

STATEMENT OF DOUGLAS L. SIEGEL, DIRECTOR, OFFICE OF INSTALLATIONS AND LOGISTICS, U.S. DEPARTMENT OF TRANSPORTATION, BEFORE THE SUBCOMMITTEE ON GOVERNMENT PROCUREMENT AND INTERNATIONAL TRADE OF THE SELECT COMMITTEE ON SMALL BUSINESS, HOUSE OF REPRESENTATIVES, REGARDING THE DEPARTMENT OF TRANSPORTATION'S SMALL BUSINESS ACTIVITIES, JUNE 14, 1973

Mr. Chairman, I am pleased to appear before this Subcommittee representing the Department of Transportation, and pleased to be able to assure you of our continued support for programs and policies designed to make Government more responsive to the needs of the Small Business Community.

With the enactment of Public Law 89-670 on April 1, 1967, Congress created the Department of Transportation, consolidating more than thirty agencies or functions related to the field of transportation. Today, DOT's wide area of concern is reflected by the seven major administrations which operate within its jurisdiction. As you requested, I have prepared some brief comments on various Department of Transportation programs and projects which are supported by both direct and indirect procurement. These are:

.FEDERAL AVIATION ADMINISTRATION. The FAA is responsible for the safe and efficient use of airspace by both civil and military operations and provides for the regulation and promotion of air commerce and civil aviation in such a manner as

to best foster its development and safety. This responsibility includes the development, installation and operation of a common system of air traffic control and navigation through direct procurement, and administration of the Federal-Aid Airport Program, through a grant-in-aid program.

FAA buys a considerable amount of research and development, hardware and construction in its direct procurement program, and mostly construction in its indirect program.

.FEDERAL HIGHWAY ADMINISTRATION. The FHWA is responsible for the administration of the Federal-Aid Highway Grant-In-Aid Program and, with the National Highway Traffic Safety Administration, the National Traffic and Motor Vehicle Safety Program. It also provides technical assistance and advice on matters of highway engineering and administration to foreign nations, through the Agency for International Development (AID), the Export-Import Bank and other international lending institutions.

FHWA buys services, a limited amount of research and development, heavy equipment under the AID program, and a limited amount of highway construction under its direct procurement program, and most highway construction in its indirect program.

.FEDERAL RAILROAD ADMINISTRATION. This administration has responsibility for three basic programs - operation of the Government-owned Alaska Railroad; Railroad Safety; and Research and Development, mostly in Intercity High Speed Ground Transportation, High Speed Rail Passenger Demonstration Projects, and conventional railroad technology.

FRA has no indirect procurement program. In its direct program it buys substantial amounts of research and development and some demonstration efforts.

.URBAN MASS TRANSPORTATION ADMINISTRATION. The UMTA is responsible for administration of the programs under the Urban Mass Transportation Act of 1964. These include: capital improvement grants and loans to assist in upgrading transit systems in urban areas through the purchase or rehabilitation of needed equipment and facilities; grants for the preparation of engineering plans, designs, and other technical studies for proposed transit systems; demonstration, research and development projects, under direct Federal contracts, to improve transportation planning and operating methods and to test ideas for improved services and for new systems; grants to assist in developing university programs for research and research-training in

urban transportation; grants for programs of advanced study at universities; and grants for managerial training fellowships to persons employed in the urban mass transportation field.

UMTA buys research and development under both its direct and its indirect procurement programs -- mostly under the direct program. It buys hardware and construction under its indirect procurement program -- the Capital Grants Program which provides Federal participation in the purchase of such items as buses and railroad rolling stock.

.U.S. COAST GUARD. The U.S. Coast Guard is the primary maritime law enforcement agency of the nation. In addition to enforcing Federal laws on the high sea and navigable waters of the United States, its duties include search and rescue, administering a merchant marine safety program, the National Boating safety program, maintaining Maritime Aids to Navigation, Oceanography, Meteorology and Polar Operations, and regulating pilotage on the Great Lakes through its Great Lake Pilotage Administration. As one of the armed forces of the United States, the Coast Guard maintains a reserve to provide for augmentation in time of war or national emergency.

The Coast Guard buys construction, hardware and research and development under its direct procurement program, and it administers a small grant program consisting of safety grants to state boating safety agencies.

.ST. LAWRENCE SEAWAY DEVELOPMENT CORPORATION. The Corporation is responsible for controlling and operating the St. Lawrence Seaway in cooperation with Canada. The U. S. share of the Seaway's operation cost is maintained on a self-liquidating basis through the collection of tolls from ship lines.

The St. Lawrence Seaway procurement program is quite limited, totaling only some \$1/2 million a year -- mostly for parts and supplies.

.NATIONAL HIGHWAY TRAFFIC SAFETY ADMINISTRATION. The NHTSA is responsible for providing leadership in coordinating the motor vehicle and driver related aspects of a national program to reduce death, injury and property damage on the nation's highways.

NHTSA buys studies and demonstration efforts in its direct procurement program, with a heavy involvement by colleges and universities and local governments. Under its indirect procurement program, NHTSA helps purchase ambulances, special police vehicles, audio-visuals, and computer hardware and software.

Besides all these programs handled by our component administrations the Office of the Secretary of Transportation

itself, buys studies and analyses in connection with its intermodal and planning responsibilities, as well as some direct research and development at our Transportation Systems Center in Cambridge, Massachusetts. And we have a modest grant program in the pipeline safety field, operated directly out of the Office of the Secretary. These grants are made directly to state agencies responsible for gas pipeline safety.

And that concludes a quick tour through the Department of Transportation procurement programs. Now how does small business fit in? We have never viewed the Small Business Program as "Socio-economic" in the patronizing sense of that term. Small business has played and continues to play a vital role in supporting DOT's projects and programs.

We believe that strengthening small business participation in government procurement broadens the competitive base, encourages innovative technology and in the long run, lowers procurement costs. DOT's small business policies are spelled out in our DOT Procurement Regulations, which were published in the Federal Register of March 4, 1972. You asked about our coordination with the Small Business Administration. We coordinate our procedures and regulations with the Small Business Administration as much as possible and we did so with these regulations. Prior to the publication of the DOT Procurement Regulations, a draft of the portion affecting small

business was informally coordinated with the Small Business Administration. Members of my staff communicate on a regular basis with SBA officials concerning policy matters, and the Small Business Assistance Officers in each operating administration have been encouraged to contact SBA directly concerning any small business problems which may arise. In addition, representatives of the Department have attended a number of small business conferences during the past year, many of which were sponsored by SBA, in an effort to become more aware of the needs of the small business community. We plan to continue to maintain these lines of communication because, as I said earlier, we are certain that the Government will benefit by assuring the active participation of small business in its procurements.

Let me review for you our direct contract and sub-contract procurement small business programs.

During FY 1972, DOT's direct procurement program totaled \$700,739,000 in prime contract awards. Of this \$196,801,000 or 28% of the total dollar amount was awarded to small business. In numbers of actions, over 90% of our direct procurements were from small business if small purchases are included. And small businesses received 53% of all contracts over \$2500 written by the Department in FY 1972 -- with 21% of the total resulting from small business set-asides. I have this chart which shows

our total procurement totals and the small business share from FY 1968 through FY 1972.

DOT's small business subcontracting program is based on the required subcontracting program clauses found in FPR 1-1.710.3. The contracting officers of the Department are responsible for assuring compliance with these clauses. We have in my office an established program for periodic evaluation of DOT procurement offices, under which all the Department's procurement operations are reviewed and recommendations are made for improvements, including improvements in our small business programs. We do not require procurement offices to maintain records of subcontract awards going to small business as a result of these clauses. Most of our contracts are with firms that do business with the Department of Defense, and we feel that their compliance activities ensure that our contractors, for the most part, have effective small business programs. In addition, we have been in contact with representatives of the Defense Contract Administration Services (DCAS) in an effort to establish an agreement by which DCAS would review the small business subcontracting programs of our major prime contractors.

The extent of participation of small business in DOT's indirect procurement -- our grants and grants-in-aid -- is somewhat more difficult to measure. Our Federal Highway Administration has included in its grant agreements a clause to encourage grantees to use small business firms when they award

contracts. In FY 1971, as a direct result of a recommendation made by SBA in a survey report of DOT's procurement operation, FAA began including a similar clause in all of its grant agreements. Our operating administrations do not keep records of the business size of contractors in grant programs so I cannot tell you how many dollars go to small business as a result of contracts let by grantees. However, in 1961, the Federal Highway Administration conducted a survey to determine how many contract awards went to small business under the Federal-Aid Highway Program. They found that small business contractors accounted for 82 percent of the Federal-Aid contracts and 54 percent of their value. This represented \$1.25 billion worth of work.

Although this survey is twelve years old, Federal Highway Administration officials tell me that they believe that if another survey were taken today, the percentages would be similar. Since the Federal-aid highway program totals \$4.7 billion, or 84% of DOT's total value of grant awards, the dollars going to small business contractors must be substantial.

In your letter of May 18, 1973, you asked us to describe the monitoring, reporting and auditing procedures followed by DOT in its indirect procurements. Each of our operating administrations have their own rules regarding these procedures. While each of the procedures differ in some way, they can be grouped into two general categories, with our construction programs in one group and our safety and hardware programs in the other.

For the construction programs, we receive periodic progress reports (usually on a monthly basis) and we conduct on-site inspections at certain critical phases of the project. As a rule, we receive financial reports along with the requests for reimbursement. Grantees normally submit these payment requests and financial reports each month. While we are permitted to make advance payments, almost all grant payments are made on a reimbursement basis. A final audit is conducted on each construction project before it can be closed out and, if problems occur while construction is in progress, interim audits are made as the need occurs.

For the safety and hardware projects we usually receive performance reports as well as financial reports and payment requests on a quarterly basis. Currently, payments are made on a reimbursement basis but we plan to make advances after July 1, 1973, whenever the grantee prefers such payments.

We normally do not perform final audits on safety and hardware grants. Instead, we audit grantee internal controls systems or perform spot audits either on a sample basis or where grantee costs are questioned.

These procedures could presumably be extended to provide for identification of small business participation in indirect procurements, by requiring that the periodic progress

reports identify all small business contracts let under the grants. And, we could take steps to emphasize the need for greater small business participation if we find that grantees have been lax in their use of small business contractors.

We certainly agree in principal that small business should receive a "fair proportion" of the indirect procurements that derive from Federal grant programs. Our only concern is with the mechanics of any program to ensure that they do. We firmly believe that if small businesses are afforded an equitable opportunity to compete, they can do so successfully -- performing excellent work at competitive prices for the jobs they can handle. So just ensuring small businesses a fair opportunity to compete, as we do under the FHWA and FAA clauses, may be enough. If they are afforded a full and equal opportunity to bid, all indications we have is that they will win a fair proportion of the business -- 84% of the contracts, as indicated in the old FHWA survey. If, in addition to stating the objectives of "fair proportion", the law were to require complex reporting and compliance machinery, it could add administrative burdens to our grant programs, in the form of reviews and sanctions at a time when we are trying to place more responsibility on the grantees.

So I would urge that before introducing any specific reporting or compliance procedures, it should first be established that they are necessary to achieve the objective that a "fair proportion" of the indirect procurement business should go to small business.

Thank you for the opportunity to testify before this committee. I will be pleased to try to answer any questions you may have.