delivering the products and services to the customer. I think that is a learning process that small businesses need to go through, but I think it is a sensitivity issue that needs to be addressed with the prime contractors.

If the Department of TSA and DHS is going to bundle contracts and give all of the major work, if you will, to the large integrators, I think there needs to be a lot more time emphasizing with those integrators that they need to spend time and effort on how to deal with small contractors and bring them into the process.

It was a very interesting experience, and in fact even though that work was completed on December 31 of this past year, we are still in the process of trying to collect our final payments on that contract in excess of $5 million——.

Chairman GRAVES. How long ago?

Mr. MAY.—which is an extensive amount of money for a small business like hours.

Chairman GRAVES. How long have you been waiting?

Mr. MAY. We have been waiting since March.

Ms. SABETY. That is criminal.

Chairman GRAVES. Mr. Lane, when you have new technology, and in fact anybody can answer this because you all have new technologies you are developing, but are you having just a tremendous amount of trouble getting an audience to demonstrate your technology?

Mr. LANE. Absolutely. I have had——.

Chairman GRAVES. Go ahead.

Mr. LANE. I have had lots of success with Members of Congress and Members of the Senate demonstrating the technology.

We have had no success at all other than the one 30-minute meeting with FEMA, which they have not followed up on. They just do not seem interested in the technology because we are not big enough for them to take a chance on. That is basically the problem we are having.

Chairman GRAVES. Anybody else?

Mr. BRINK. We have not had particular difficulties in getting an audience. Since our technology has been developed by four professors at a major university that have long-term relationships with these research agencies, that is fine.

Where I expect we will have the difficulty is when we want to cross that hurdle from research contracts to develop to actual contracts to supply, and I am prepared to partner with a prime to do that, but clearly the difficulty that small companies have when they actually want to sell product rather than do research is do we have the credibility and the size to be viewed as a supplier of a large agency.

Ms. DRISCOLL. I have had a very difficult time, especially with our border inspection units, our cargo inspection units. Customs has rated us as the highest and best performing machine, and I am competing against SAIC.

Every time I get a contract, SAIC takes it personally and thinks that it is one more that they are not getting, so I have had an in-

credibly hard time getting anybody to pay attention to Customs' own reports about how good our stuff is.

Chairman GRAVES. Mr. Ballance?

Mr. BALLANCE. Thank you, Mr. Chairman.

Let me first say I find it a little bit amazing. From your testimonies you seem to be strong businesses, and you have so much difficulty getting an audience. I do agree that I wish the other witnesses could have stayed around a bit to hear your testimony. Maybe they will get it in writing or something.

Ms. Sabety, since TSA is exempt from most of these requirements—I believe we finally got that concession—do you think that that is an issue? Will they do business because they want to or because they have to?

Ms. SABETY. I have two comments. One is that I think it is a bad precedent that they are exempted because within the Department of Homeland Security for those who are defining the contract requirements and the potential bidders that the contract might be opened up to, you can make an argument that says it invites the ability for some contracts to naturally be put underneath the aegis of TSA so that in fact they can control how the bidding proceeds. I think that is a bad precedent.

The second I would say is that I think that unfortunately unless the law applies to force equality across the board, it is unfortunate when you ask for guidelines and benchmarks it is not strong enough to establish policy.

You really do have to establish from a strict budgeting and procedural point of view. You have to establish the rules and regulations by which everyone has to govern the way procurement proceeds. It is the only way to create equality, and we all know this from history.

Mr. BALLANCE. I am not a businessperson, but I guess I am an attorney. How do you find out about these contracts, Ms. Driscoll, and then what is your normal process?

Ms. DRISCOLL. Well, how we normally find out about the contracts is I hang out at the Capitol Hill Club sometimes, and there are some people hanging out down there talking about what is going on. I find out more stuff down there than I do ever attending any meeting, in any department anywhere else, or hanging out at the Capitol Grill. Unfortunately, I find out about them in a bar.

We do go after like for the border port security. We push and say look, this is really what we need to do. We have an initiative out there that Congress has said we are going to inspect our ports, and we are only doing two percent inspection across the board and so we go and push our equipment.

We have had it tested and evaluated over the last five years, and Customs says it is great. Then we hear this initiative is coming out, and it is coming out, and it is coming out, and it is coming out. It never does.

Actually, Customs offered us a contract to purchase an unlimited quantity of our equipment, and they have yet to fill any of those orders, even though they are taking down one of our machines in Miami to go use it in El Paso, Texas, for a test that is going on out there, but they are not putting anything back in the Port of Miami.

The cargo that comes in, we can see through about 95 percent of most of the container ships that come through. BACKIS, which is the SAIC equipment, can only inspect about 40 percent of all the cargo, so I am asking you. You know, what are we supposed to do? When we are at the finish line, how do we cross? We have done everything we think we can possibly do.

Mr. BALLANCE. I think you all heard the testimony of the earlier panel, and it is seemingly the President wants this to happen. They say they want it to happen, but, listening to the panel here, it is not happening.

Mr. Lane, I was particularly interested in your testimony that you seem to have done everything you could do. What are you doing now? Is anything else left?

Mr. LANE. We are continuing to make our phone calls. We are continuing to check the contracting Web sites on a day-to-day basis. The problem is there is no RFP out there. There is nothing out there that specifically indicates that they want an alert notification system.

We are essentially a sole source contractor. We cannot even get an evaluation of the technology done by FEMA and by the people assigned to evaluate the technology, so we are kind of at a black hole. All we can do is continue to ask for your help, ask for the help of the people in FEMA, continue to make the phone calls, continue to write letters. Again, we are right at the finish line with no way to cross.

Mr. BALLANCE. Yes, sir?

Mr. BRINK. This is a fundamental problem that companies developing new technologies have is they are essentially developing new technologies for applications which have not been conceived yet and so they are not going to be in RFQs, and they are probably not going to be developed in large organizations that just naturally have the access into the contracting offices, the development offices.

The key is obviously to get in early. The problem with an organization like DHS is it is so disorganized. You do not know where to get in early. There is no mechanism to get in early to influence the RFQ, which is the way you win them.

Ms. DRISCOLL. One of the things I also wanted to mention is that the majority of our business is done by me pushing our technologies on people. I have yet to win many contracts responding to an RFP.

We give them a good idea and say we really think this is going to work, and we really think you have a need for it. I convince them until they believe they have a need for it to get most of my business.

Mr. BALLANCE. What about this economies of scale issue? Does anybody have any comments on what that means? Yes, sir, Mr. May?

Mr. MAY. Well, I think what that means is that particularly the Department of Homeland Security and TSA has been relying a tremendous amount on the large scale systems integrators, and I guess they are the economies of scale.

If you are going to have an opportunity to do business there, you have to deal with those folks rather than directly with the federal government in order to get business.

Ms. SABETY. But regarding the economies of scale, I tried desperately—I am in the same boat here as all of us on the panel—doing everything we can to kind of push the capability that we know is needed and has already been defined notionally out there.

I have actually approached the large integrators, these economies of scale, and their comment back to me is we have so many small businesses on our list. We do not have enough business for them, so you will have to get to the back of the line.

That is one comment. The second is that we find that these shall we call them the large economies of scale are already contracted in TSA and in DHS, and they are giving advice and counsel on how contracts should be defined, how requirements should be defined, who are the likely types of technologies that should be short listed.

We all understand how that system works because if they are the ones who are whispering in the ears it makes it a lot harder for folks like us to be able to come in with either a fresh idea or a new technology that they may not have thought of, so there are really two aspects of this large economy of scale that is running against the opportunities for small business.

Mr. BRINK. Also, I think clearly that is what is going on, but looking at it from the other point of view the problem with the traditional suppliers supplying technology to DHS is that we are dealing with a new and different kind of threat, and if those people who have been thinking about how to deal with the old threat are the suppliers and the only ones thinking the problem, new and innovative solutions dealing with terrorism and these new threats are not going to be brought to bear, and it will affect the security of the nation.

Mr. BALLANCE. Well, I think someone said, and I can tell you, that you will find this Committee and our Subcommittee chairman here and our full Committee chairman and all of us very concerned about this issue.

I will give up here and quit, but if there is any one suggestion that anyone has left, I would be glad to hear that.

Chairman GRAVES. Do we have anybody here from Mr. Boshears' office representing Mr. Boshears' office or Mr. Barrera?

[Responds Yes.]

Chairman GRAVES. Thank you. I do have one final question out of curiosity. Many of us as Members of Congress conduct procurement conferences. Have any of you ever participated in any of those? I would be curious as to how effective they are.

I would love to hear from each of you on that too because we are always trying to make ours better, make it work in trying to bring people or businesses in contact with those who are hopefully looking for technology or making those decisions, but in many cases we do not know if it is effective.

We need guidance and suggestions on how far we need to go too, so all of you who have participated, and, Ms. Driscoll, we will go ahead and start with you.

Ms. DRISCOLL. I really hate to tell you this, but they are not effective. We are tired to going to a lot of these conferences, and we

are tired of going and showing our goods because I think the integrators come into appease you. They smile and they politely nod, and then that is the last we ever hear of them ever again.

We do not need any more conferences. What we need really is we need what is going on at the Department of Energy where the Small Business Office is actually looking at the big bundled contracts, and they identify the small businesses here that are capable to do part of that contract. They go and fight to break it out.

That has been how we have been best helped, and I really think that you should push the Departments to start doing that and start having conferences of your own where you invite the offices, and you get them to start fighting for us at the Department level. That is what would be most effective for me.

Mr. LANE. Unfortunately, I would agree.

Mr. BRINK. I would agree.

Mr. LANE. They simply pat you on the head and say this is nice. How do you do it so we can steal it.

Ms. DRISCOLL. Yes.

Mr. BRINK. Although congressional intervention has clearly caused things to happen.

Ms. DRISCOLL. Yes.

Mr. BRINK. The pilot program that I mentioned in St. Louis was caused by our two Missouri Senators and by Representative Akin, and that is what made it get started.

Clearly, your intervention makes a difference. Now, it should not have to be that way, but it does make a big difference.

Ms. SABETY. I was only going to add one other point, which is that I am used to a businesslike way of doing business. I am not used to having to go through all of these hurdles to try and get an audience before a good idea is given any airtime, and then by the time it is given airtime it is either taken by a large company or it is too late.

I am used to businesslike ways and business processes, so to Patricia's point if the IT organization recognizes that there is a need then the IT organization ought to be given the opportunity to look at any new technologies that come their way and be able to set up pilots so that if the only hurdle is that you are a small company and you are unproven then they ought to be given the opportunity to set up pilots so that the technology or the company can be proven. That is how corporations work.

Mr. LANE. I would agree. I have a list of at least 10 different local governments who are dying to have this technology implemented immediately. They want the technology. They have looked at the technology. They are willing to take the chance.

They do not have the funds, and the block grants that are coming down there nobody knows how to access, and they are not necessarily designed for new technology. They are designed for things, for products. They do not know how to access them with the block grants, and they do not know how to implement this technology using their contacts.

I think we could have several pilot programs up and running immediately if we they were given some sort of funding to do it.

Chairman GRAVES. Thank you all. I appreciate you being here.

I want to encourage you to add in your book of resources the Small Business Committee because I know Ranking Member Velazquez and Chairman Manzullo, as well as the Subcommittees, Ranking Member Ballance and myself, are very committed to making sure that small businesses can compete and trying to level this playing field.

Please use the Small Business Committee whenever you can and use it as a resource because this is an important issue to all of us or we would not be on this Committee.

I thank you all for coming in and your testimony. It was very, very enlightening. We obviously have a lot of work to do.

Thank you.

[Whereupon, at 12:12 p.m., the Subcommittee was adjourned.]

PS/Piper

Re: Opening and closing statement for hearing

Good Morning and welcome to the Rural Enterprise, Agriculture and Technology Subcommittee. Today we are looking at the "Challenges that Small Businesses Face Accessing Homeland Security Contracts."

The federal government is one of the largest markets for US business. Annually, the federal government spends approximately $200 billion on goods and services purchased from the private sector. The Department of Defense alone is the largest federal marketplace for business, accounting for over $120 billion in prime contract awards, or more than 60 percent of federal all procurement dollars.

Congress set statutory goals for all agencies that 23 percent of all prime contracts should be given to small businesses. However, that benchmark is not always met. The Department of Defense has not succeeded in meeting that goal for the past two years. But it is not alone. Overall, the federal government has not met its small business prime-contracting goal in several years.

On January 24, 2003, Congress created the Department of Homeland Security (DHS) and brought 22 separate agencies under one roof to account for the safety and security of the United States. It is certainly a daunting task in the wake of September 11th, and in order to ensure that this new department could function, Congress allowed the Department to bypass the procurement regulations that other agencies adhere to.

Historically, small businesses have faced many barriers accessing the federal procurement marketplace. Contract bundling has been the most prevalent issue that small businesses face. Bundled contracts are combined contracts too large or too complex for

small businesses to handle. Additionally, small businesses frequently face the difficulty of traversing the maze of agencies or finding the procurement officer that handles the applicable technology or a specific contract.

Historically, small business has been more productive and technologically innovative than their large business counterparts. Additionally, small business has frequently been able to provide better goods and services at lower prices then their larger competitors. We must find a way to ensure that small business receives its share of federal procurement opportunities. I would now like to recognize Mr. Balance, the Ranking Member for his opening statement.

Closing

I want to thank everyone who participated in this hearing today. It was very insightful and educational to hear from the small businesses and learn firsthand the hurdles that they face every day dealing with the government. I also appreciate the commitment from Kevin Boshears and Michael Barrera to ensuring that small business receive their share of the federal government procurement dollars.

Representative Shuster
October 21, 2003

Opening Statement Subcommittee on Rural Enterprise, Agriculture and Technology

Mr. Chairman: Good morning and let me begin by thanking you Chairman Graves for holding this important hearing. Having been a small business owner myself this is an issue that is very important me. We have all heard the statistics of the critical role small business plays in our economy. Small businesses represent 99 percent of our nation's employers and are responsible for creating thousands of new jobs across the country each year. In my home state of Pennsylvania, more than 97 percent of the state's employers are represented by small businesses. These businesses are also responsible for over half of the state's employment.

Despite the incredible success of small businesses and the instrumental role they play in our economy, we find that to often these same businesses face many hurdles when attempting to do business with the federal government. Traveling throughout my district, I have routinely heard from many small business owners that it can be quite difficult to do business with the government. The process is complex and often these firms do not have the start up resources or manpower to bring their innovations to the government.

The Federal government is the largest buyer of goods and services. Yet gaining access to this market is very challenging for small businesses. Contracting with the government is often thought to be insiders' game that favors larger firms. Two of the biggest complaints I have heard from small businesses in Pennsylvania are that it can be quite difficult to gain access to the individuals who make the decisions on awarding contracts and that the paperwork can be so overwhelming it impedes businesses with minimum man power. Additionally, many constituents have told me that if they are successful in winning a government contract that there can often be a significant lag time between when the work is completed and they are paid. This can create a major drain on a business with limited resources and funds.

This is not to say that there are not success stories when it comes to small businesses winning government contracts. I saw in Mr. Barrera's testimony that in 2002 awards to small businesses from government agencies increased by $3.6 billion to reach a level of $53.6 billion. This is good news and a step in the right direction. We must now focus upon building on that success and increasing opportunities for our nation's small businesses.

With the creation of the Department of Homeland Security in January, we are presented with a unique opportunity to once again evaluate how successful the government is in reaching out to our small businesses. It is often our nation's small businesses that formulate new and innovative technologies. We must ensure that these businesses have the opportunity to market these new technologies to the Department of Homeland Security and that if awarded that they are paid in timely and an efficient manner. This will not only help small businesses succeed, but additionally will create jobs at home and enhance our national security.

Mr. Chairman, again thank you for holding today's hearing and I look forward to the testimony of the witnesses and working with members

of the Committee to seeking solutions to these problems and opening the government's door a to small businesses.

Testimony of
Michael L. Barrera
Associate Deputy Administrator
Office of Government Contracting and Business Development
United States Small Business Administration

October 21, 2003

before the
Subcommittee on Rural Enterprises, Agriculture, and Technology
House Small Business Committee

Good morning, Chairman Graves, Ranking Member Ballance, and distinguished Members of this Subcommittee. Thank you for the opportunity to discuss the Office of Government Contracting and Business Development programs that help small businesses obtain access to Federal contracts. Consistent with President George W. Bush's commitment to small business, the U.S. Small Business Administration (SBA) is committed to maximizing opportunities for all of the Nation's small businesses and the millions of people they employ. I am pleased to submit my written testimony for the record.

Small businesses help to drive this economy, and the sources of innovative ideas and solutions in support of mission needs of Federal agencies and prime contractors. The SBA Programs and initiatives are designed to provide an environment where small businesses can be competitive in Federal procurement as prime contractors or subcontractors.

SBA works with the Federal agencies to negotiate small business procurement goals that, in the aggregate, meet or exceed the statutory prime contracting goals for small business (23 percent), women owned small businesses (5 percent), small disadvantaged businesses (5 percent), service disabled veteran-owned small businesses (3 percent), and HUBZone

small businesses (3 percent). We monitor the agencies' performance, and report results to the President and Congress.

In FY 2002, contracting data from the Federal Procurement Data System (FPDS) indicated that total awards to small businesses of $53.6 billion exceeded the prior year level by $3.6 billion. The $53.6 billion dollars to small businesses support over 400,000 jobs. At this level, agencies awarded 22.62% of contract dollars to small businesses, slightly less than the 23% government-wide goal. Agencies also made considerable progress towards achieving the 5 percent women-owned small business goal by increasing dollars to $6.8 billion and the percentage to 2.9 percent. All agencies exceeded the 5 percent small disadvantaged business goal, which includes awards under the 8(a) Business Development Program.

When the President announced the establishment of the Department of Homeland Security in early 2003, Administrator Barreto sent a letter to Secretary Ridge congratulating him and offering to work with him to ensure maximum small business participation in procurements that support his mission. We believe that leadership and accountability by the senior management at the agencies make all the difference for our Nation's small businesses. Reinforcing those principles, SBA met with the senior officials at Homeland Security, and other major Departments and agencies, to obtain their commitment to the small business programs and to achieve the government-wide small business procurement goals. Since that time, we requested that Kevin Boshears, Director, Office of Small and Disadvantaged Business Utilization (OSDBU) first establish several

non-traditional small business goals for FY 2003. In June, we assigned a Procurement Center Representative (PCR) to work with Mr. Boshears to review procurement opportunities and establish traditional small business prime and subcontracting goals for FY 2004 and FY 2005. We are pleased with the Department's commitment to achieve the statutory prime contracting goals in each small business category. Also, the Department proposed an aggressive small business subcontracting goal of 40 percent, which includes a 5 percent subcontracting goal for women and small disadvantaged businesses, and 3 percent for service disabled veterans and the HUBZone firms.

Government Contracting Programs

Through the Government Contracting prime and subcontracting programs, SBA provides policy direction and guidance to Federal agencies and works with them to develop acquisition strategies that will help to increase opportunities for small businesses in Federal procurement.

We leverage our PCRs and Commercial Market Representatives resources by working with the OSDBU to reduce contract bundling and develop strategies that will provide maximum opportunities for small businesses. We are also planning to use technology to provide broader coverage at Federal buying activities to review potential procurements for small business participation. Currently, PCRs cover the top 255 contracting offices across the country which represents about 60 percent of procurement dollars. SBA is looking into modernizing the PCR process to make it operate more efficiently and cost-

effectively in today's procurement environment. In that regard, we are working with the Office of Management and Budget's Integrated Acquisition Environment Team to develop an on-line screening process (i.e., an electronic PCR) that will allow agencies to submit planned procurements electronically for PCR review during the acquisition planning process. SBA will be able to increase the number of procurements that can be reviewed since the work can be distributed electronically irrespective of PCR location.

8(a) Business Development Program

Through the 8(a) Business Development Program, SBA provides business development opportunities including Federal contract opportunities and management and technical assistance to firms owned and controlled by socially and economically disadvantaged individuals. SBA encourages program participants to partner, team, and joint venture in support of their business development plans.

Since 1968, there have been more than 600,000 contracting actions worth about $94 billion in the 8(a) Program. In FY 2002, 8(a) firms employed an estimated 172,000 people and agencies awarded approximately $16 billion in contracts to 8(a) firms and other small disadvantaged businesses.

7(j) Technical Assistance Program

The 7(j) Program is an important component of the "Business Development" portion of the 8(a) Business Development Program. SBA awards grants, contracts, and cooperative agreements to provide training and technical assistance to eligible small businesses. Through 7(j), we have developed a Procurement Academy that will provide on-line training to 7(j) eligible participants. I will share with you more information on the Academy later in my testimony.

HUBZone Program

The HUBZone Program promotes job growth and economic development through contract assistance to firms that locate in and hire residents from distressed urban and rural areas. Currently, there are more than 9,000 certified HUBZone firms, representing approximately $16 billion in revenues. This portfolio of small businesses employs 122,000 people, of whom 85,000 live in economically distressed rural and urban HUBZone communities. Based on FY 2002 data from the FPDS, HUBZone firms received $1.67 billion dollars in Federal contracts which helped to support 12,582 U.S. jobs.

Procurement Marketing and Access Network (PRO-Net)

PRO-Net is an internet database of small firms seeking to do business with Federal, state, and local governments, and government prime contractors and serves as a marketing vehicle for small businesses and a market research tool for the acquisition community.

The system serves as the authoritative source of information on firms certified by SBA as 8(a) Program participants, qualified HUBZone small business concerns, and small disadvantaged businesses. On December 17, 2002, PRO-Net was integrated with the Department of Defense's Central Contractor Registry (CCR) to eliminate redundant small businesses data entry, reducing the burden to small businesses, as part of the President's Electronic Government Initiative to establish a single point of vendor registration in the government.

SBA Initiatives

We continue to use the best practices of the marketplace to improve and modernize our programs so that an environment can be created for small businesses to succeed, create jobs and support economic growth. In FY 2003, we implemented several key initiatives to increase prime and subcontracting results. Some of these initiatives include:

National Business Matchmaking Program. We held five Nationwide Business Matchmaking sessions to introduce small business owners to Federal sector contracting

officials, prime contractor representatives, and state and local buyers. The small businesses are matched via prescheduled meetings with buyers based on the commodity or service needed by the buyer. Small businesses register to participate in the event and provide their industry code of the product or service they provide. That information is matched with the industry code that represents the anticipated procurement requirement. Over 7500 one-on-one appointments were held between small businesses and these potential customers. A key objective was to increase women-owned small business participation at these sessions. At the Orlando and Chicago sessions, we achieved 36 percent and 37 percent women-owned businesses participation levels, respectively. Since these Business Matchmaking sessions facilitate small business access to future procurement opportunities, we believe this is an excellent way for small businesses to demonstrate their capabilities. Since these are future opportunities which often are in the planning stage of the procurement cycle, it is difficult to provide immediate results to indicate the number of contracts that small businesses received from these one-on-one meetings. However, we are exploring ways to track and measure results so that this information is readily available. We are planning several Business Matchmaking events over the next year. Small businesses can go to www.businessmatchmaking.com to register for these sessions and obtain more information.

Contract Bundling. In October 2002, the President announced a nine-point strategy that agencies must follow to avoid unnecessary contract bundling and mitigate the effects of justified contract bundling on small businesses. When agencies bundle contracts, small businesses often can not compete given the size and multiple contract requirements. In

January 2003, proposed changes to SBA's regulations and the Federal Acquisition Regulation were published to require, among other things, that agencies conduct bundling reviews of requirements for multiple award contracts and orders against those contracts, strengthen their compliance with subcontracting plans, and improve oversight of their small business programs.

Simplification of the 8(a) Program Processes. SBA is implementing an Internet-based application for the 8(a) and small disadvantaged business certification. This automation will reduce the paperwork burden consistent with the Small Business Paperwork Relief Act and allow small disadvantaged businesses to obtain their certification much faster. This saves small businesses time and money. In September, we awarded a contract to an 8(a) firm to develop this electronic application which we plan to have operational in October 2004. We are also planning to automate other key business processes in the 8(a) Program beginning with the annual review and updates to the business plans of the participants. Through these modernization efforts, SBA will enhance the quality, timeliness, and efficiency of services provided to our customers.

Size Standard Simplification. We are developing a new approach to simplify and reduce the number of size standards by proposing employee-based standards. This will streamline existing processes and procedures and make them easier to use. We are currently developing the proposed rule.

Procurement Training Academy. At the 50th Anniversary National Conference and Expo in September, we released a new CD-ROM based Procurement Academy to provide distance training to 8(a) Program participants, HUBZone firms, other small disadvantaged businesses, and small firms located in areas of high unemployment or low income. This Training Academy addresses business opportunities that exist with the Federal Government, the Federal contracting process, strategies a small business can use to market products and services to the government, and tips on building solid performance records. Through the Business Matchmaking sessions, we provide the environment for collaborative partnerships between buyers and sellers, and the training provides the tools that small businesses need to develop skills that will enable them to succeed long-term in the Federal arena. This training can be accessed at www.sba.gov/gcbd and click on Procurement Academy.

Conclusion

When fully implemented, these initiatives will help to create an environment where small businesses will have better access to Federal procurement opportunities. We will continue to use the best practices of the marketplace to improve our programs and services so that we can continue to provide assistance to the Nation's small businesses. This concludes my testimony, and I will be glad to respond to any questions that the Subcommittee may have.

For Release upon Delivery on
October 21, 2003

TESTIMONY OF KEVIN BOSHEARS
DIRECTOR, OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION
DEPARTMENT OF HOMELAND SECURITY
BEFORE THE
SUBCOMMITTEE ON RURAL ENTERPRISES, AGRICULTURE AND TECHNOLOGY
COMMITTEE ON SMALL BUSINESS
U. S. HOUSE OF REPRESENTATIVES

Introduction

Good morning Chairman Graves, Congressman Ballance, and distinguished Members of the Subcommittee. I am pleased to appear before you today to discuss the Department of Homeland Security's (DHS) small business procurement program.

Background

I was designated as the Director of the DHS Office of Small and Disadvantaged Business Utilization (OSDBU) in May, 2003 in support of the Small Business Act to provide maximum practicable opportunities in our acquisitions to small business, veteran-owned small business, service-disabled veteran-owned small business, HUBZone small business, small disadvantaged business, and women-owned small business concerns.

The OSDBU assists, counsels, and advises small businesses of all types on procedures for contracting with DHS. Additionally, the OSDBU works closely with each DHS organizational element to implement the Department's small business procurement assistance program.

Mr. Greg Rothwell, the DHS Chief Procurement Officer, strongly supports the DHS small business procurement program and considers a strong small business program to be a significant part of building a world class acquisition program.

Recent Efforts

To assist small businesses in overcoming the challenges involved in accessing DHS contracts, we have taken the following specific actions:

- Established the OSDBU and designated an operational small business specialist in each DHS organizational element;
- Worked with SBA to assign a Procurement Center Representative;
- Pursuant to guidance from SBA senior officials, established non-traditional small business goals from May 16, 2003 through September 30, 2003 (see Attachment 1 for the goals and results, as of October 1, 2003;
- Proposed to SBA our numerical/traditional goals in all small business prime and subcontracting categories for FY 2004;

- Published FY 2004 Forecast of Contract Opportunities on October 1, 2003 (on the DHS small business website and in hard copy); and
- Participated in a variety of small business events and seminars through informational presentations, one-on-one counseling sessions, and panel discussions organized by entities including the U. S. Chamber of Commerce, trade associations, SBA, and Members of Congress.

Small Business Statistics

Data from our own internal procurement data system was compiled last week for the March 1, 2003 through June 30, 2003 time frame. This represents the starting date that the 22 agencies were transferred from their former organizations to form DHS and the third quarter of Fiscal Year 2003.

While this data encompasses only four months and still needs final validation from the Federal Procurement Data Center, the numbers appear to be promising for small business participation in DHS procurement opportunities. Establishing a baseline set of statistics for the FY03 DHS transition period will assist with future efforts to strengthen the DHS small business program.

Future Efforts

To continue our efforts to support the small business community in our acquisition program, DHS plans to engage in the following activities:

- Update the Fiscal Year 2004 Forecast of Contract Opportunities as new procurement information becomes available;
- In consultation with SBA, finalize the FY 2004 small business goals for all small business prime and subcontracting categories;
- Host a series of local small business vendor outreach sessions (schedule for FY04 posted on DHS small business website);
- Team up with SBA for the National Matchmaking Tour in various cities around the country;
- Prepare and publish a subcontracting opportunities directory;
- Continue to submit quarterly bundling reports to OMB/OFPP;
- Monitor subcontracting plan compliance;
- Finalize the DHS mentor-protégé program (in the DHS FAR supplement via the Federal Register process);
- Host a quarterly seminar/workshop on how to do business with DHS; and
- Support the OSDBU Interagency Directors Council Annual Procurement Fair – (Upper Marlboro, MD; April 20, 2004)

At DHS, we plan to make the small business program part of our budget, acquisition planning, and small business goal setting process by using small business considerations to further our mission and develop a climate of small business opportunity. These include:

- Small business prime contracts [such as 8(a), HUBZone, traditional small business set-asides, various multiple award contracts, GSA Federal Supply Schedules, etc.];
- Small business teams or joint ventures; and

- Full and open competition where large businesses are expected to serve as the prime contractors and small business participation will be critical through subcontracting and the DHS Mentor-Protégé Program.

Further, DHS is committed to the President's small business agenda, including efforts to avoid unnecessary contract bundling and to mitigate the effects on small businesses of necessary consolidation.

Closing

In summary, the small business procurement program is important to DHS. We will strive to meet or exceed our small business goals by making small business participation part of the DHS culture in support of our national mission.

I would be happy to respond to any questions you might have.

Attachment 1

Department of Homeland Security
non-traditional small business goals for FY 2003

May 12, 2003 through September 30, 2003

Goal	Measurement	**Results as of October 1, 2003**
Host 5 monthly small business vendor outreach sessions using a pre-arranged 15 minute format for small business owners and representatives to meet with DHS personnel and DHS large business prime contractors to discuss prime contracting and subcontracting opportunities.	Establish dates and obtain participant evaluations using four point adjective scale of excellent, good, fair, and poor; strive for a 95.0% satisfaction rate which is defined as the total number of evaluations rated excellent or good divided by the total number of evaluations.	**Dates:** **1) May 16 (with DHS small business specialists)** **2) May 30 (with DHS large business prime contractors)** **3) June 16 (with DHS IT program managers teamed up with DHS small business specialists)** **4) July 18 (with DHS small business specialists)** **5) August 18 (with DHS small business specialists)** ********** **cumulative satisfaction rate = 98.6% (71.8% excellent; 26.8% good)**
Establish DHS mentor-protégé program and publish on DHS website.	Draft program language and post on DHS website for comments by June 30, 2003; incorporate into DHS FAR supplement and DHS Acquisition Manual by September 30, 2003.	**Program language approved by DHS Office of General Counsel and Office of the Chief Procurement Officer on June 13, 2003; draft mentor-protégé program plan posted on DHS website on June 27, 2003**
Collect best practices from DHS small business personnel and submit to SBA.	Compile best practices and submit to SBA by June 30, 2003.	**Collected best practices from DHS components on June 18, 2003; letter submitted to SBA on June 26, 2003**
Prepare DHS small business pledge to support the President's small business agenda.	Sign pledge by June 30, 2003.	**Pledge signed on June 19, 2003; pledge posted on DHS website on June 27, 2003**
Prepare and submit quarterly DHS bundling report to OMB/OFPP.	Submit report by July 31, 2003.	**Report transmitted to OMB/OFPP on August 11, 2003**
Update and maintain DHS small business website.	Complete major update by Friday, July 11, 2003; request feedback from small business community and incorporate recommendations by Friday, August 1, 2003.	**95% of information gathered by July 11, 2003; 100% of information gathered by July 21, 2003; update posted on DHS website on July 28, 2003**
Host small business training session for DHS small business personnel on variety of small business topics including bundling, subcontracting compliance, pending legislation, etc.	Establish dates and obtain participant evaluations using four point adjective scale of excellent, good, fair, and poor; strive for a 95.0% satisfaction rate which is defined as total number of evaluations rated excellent or good divided by the total number of evaluations.	**Dates:** **June 17 – 19, 2003 for 2½ days of training** ********** **satisfaction rate = 100.0% (79.2% excellent; 20.8% good)**

Mr. Chairman, Member of Congress, Staff, Ladies and gentlemen; my name is Dan Lane and with me today is Dr. Chris Powell, who will be be issuing alerts demonstrating EMCOM while I am telling you a little about EMCOM and our struggles to get recognition.

EMCOM is a product of Technical Legal Consulting. We are a forensic computer engineering company who develops and deploys software designed for legal, government and financial applications.

EMCOM is the only existing fully integrated and immediately deployable fully redundant All Hazard Emergency Alert Notification and Integrated Communication System in the world.

EMCOM is completely device and network independent. EMCOM uses whatever device or network is in the hands of the public and allow the public to pick and choose how they are notified.

EMCOM is simple to use from a single point of interface and any message can be targeted by any combination of groups or geographic areas.

EMCOM also provides multiple layers of encryption for system and message security.

Chris has now keyed in an alert on one device and network which will issue an alert received on cell phones, which we have asked staff to keep on in the hearing today and on a nationwide satellite device which we brought with us today.

EMCOM interfaces with just about every known electronic communication device. It is the most pervasive and useful EM

system in the world. EMCOM gives the public multiple ways to receive a message and it gives Emergency Management directors, EM directors, multiple ways to issue the alerts or coordinate relief EVEN if their command center is destroyed.

This type of redundancy allows EMCOM to send messages from its single point of interface throughout all communications channels at once, achieving immediate notification.

One of the primary lessons we learned from 9-11 is not all communications methods will be operational after a disaster and those that are operational, may be overloaded. Therefore, even if his commnand center is destroyed an EM director can still issue an alert or direct relief efforts. Chris will issue a second alert using a second device and network.

Alerts are received through our system within 30 to 45 seconds from issuance, which is anywhere from 500% to 800% faster than the EAS.

The public can receive alerts and first responders can still be directed as long as they have one device with a means of communication.

EMCOM also provides for bidirectional interactive communication from the field by text, video or audio, allowing EM directors to asses and apply limited resources effectively. Feedback loops and situation reporting are built in to allow quicker assessment in the field and for training purposes.

First responders are guided to the places needed most. In other words, better triage, because as we know those places where main communications are out are the last places to get help.

EMCOM is the only network with a built in volunteer organization of Community Coordinators who are the last mile notification network and the first on the scene to report back in a disaster. The Coordinators are able with EMCOM to work with First Responders.

Nothing like EMCOM exists and it would take years to develop a similar system.

EMCOM began in 1997, starting with an extensive needs analysis and working with Emergency Managers all over the US. In 1998 we had the first test of EMCOM with over 800 EM directors on line.

Since then extensive improvements in the system have been made, 9/11 giving us new focus.

By October, 2001 the system was completed in a final deployable system.

In October 2002 we were invited to present the system to the Partnership for Public Warning, a organization to which Congress has contributed $10 million to define a system. PPW issued reports, portions of which we have included showing the need for EMCOM. We have also included several articles from media urging adoption of such a system and reporting the policy of Homeland Security to deploy such a system. These exhibits specifically describe EMCOM.

Initial attempts by EMCOM were made to contact the then Homeland Security Agency, before it become a Cabinet Position, particularly its Chief Technology Officer, Steve Cooper by phone

at his White House Office.

Ike Skelton's office has hosted some Government Contracting Expos which we have attended, at which NavAir though Admiral Crowley become interested in the project. There has never been a presence by Homeland Security at those conferences.

Because of the nature and importance of the product to the Nation, we continued to pursue contacts with Congress and our Technology contact with Homeland Security attempting to find some inroad as a sole source provider of new technology to either a contracting route or to simply make Homeland Security aware our product existed and filled an immediate articulated need by Homeland Security.

Initially, in 2002 we were told no money existed in any Homeland Security Budget and they had no idea when, and for what, money would be forthcoming. Even though we had made contact with the office, no duty assignments had been made, no one claimed responsibility for finding and deploying an Alert system, even though it was a policy objective, and no one could direct us, to how or where to contact the appropriate person to talk contract.

We continued attempts to expand our contacts with Homeland Security by asking our Congressional Representatives to intervene. We continued to keep track of government contracting sites, but no where was there anything which could point either the Legislative Assistants or our staff to any policy or procedure that would allow EMCOM to be reviewed by Homeland Security or allow EMCOM to be presented to Homeland Security for consideration. No one knew what the command structure for Homeland Security would be and no one knew where the offices would be located. In essence, there was a face with no body and no functionality.

To the credit of Congressmen Graves and Senator Talent, their staff continued to make calls to people like Mike Brown, who by shear accident we met in Tennessee and who provided us contact information, which was passed on to the LAs. Finally we were able to get 30 minutes with Rose Parkes, CIO of FEMA on May 14, 2003. She had in that meeting Gordon Fullerton and Tim Putprush.

By May the organization of Homeland Security was still in progress and no one seemed to know who had what responsibility and where people were physically located and what their phone numbers were. Mike Brown had just got his first AA.

FEMA indicated in the meeting that EMCOM was the most advanced and comprehensive system in existence, but very simply put, we were not a big company, were not tested over a large network and therefore could not be immediately considered, even though there was nothing like it in the world.

Ms. Parkes instructed her staff to follow up with appointments for EMCOM with NOA and the NWS by the end of summer and to report back on the next steps to move forward with EMCOM.

Even though we have continued to call and contact FEMA, those appointments have never occurred and we have not had any additional contact from FEMA or Homeland Security.

We continued to make trips to DC, call FEMA, and monitor the contracting policies and procedures of Homeland Security, but nothing happened.

Since then, there have been tornados over all the midwest, flooding

in the east, hurricanes, a war in Iraq causing substantial changes in the Homeland Security Levels, untold lost children, chemical spells, escaped prisoners, boil orders, weather warnings and countless other emergency situations for which EMCOM would have been essential to not only for warning but also for disaster relief and coordination.

TLC is a small business, with great expertise. Our main programmer developed missile systems for the US. His expertise has been recognized world wide.

TLC cannot afford a staff to just coordinate government contracting. We cannot afford to implement large test areas. The system has been running in beta mode for over 2 years, issuing alerts and being accessed without a failure. EMCOM is reliable.

We cannot pledge the assets of a Fortune 500 company to a contract, but neither could a Fortune 500 company have the foresight to develop and deploy EMCOM. It took the vision of a group of software developers in the midwest who listened to what EM directors were telling them to make EMCOM a reality.

Since our journey began we have enlisted the aid of State and Local governments to support an EMCOM deployment.

Some of them are:
Glouschster NJ
Rhode Island
Mississippi
Tennessee
Juno Alaska
Monroe WA
Nevada

Texas
Indiana
Illinois
Towns in Missouri
Buffalo NY

They have all supported and requested an EMCOM deployment and would be available for immediate test areas.

We have had inquiries from companies who see not only the governmental but also the private utility of EMCOM. EMCOM could be privately funded. But all that does is to drive up the cost of the system to the American people.

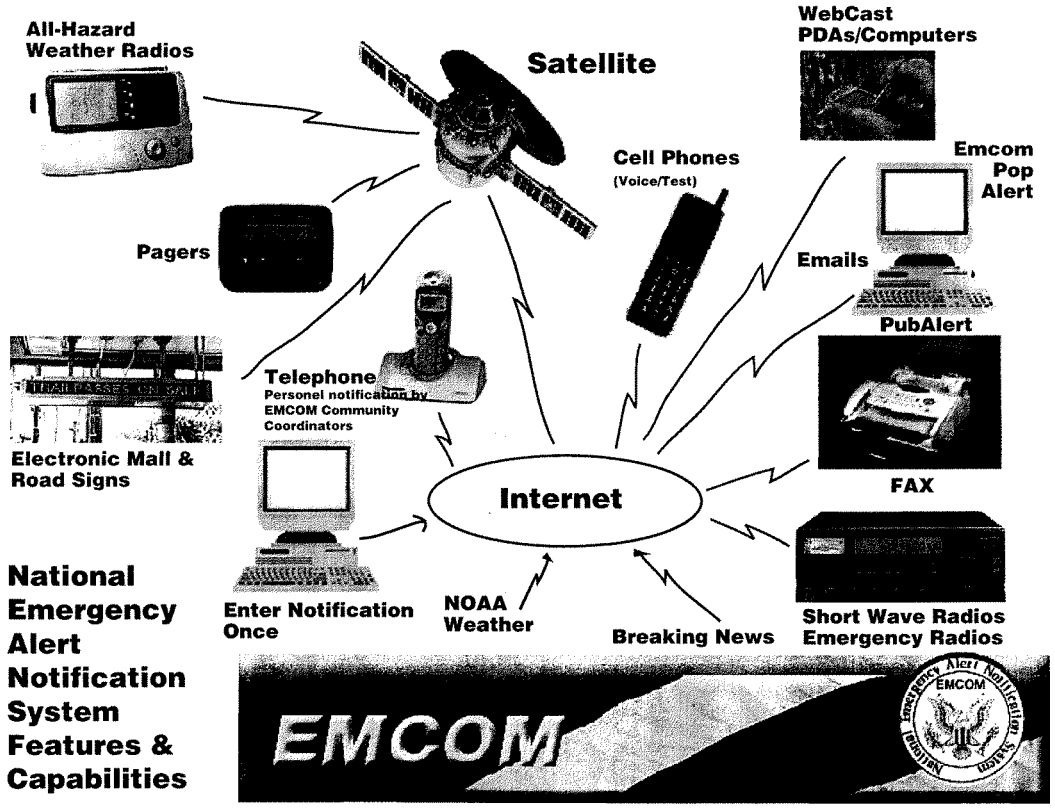
EMCOM is a cost effective solution, its implementation estimated to be substantially less than anything else which has been proposed to date.

On behalf of EMCOM I have continued to knock on the door of Homeland Security and this Congress. Congress has opened the door and is listening. Based on what I have seen of this Congress you do not believe the American people are expendable to either natural disaster nor man made disaster. However, I have not seen a similar response from Homeland Security.

Either as a lack of organization or lack of interest in its primary responsibility which is the safety of the American public, EMCOM as a sole source contractor with new technology has not been able either through your efforts or efforts of State and Local Government to gain the attention of Homeland Security.

Our sincere desire continues to be to work with Homeland Security and bring a comprehensive and affordable All Hazard Alert and

Notification System to the people.



National Emergency Alert Notification System Features & Capabilities

UNIVERSAL REQUIREMENTS RECOGNIZED FOR A NATIONAL ALL-HAZARD ALERT NOTIFICATION SYSTEM

- ✓ ***Bi-directional Communication***, Communicates from Sender to Receiver and from Receiver to Sender at the same time, from **ANY POINT** throughout the **entire Emergency Management Chain or the EMCOM system**
- ✓ ***Simple-Single Point of Interface***, **easy to learn** and use from one single screen set
- ✓ ***Integrated & Interactive Coordination/Communication***, all devices **work together** and talk among themselves
- ✓ ***Immediate***, **30-45 second delivery time!**
- ✓ ***Target/Direct and Cascade Delivery Capability***, can be **sent to a group, city/township, a zip code, the Nation** and/or any combination
- ✓ ***Device & Network Independent***, **works** with whatever is in your hands
- ✓ ***Pervasive Ability to Simultaneously Communicate***, **works throughout all available delivery means/channels** at the same time and all messages are directed to all available channels/equipment **at the same time**
- ✓ ***Redundant Secure Reliability***, **independent of any specific** utility, network, device or communication channel, **does not depend on any one thing to work**, electrical, communication networks, server or set of servers with multiple layers of encryption/backups
- ✓ ***Feedback Loops/Situation Reporting/Training***, **basic forms for field reporting** are built in as well as help
- ✓ ***Cost Effective***, **$1 per-person-per year** for coverage for the **entire USA**

EMCOM

Testimony of Benjamin M. Brink

President and Chief Executive Officer Data Search Systems, Inc.

Before the

House Committee on Small Business

Subcommittee on Rural Enterprise, Agriculture and Technology

Hearing on

Challenges that Small Businesses Face Accessing Homeland Security Contracts

21 September 2003

Mr. Chairman, thank you for inviting me to offer testimony regarding the challenges small businesses face accessing Homeland Security contracts.

My name is Ben Brink. I am the President and Chief Executive Officer of Data Search Systems, Inc. (DSSI) in St. Louis, MO. I am also a Captain in the Naval Reserve and Commanding Officer of NR Office of Naval Research 0682, a Naval Reserve Intelligence Unit in Memphis, TN.

My background includes approximately 25 years of technology company management, primarily in Silicon Valley and Southern California. I began my career after my active duty naval service and the completion of a BS in mathematics and MS in engineering at Stanford and an MBA at Harvard. During my career I have had the opportunity to lead a number of technology companies from $0-35 million in revenue during stages of turn around, transition and growth. Several of these companies have provided products and services to the Federal Government, primarily DOD, either as a contractor or subcontractor.

DSSI is an early stage technology company commercializing technology developed by a team of four professors at Washington University in St. Louis. This technology enables very rapid searches of large, unstructured databases. We expect early applications of our technology will be relevant to intelligence, defense, homeland security, and law enforcement. Later applications will address the needs of defense imagery, genomics research, medical, financial and other commercial databases.

DSSI and I have not to date had specific experience attempting to gain contracts with Homeland Security—we are a very new company, founded in April, with initial funding closing at the end of June. We have only been in full operation for 3 ½ months. In fact, this trip to Washington, DC is the company's first to visit with government agencies, although our academic research team has had extensive and long term discussions with

several intelligence and Federal law enforcement agencies in the past. This testimony is therefore more a discussion based my previous experience with small technology growth companies and the challenges they have faced and do face in doing business with the Federal government. Based on that experience I will make several recommendations on how it may be done better, specifically with application to the Department of Homeland defense.

This is a key time for such a hearing. I commend the committee for doing this now. The President's goal to make federal contracting accessible to small business is good not only for small business but also for our nation's security. New, innovative companies develop new, innovative technology. We are in a new security environment and face a new threat. The DHS is a new agency, with new needs. This embryonic Department's structure is still being formed and is not yet set in stone. The initial scramble to take care of short term homeland defense needs is done. Now is the chance to review how the Department has done so far and how to get right its longer term functions and practices—in particular, how to support small, innovative businesses that can provide new outside-the-box solutions for our nation's security.

Overview

My comments and recommendations are based on my experience with positive and negative experience doing business with other government agencies, rather than what DHS is doing now. Although the recommendations are relevant to small companies doing business with DHS, my comments to the extent that they are deal with using best business practices to establishing a better, more flexible procurement system are relevant to all companies doing business with the DHS, not just to small ones.

It is in fact difficult, and has always been so, for small or growth stage businesses to do business or to contract with any very large bureaucratic organization, especially the Federal Government. The mismatch in size between a large organization and a small one often causes two major problems. The large organization can swamp the small one with its demands—for information, accounting, service, etc.— at a level much greater than the bandwidth of the small organization can handle. Going the other way, the small organization can get lost dealing with the large organization. Where is the decision maker, information provider, etc.? Again the small organization burns its very limited bandwidth just trying to get to the right person.

One stop shopping

As an overarching best business practice, the larger organization, DHS in this case, needs to create a small business contact point, with decision making authority to work with that small entity on a more compatible basis. Private companies that have this sort of arrangement to work with its small company partners have had a higher success rate than those that have not. The Defense Advanced Research Programs Agency (DARPA) provides a good example of a highly successful solution used by DOD both to produce solid results for DOD and as a vehicle for small technology companies to do business

with DOD. DHS has created a similar agency, the Homeland Security Advanced Research Projects Agency (HSARPA). This is a good model and should be encouraged.

In researching for this testimony I did a web search to find whom one might contact to do business with DHS, I checked their website. They list 10 procurement agencies on the page. Interestingly enough, their site does not show an obvious link to HSARPA or to other resources useful to small companies interested in doing business with the agency. However, I found the HSARPA link on a Congressman's House site (Rep. Steve Beyer of IN). This site had several dozen useful links for small and technology oriented business interested in working with DHS. I mention this to point out that DHS has no one stop shop yet for companies to connect with the right people at the Department. Although this is clearly important to any potential contractor large or small, given the resource bandwidth constraints of small business, it is critical.

On time payment

The Federal Government has an awful reputation for on time payment of its bills. In my experience, on time payment means 60+ days, a typical government receivable might be over 90 days. While this is difficult for any vendor, it is particularly harmful to smaller companies with their typical tight cash constraints and limited debt capacity. If DHS is to be small business friendly, it must pay on time. Lessons may be drawn from the performance of the National Science Foundation (NSF), the one happy exception in my experience of Federal slow payment. The NSF seems to have both sensitivity to the problem and a mechanism to get its smaller partenrs paid in a timely manner.

Reliable business partner/consistency of funding

DSSI is an early stage growth stage company rather than a stable small business. Although many of the issues are the same, there are some differences relevant to doing business with the federal government. Products are new and changing. The Company may be pre-revenue and depending on investor capital or in a growth phase and continuing to burn cash through its growth.

For all small businesses, but for growth stage companies in particular, consistency of funding is a key to stability and survival. Making the Federal Government, DHS in particular, a reliable business partner for small companies is a key to successful support of small business. Provision must be made to provide consistent funding of programs (e.g. SBIR) with phase ups and down as opposed to abrupt stops and starts. Small business and early stage growth

As an example, I had a recent assignment as interim CEO with the task to save or shut down a development stage company (AP Materials, Inc. another Washington University technology spin-out). The company had met its technology milestones and had completed several successful SBIR contracts. However, as many development stage companies in this post dot-com era, it had continuing difficulties securing additional investment capital. During my tenure, APM experienced an eight month delay in the letting of DARPA SBIR contracts it had been asked to bid on, this caused by priority changes concurrent

with the change of administrations. This was the primary factor that forced me to make the decision to shut down the company, dismiss its 14 employees, and license the technology to a larger company with more staying power.

Clearly it is key to keep flowing expected funding to organizations that perform. Small companies do not have the cash to weather funding delays.

Funding of directed venture

The CIA has funded a strategic venture firm, In-Q-Tel, which is connected to the CIA, but relatively independent in its ability to make investments in promising companies with technology relevant to the CIA's needs. In-Q-Tel also provides the small company with access to the appropriate resources and customers within the difficult-to-navigate intelligence community.

A similar organization, if not already in existence but unpublicized, would be highly useful for DHS. In particular, the access provided by such an organization would be invaluable to small companies attempting to navigate a new Department organizationally in a state of flux.

One structural negative to In-Q-Tel that should be mentioned, is that when it was created it was forced to put strings on the technology—having to do with restrictions of royalties to the inventors on In-Q-Tel invested technology and onerous operating agreements—which has made investment by In-Q-Tel less attractive than it should be. Should a DHS strategic venture firm be created, alternatives to the In-Q-Tel limitations should be explored.

New Technology COTS list

One of the challenges faced by small companies developing products is how to get on the GSA list the first time. I am no expert in the GSA listing requirements, but it is clearly an area where small businesses are at a disadvantage. It is also a list that tends to under-represent new, innovative products.

New innovative technology is in a state of motion, the usual requirements of long term parts and repair support may not be relevant to these types of products, since they will obsolesce in the short term—and smaller companies do not have the capital to prepare for such contingencies.

In this era of advanced Commercial of the Shelf (COTS) technology and the desire of the government to acquire new and innovative technology, it would make sense to create something like an extension of the GSA list which was either probationary or preliminary, which would have a set of easier, less bureaucratic requirements. This advanced technology GSA list could permit small, innovative companies to get in the catalog with a standard price, permitting it easier access to government purchasing organizations.

Concurrently, it would give government procurement organizations easier access to advanced technology products produced by new and innovative companies.

The list would have requirements similar to a procurement agreement that a Fortune 500 company might require of its smaller suppliers: an agreement to provide best price to the government; reasonable warrantee and return; periodic review of the company's financial strength; etc. It would also make sense to set up a migration path from this list to the GSA list—perhaps at a certain revenue threshold.

Separate bidding and acquisition regulations for small business subcontractor

I spent several years in the mid to late 1980's as a Principal with H&Q Technology Partners (HQTP, now Technology Strategies and Alliances), a firm in Silicon Valley lead by former SECDEF William Perry that did corporate partnering between small to medium sized technology companies and large defense companies. During that time, I had two assignments as turn-around CEO of two mid-sized companies that did business with DOD. While at HQTP I observed that primary reasons for smaller companies to partner with large government contractors was that it was too difficult for the small company to do business directly with the government for reasons I have discussed above or because the company's primary business was in private sector and it was defocusing to comply with the different and complex accounting requirements imposed by the Federal Acquisition Regulation (FAR)—unquestionably a document that favors larger companies over small.

Because contracting bids are generally made by the prime and subcontractors bid to the prime (rather than to the government via the prime) there is natural pressure exerted by the prime to get the bid price as low as possible. Not surprisingly, the larger contractor (the prime) often squeezes the weaker/smaller sub-contractor so that there was no profit left for the smaller company.

It would be interesting to explore a mechanism for a small subcontractor to bid its services/products separately from contract management services of the prime. Perhaps this could be managed by a small company subcontracting office under a simpler, easier baby-FAR.

Clear SBIR policy—pick & create winners

A clear definition of small business is needed, which does not exclude from that definition companies that have been vetted as likely winners by winning private sector investment.

The following quote from a 7 October 2003 e-mail alert from the Biotechnology Industry Organization to its members. points out an exemplary problem faced by small companies in dealing with the Federal Government. In this case, it is an issue currently being contended with by small, growing biotechnology companies. "Recently, the Small Business Administration (SBA) restricted its interpretation of eligibility standards for receiving grants under the Small Business Innovation Research (SBIR) program to only

small businesses that are at least 51 percent owned by one or more "individuals." However, SBA interprets individuals to exclude venture capital and venture funding thereby prohibiting biotech companies primarily funded through those sources from receiving SBIR grants."

This sort of thinking says essentially, "If you are a small growth company with enough potential to attract venture capital, we will not support you." With that kind of thinking, SBIR funding will become a funding vehicle for companies with little potential. As DHS builds its SBIR program it should be mindful of the useful service provided by private sector venture to pick winners and should support those companies. Otherwise public money will become a funding vehicle for the losers.

Local and small scale pilots

Consistent with the theme of smaller companies needing to deal with smaller, less bureaucracy-bound partners, pilot programs are easier for small companies to perform well in that larger scale programs. Perhaps the HSARPA or a new pilot program office could be empowered decision making authority to manage pilot programs with less bureaucratic overhead and a mandate to use smaller companies to lead the work.

An example where this is being done is in St. Louis, where a local company, Talisen Technologies, has partnered with Boeing to stand up one of three pilot Homeland Security joint intelligence/intelligence fusion centers. DSSI hopes to be part of this effort, providing its high speed searching capabilities to enable fast intelligence data mining.

Committee on Small Business
Subcommittee on Rural Enterprise, Agriculture and Technology
Challenges that Small Businesses Face Accessing Homeland Security Contracts
Tuesday, October 21, 2003

Mr. Chairman and Members of the Committee:

I wish to thank you for the privilege and opportunity to appear before your subcommittee today. I want to address the challenges facing small companies such as ours when attempting to secure or do business with the Department of Homeland Security.

Let me begin by introducing you to our company. My name is Tim May and I am the President and CEO of Advanced Interactive Systems. AIS is a privately held company based in Seattle, Washington. We employ more than 125 people in 7 facilities in the U.S. and abroad. Our company designs and manufactures high-tech simulator systems, virtual reality systems, and training facilities worldwide. We have been a leading provider of comprehensive training solutions for law enforcement, aviation, emergency responders and military agencies since 1993. We combine state-of-the-art technology with extensive tactical experience to provide immersive real-life judgmental training scenarios. We also design and build anti-terrorist and other special application training facilities for military and special operations groups, with installations in 32 countries.

When the Office of Homeland Security was created, we were eager to bring what we believe is one of the most innovative solutions to training to this new branch of the

federal government. The question was, "How?" How do we get our technology in front of the right people? Who are the right people? And, if we were fortunate enough to land a large contract, "What was the best approach to manage it?" An analysis of the market led us to conclude that all roads led to teaming with one of the larger contractors if we were to have any real chance at securing business in this new arena. So, we did just that. In June of 2002, AIS was selected by Boeing to conduct the operator training for up to 30,000 baggage screeners at airports throughout the United States. This training activity was in connection with the Boeing/Siemen's contract for installation of explosive detection devices and explosive trace detection equipment for the Transportation Security Administration. The project required us to train more than 1700 instructors and enable them to deliver the curriculum provided by the government in more than 160 locations – all in less than 6 months. While this was a tremendous opportunity for AIS, it was also fraught with challenges, many of which were unrelated to the basic task.

Managing a training program of this scope and magnitude and still meeting the mandated deadline required a well-defined management command and control system. Although challenging, we found that to be one of the simpler problems we confronted. We devised a program flexible enough to allow our training to accommodate change and upgrades as each trainer completed instruction and new classrooms were brought online. We were also able to track and coordinate the activities that were necessarily associated with such a decentralized work force. The solution demanded a system of constant and very accurate communications between the central project management staff and a geographically scattered workforce assigned to the project.

The difficulties AIS faced on this contract, however, were typical of the any

subcontractor faces when it is teamed with a larger company. We did not have direct contact with the ultimate customer and, as such, had to rely on third party information when it came to our customer's requirements. We were also keenly aware that this contract was AIS' chance for entry into a new market and the opportunities it could afford. However, since we were a subcontractor, success in this particular contract did not ensure us future success with the Department of Homeland Security. As a result, when this contract ended we found ourselves back marketing to the DHS as if we were a new kid on the block. That task is further complicated with the difficulties presented by ever changing personnel at the Department. With the experience of having successfully completed this contract, our business approach now has a dual focus - securing further business from the federal government and marketing directly to the emergency responders. Both are uphill battles but we are making progress. However, we are confronting some difficulties that we are not faced with in our other business sectors.

In the emergency responder community, we have run into the normal challenges one expects when marketing to the State and local agencies - they are fragmented and numerous. As a small business, AIS cannot easily and economically reach all potential customers, so we have to prioritize. We have opted to concentrate our marketing efforts on the states and larger cities. Although this limits our efforts, it is a strategy we must adopt in order to not over-commit ourselves financially in what is truly a new venture.

Ironically, we have been confronted with an unusual problem when approaching this market. Virtually every law enforcement or fire-fighting agency to which we have demonstrated our technology and services has been excited about our solution and willing to contract with us. But they have a surprising dilemma. Despite all the media reports of

the new and expanded funding being made available to first responders, we have found that, even in many major cities, the frontline agencies do not know how to access those funds within their own states. As a result, we have necessarily become a resource to them because of our knowledge of the federal government hierarchy and how they can locate and use those funds. This is a difficult burden for a small business to shoulder inasmuch as it stretches our marketing and manpower budget and increases the timing of a customers purchase.

Additionally, we have found that many within the first responder community are unsure of the procedures involved in contracting with us. So, we are faced with having to learn the rules and procedures and even the identity of a myriad of State and federal contracting agencies. As you can well imagine, this is time consuming and places a costly burden on us and others in our position.

We have been in numerous meetings and discussions with the Department of Homeland Security about these issues and others related to doing business with the DHS and we appreciate the support and assistance they have given us. We are very aware, for example, that DHS and other government agencies face a difficult task in taking a chance on awarding contracts, especially of a critical nature, to a small business. However, merely ignoring the benefits these smaller firms might bring simply because of perceived risks is an unfair and, indeed, an unwise policy.

I would like to suggest a possible solution to the problem. AIS would propose the creation of a Small Business Advisory Board as part of the Department of Homeland Security with the intent being that the department will comprise an agency that will mirror but not duplicate what the Department of Defense does with small business. For

instance the creations of a mentoring program, a small business advocate, incentives for larger companies to work with small business and a program such as the DOD SBIR (Small Business Innovative Research grant). My company and I are certainly willing to assist in any way possible to make such a program a reality.

Once again, I thank you for your time and the privilege of addressing you.

FRONTLINE DEFENSE SYSTEMS, LLC

Mr. Chairman, members of the committee, I appreciate this opportunity to come before you and tell you about my experiences as a small business. **Frontline Defense Systems, LLC.**, a Nevada based Corporation, is certified as a woman-owned small business. The company works with government agencies to develop and implement security programs and solutions for the border, ports, and federal facilities. Frontline Defense Systems *(FDS)* provides a complete package of unique security solutions and services:

- threat assessments and penetration of armed facilities
- policy and procedures
- security development planning
- hardware and software: (sensors, biometric solutions, infrared cameras, multi-spectral thermal imagers, wireless devices, network security solutions, X-ray and Gamma –ray high density cargo inspection, chemical and biological sniffing devices, license plate recognition systems, facility access and control systems, signals intelligence, and temporary facilities)
- integration
- management training
- systems support
- operational and maintenance support

Frontline Defense Systems, LLC companies have locations nationally and world wide. FDS either owns or has interest in over 25 businesses that are the best in their field to provide services and products to the customer. Most of these companies have been in business for over 20 years. Our team is made up of technologies with a proven past performance history with the government. Our Customers include:

- White House Military Office
- US State Department
- Department of Defense
- Classified sites of the US intelligence community
- Transportation Security Administration
- SOCOM
- National Reconnaissance Office
- DTRA
- NRO
- Department of Energy
- DIA
- US Army ECBC
- DPG Life Sciences
- DARPA
- US Customs
- Federal Aviation Administration
- Department of the Interior

- US Coast Guard
- Salt Lake City Olympic Operations Center
- Centers for Disease Control
- Ports of Baltimore MD, Charleston SC, Savannah GA, Honolulu HI, Guam
- Johns Hopkins University
- Los Alamos National Labs
- Governments of:
    - **Canada, Spain, Germany, United Kingdom**
    - **New Zealand, France, Taiwan, South Korea**

After seeing a list of customers like that, one might ask- What do you have to complain about? Well, I am not really here to complain, I am here to educate. If you notice, we don't do a lot of work with the Department of Homeland Security, but after looking at our qualifications you see that we should. When it comes to Chem/Bio we are the best- we secure and are the referee systems for the National Chemical Warfare Center. When it comes time to do covert operations or go to war- who does the Special Forces community get their equipment from?-us. When US Customs wants to inspect densely packed cargo or is looking for people in the back of a truck before they send the truck through a deadly radiation blasting device what do they trust?- The Eagle. When the White House believed that it was very important to have a second set of eyes to look at their security, who did they ask?- Our team. When people's lives are at stake or when the situation is critical the government calls us. Don't our ports, borders, and airports deserve the same level of protection?

Let's get down to the problem as we see it. When the Transportation Security Administration was stood up UNYSIS was brought in to handle the majority of the procurement. Instead of dealing with government officials, we had to pitch a very large corporation who wanted to see all of our proprietary material. That is DEATH to a small innovative company. In the past, we have been burned by the large integrators because they have used us to get qualified on a contract, abused us when they won by telling us that they want us to work for price we can't afford, and then created a half-baked version of our solution for the customer. For this reason, we need the ability to procure on our own and not leave our livelihood in the hands of the "big boys".

We also need a better standard for measuring the size of a business, the ability to update the changes, and better oversight on contracting. The GAO report GAO-03-5591 of March 18, 2003, stated that there is very little oversight in large contracts on true small business activity. The "oversight" is generally left to the integrator to tell the SBA their version of the truth. I agree with the GAO that we should stop overwhelming our SBA people with tasks that have nothing to do with their job and allow them to go fight for the small businesses and have on site reviews of the contract. The GAO also reported in May of 2003 that over $460 million dollars in contracts were awarded to 5 large corporations, posing as small business, due to the lack of records on current businesses status and oversight by the government. How can I compete against the big integrators when they are still posing as a small business that they acquired 10 years ago?

Recently the Bureau of Citizenship and Immigration Services let out a BPA (blank purchase agreement) worth $500 million dollars citing the Paper Reduction Act. The "statement of work" was only 1 ½ pages long and included anything IT that BCIS intends to buy over the next few years. The way that the BPA is currently written up, will exclude any small business from getting part of this BPA, which is a great acquisition vehicle for any business wanting to do business with the government easily. This BPA was put out on the street after the CIO of Homeland Security, Steve Cooper, said that he did not want BPA to go out. Mr. Cooper, and the Undersecretary for Management, Janet Hale, said that this BPA did not fit the new departmental guidelines investment plan for IT or strategy for acquisitions that the Department has set up; and would severely hurt the small business initiative put forward by the White House. What is the point of having a CIO if he isn't going to be given budget control over the Department's IT? Giving him control of the IT money is the only way we are going to see these departments start behaving differently and the only way we are going to see some "real" initiatives on sharing of resources. Steve Cooper came in with a solid plan on doing business with small businesses. Mr. Cooper and as Ms. Hale understand that small businesses are innovative, reasonable, and get the job done quickly. I am asking you today, what are you going to do to give people like this a big stick to really make change in the agencies that are now part of Homeland Security? I can tell you from personal experience that I haven't seen anything change within these agencies over the last two years except their name.

Since there has been so much chaos in the last two years bringing these twenty-two groups together, you haven't seen the amount of money that has been wasted or has been procured improperly. Today our ports and borders are NO safer than they were two years ago. By having this hearing today I feel that you have an understanding that things need to change and I am encouraged that this committee is taking the initiative to make a difference. I hope that you will strongly encourage the Department of Homeland Security to follow in the footsteps of the Diversity and small business offices of the Dept. of Energy, HUD, and the Department of Transportation. They have shown true progress in helping small businesses obtain contracts and keeping an eye on contract bundling. I hope that you will work to give control of the money to agencies that follow good business practices and take it away from those who have repeatedly shown that they have no interest in small businesses.

Thank you for your time.

Patricia P. Driscoll
CEO
Frontline Defense Systems, LLC

TESTIMONY OF MARIAN SABETY

PRESIDENT OF

FLYWEEL GROUP

On behalf of

The National Small Business Association

Difficulty of Doing Business with the Department of Homeland Security

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Before the House Small Business Subcommittee on Rural Enterprises, Agriculture and Technology

October 21, 2003

The National Small Business Association® is a volunteer-directed association, the primary mission of which is to advocate state and federal policies which are beneficial to small business, the state, and the nation; and to promote the growth of free enterprise.

For more information:
www.nsba.biz
1-800-345-6728

Thank you Chairman Graves, Ranking member Ballance, I appreciate the opportunity to be here, and I ask that my written statement be submitted for the record.

My name is Marian Sabety, and I am here on behalf of the National Small Business Association, the nation's oldest nonpartisan small business advocacy group representing more than 150,000 small businesses across the country.

I am the president and CEO of Flywheel Group, a consulting firm engaged in Homeland Security issues consulting. We conduct vulnerability assessments, threat scenario planning, risk quantification, and technology evaluation. We work with organizations in both the private and public sector to plan programs and implement technologies that protect people, operations, and assets in the event of a catastrophic event. Our particular area of technical expertise is document security and wireless technology.

I've been in the telecommunications and high technology sectors for over 20 years, and made the leap to "business owner" with Flywheel Group in 2000, after working for such firms as AT&T, Sprint, AMS, SAIC, and Stanford Research Institute. And though I am proud to report that my company has seen an average growth rate of 20 percent and been profitable each year of operation, I know our growth rate could be much higher.

My firm is committed to high quality solutions—consistent with the mentoring and training I enjoyed from the already established firms for whom I have worked. In December 2002, we made a submission to the U.S. Army Communications Electronics Command (Solicitation #DAAB0712WD002) in response to a call for technologies to support precise in-building geographic positioning, as part of Army Urban Information Operations and Surveillance requirements. Our patented technology solution uniquely met the specs for a low-cost urban surveillance technology that enables unobtrusive tracking around, in, and through buildings—

and we met these precise specs with high quality at a very low price-point. To date, there has been no response, even upon frequent inquiry.

Several months ago, we responded to the call for technologies by Transportation Security Administration (TSA), for a solution that would compile actual event data from around the country and model the data against predictive indicators in order to track, preview, defend and plan response to potential disasters. We submitted a combination of proven, patented, technologies, one of which is already funded through several Department of Homeland Security and Department of Defense contracts.

Our solution included proven software that automates inventorying of assets - critical infrastructure, buildings, public facilities, transportation venues etc. This software simulates 3-D blast effects and airborne plume effects for any type of threat so that prevention, protection, and evacuation planning can be optimized on a per-threat basis. Further, our solution integrates any-or all- computer dispatch systems used by 911 call centers, to simplify the collection of actual event data. Finally, our solution includes proven, patented software that "sniffs" all data flowing through the system seeking patterns, or pre-set profiles, and then triggers alerts specific to the potential threat implied by the automated pattern recognition mapping.

Not only would this solution provide more accurate planning & training, but more importantly, it enables municipalities to manage risk responsibly and coordinate with DHS, even if they are at a different threat level than the national level. This, we all know, is a long-standing critical need. We were confident of our proposal because portions of our solution were already in operation in the NY-NJ Port Authority and the City of Tampa, making a low-cost pilot possible.

It's been several months since we submitted this proposal and I have heard nothing, even intensely hard follow-up and pursuit. While we recognize that other firms must have submitted similar or even more robust solutions, it is disappointing that our submission has not gotten any airtime. It meets the requirements head-on and at a competitively lower price.

However, we remain determined because we believe in our vision. We have now turned our energies to organizations that are on the first responder front line to try to get a pilot underway. Working at the front line reflects a faster decision cycle, something that small businesses appreciate and thrive on. We've also taken a partnering approach with other companies in effort to solution-solve. For this $300,000 pilot, we are hoping to coalesce resources and partners together to bring up the system by the end of the year. Just launching this pilot alone will guarantee creation of 25 permanent jobs.

Yet, very little business is being given out to the small and disadvantaged businesses that are equipped to meets the needs we know exist. We have applied for grant money to assist in using these technologies for municipalities, and are unable to get an audience. These projects are going to large corporations who then dictate the specs to make sure they get the jobs.

As an expert in the field of risk management and security, I can tell you that DHS is necessary, the security of our nation is a must. As a small business owner, I can also tell you that economic growth is necessary and critical, allowing small businesses to prosper should and must be a common goal of the government. Small businesses do well by the government. Our margins are lower. We are hungry for your business. We are creative. However, not all federal agencies are held to the same standards for meeting small business goals as established and promulgated by this very committee.

The Transportation Security Administration (TSA), as any of us who travel know, is an integral part of the newly organized Department of Homeland Security. In preparing for my testimony, I did some on-line research into TSA contracting with small business, and what little information I found was disturbing to say the least. According to their Web site, TSA "is non-regulatory in nature", meaning that they are exempted from the Federal Acquisition Regulations, regulations that nearly every other government agency is expected to abide by. When I tried to access the number of expected contracting dollars for all DHS agencies, TSA simply states that there is "no data available at this time." With the popularity of E-Government initiatives, one would expect to find much more information and transparency in these Web sites than currently exists.

The head of acquisition for TSA has stated that while TSA uses FAR and FAA procurement "guidelines", they will only use those regulations as "benchmarks", and again, I think we all know the meaning behind the words "benchmarks and guidelines." For small business owners like me, those words do not translate to real business.

Why is it important that DHS and TSA live up to the government-wide accepted rules for small entity procurement? For a couple of reasons. First of all, it's the right thing to do – the people in this room are here because we are either small business owners, or care about small business. It's only fair that small businesses have equal access to opportunity for lucrative contracts within the federal government. You can't say blithely that small business is the pathway to economic recovery in one breath, and in the next allow TSA to operate outside the purview of the Federal Acquisition Regulations. Secondly, jobs – in my case, 25 jobs.

The serious problem we face is this: DHS is a HUGE agency with a $29.4 billion budget. Certainly small businesses should be part of those contracts, yet with no-compete bids and huge corporations taking on massive responsibilities abroad, small business is being forgotten.

I was reading an article on ABC.com a few weeks back where an administration official actually praised the way DHS is conducting their procurement and stated that other agencies are trying to model that for increased flexibility. This illustrates a clear lack of concern and dedication to small businesses.

Earlier in the year, Ranking Member Velazquez unveiled her Scorecard IV to evaluate federal agencies on small business procurement, and though DHS could not be included on that report, it is worth noting that not one agency received an A, while more than half of those evaluated got a D or an F. Keep in mind that these are agencies that MUST abide by FAR – I suspect that those outside the legal realm of FAR would leave much to be desired.

Contracting with the government is difficult as a small business. This is something I used to do for large corporations in my 20+ years of experience in the field. I assure you - it's an entirely different ballgame for a small business. Getting your foot in the door is a challenge, frankly, even getting a call-back is a challenge, but with the FAR, SBA and Congressional committees such as yours, we have allies and help. Agencies have mandated small business set-asides and have a government-wide goal of spending at least 23% of their dollars with small companies, and though that goal was not met in 2002, it was close. The lack of transparency and allowable disregard of the FAR will only act as a set-back to any growth small businesses have seen in government procurement.

When agencies are exempted from following those rules, it not only stunts the growth of small businesses, it sets a dangerous precedent. I thank you Mr. Chairman, Ranking Member and the committee for your time and welcome any questions you may have.