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Defining Small

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The government's list of small businesses receiving Katrina-related federal contracts along the Gulf Coast includes one of the largest debris-removal firms in the country and a billion-dollar corporation that boasts former vice president Dan Quayle on its board of directors.

Neither company is a small business by any conventional standard. But because of a loophole in federal regulations, a company can be counted as one if it was once small even if it is not now, raising questions about the statistics the government has been citing to defend itself from charges that it has favored big companies in the massive Hurricane Katrina cleanup.

The two companies, AshBritt Inc. and IAP Worldwide Services Inc., have between them Army Corps of Engineers contracts worth hundreds of millions of dollars in Gulf Coast recovery work. Because both firms were small when they won their first contracts, the Corps of Engineers said it still considers work performed under those deals as work by small businesses.

The problem is not a new one. A study last year for the Small Business Administration found \$2 billion worth of contracts awarded in fiscal 2002 that were listed as going to small businesses that were not really small. A Government Accountability Office review in 2003 found \$460 million worth of small-business awards to five large firms in fiscal 2001.

"This is not an occasional occurrence. This is a problem they've had for quite some time. And they seem either unwilling or unable to correct it," said Steven Sims, vice president of the National Minority Supplier Development Council, a trade group.

Since Katrina struck at the end of August, the Bush administration has been roundly criticized for doling out lucrative, no-bid contracts for recovery work to large corporations that lack ties to the three states hit hardest by the storm. Local, small and minority-owned firms have been particularly vocal in arguing that they have been unfairly passed over for work. Gulf Coast lawmakers from both parties have said the reconstruction will fizzle unless more of the money gets to the small firms that make up a disproportionately large share of the local economy.

A particular target of the small-business groups and members of Congress has been the SBA, which sets and enforces the standards for how companies are classified based on factors such as revenue or number of workers. The agency has been considering a new rule to close the loophole since 2003.

"We recognize that we need make changes to have more accurate reporting on small-business contracting," said Gary M. Jackson, assistant administrator for size standards at the SBA, who said a change may be in place by the end of the year.

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David E. Cooper, a contracting specialist at the GAO, said the problem has been compounded in recent years by a thinning of the federal acquisition workforce that has led many agencies to award a few giant long-term contracts rather than many smaller deals that run for less time. The government is supposed to devote 23 percent of its contract awards to small businesses, but if an agency is already meeting that goal with existing contracts, it has little incentive to award new ones. However, the firms holding those contracts may no longer be small.

"The contracts have grown to such a magnitude that if you can get one, you're assured work for many years to come. But that locks a lot of small businesses out," Cooper said.

In response to criticism of the contracts it awarded after Katrina, the Federal Emergency Management Agency last week announced it would set aside for small, disadvantaged firms some of the work that had earlier been given to four massive corporations without competition. The agency says 60 percent of the \$2.3 billion in contracts already awarded has gone to small businesses.

The Army Corps of Engineers, meanwhile, reports that about half of the \$637 million it has spent on contractors so far has gone to small businesses -- \$349 million.

But those figures include firms that are hardly small.

FEMA's small-business figures, for instance, include a contract worth nearly \$1 million with Corporate Express Inc., an office-supplies company with more than 10,000 employees. A company spokesman said a division of the firm had accidentally entered incorrect employment and revenue figures in a government database, resulting in its "small" designation.

Department of Homeland Security spokesman Larry Orluskie said another reason why large companies occasionally end up listed as small is that a big firm can be considered small if it is doing work in a field where it is not a major player.

Orluskie said that the department relies on the SBA's definitions of small businesses and that those definitions vary from industry to industry. "Even if it looks like a huge company, depending on the commodity, the definition of a small business changes," Orluskie said.

That does not sit well with those who argue that companies that truly need the help are getting left out and that allowing other firms to be both large and small at once contributes to the problem. "We're not talking mom and pops any more," said Rep. Bennie Thompson (D-Miss.), the ranking member on the House Homeland Security Committee. "This major loophole is really hurting small, local businesses devastated by Hurricane Katrina."

Democrats on the House Small Business Committee are set to release a scorecard today that gives the government a "D" for its efforts in contracting with small firms. "While the trend for federal buying is on the rise," the report says, "opportunities for this nation's small businesses only continue to decline."

In the case of pre-existing Army Corps of Engineers contracts under which IAP and AshBritt have done Katrina-related work, both companies "were considered small business firms at the time of these awards," the Corps of Engineers said in a written statement.

AshBritt -- which until last week listed itself in government databases as a minority-owned, woman-owned firm even though the company is run by a white man -- won a \$500 million debris-removal contract with the Corps of Engineers after Katrina. For that work, it is listed as a large contractor. But it is still considered small for work under a 2003 deal worth up to \$150 million. The Pompano Beach, Fla.-based, privately held firm had well over \$150 million in revenue last year and will earn far more than that this year, according to Randal R. Perkins, who said he runs the firm.

Perkins said his firm's growth in recent years has been explosive, as it filled a niche that was being ignored by other, larger firms. "Last time I checked, that was the American way," he said. "That's what this country's all about."

Perkins is listed as AshBritt's managing vice president on the company's Web site. His wife, a Cuban American named Saily, is listed in state records as the company's president. In the federally run Central Contractor Registration database -- which is used by small and minority-run firms to market themselves -- AshBritt was listed as minority-owned, woman-owned and Hispanic-American-owned as of last week. The government has goals for the percentage of contracts it awards to firms run by women and minorities.

But when Saily Perkins gave \$25,000 to the Republican National Committee and \$2,000 to a congressional campaign in 2004, she listed her occupation as homemaker.

In an interview, Randal Perkins said that while his wife used to be the firm's president, he has taken over that title, though he would not say when. He said that continuing to list the firm as minority-owned and woman-owned was a clerical mistake. After inquiries from a reporter, the information was changed on Friday night to reflect the fact that Saily Perkins is no longer president.

Randal Perkins said that his company never applied to be formally certified as a small, disadvantaged business and that AshBritt never received preferential treatment on contracts because his wife is listed as president. An Army Corps of Engineers spokesman also said the company's ownership status had not been a factor in the agency's decision to award AshBritt its contracts.

IAP won a three-year small-business set-aside contract with the Corps of Engineers in 2003 to supply ice in the event of a disaster. It was the only bidder.

IAP, which is based in Cape Canaveral, Fla., has more than \$1 billion a year in revenue and more than 5,000 employees around the world, according to the company's Web site. It is owned by Cerberus Capital Management LP, a private asset management firm.

The firm has grown exponentially in recent years in part because of contracts in Afghanistan and Iraq. It recently recruited high-ranking Halliburton Co. official Al Neffgen to be its chief executive. Quayle is a board member.

The company said its growth reflects the success of policies that favor small businesses.

"The point of the Small Business program is to assist smaller companies so that they grow into larger companies," the company said in a statement, "as was the case with IAP."

Staff researcher Richard Drezen contributed to this report.