Report of the
Joint Legislative Audit and Review Commission
To the Governor and
The General Assembly of Virginia

COMMISSION DRAFT

Impact of eVA on Small Virginia Businesses

July 13, 2009

In Brief

Impact of eVA on Small Virginia Businesses

HJR 119 (2008) directed JLARC to study the impact of the State's electronic procurement system (eVA) on small Virginia businesses. eVA was implemented in 2001 to make State procurement more efficient, transparent, and competitive, and its use is required for most State purchases.

JLARC staff found that about 99 percent of Virginia businesses meet the State's small business definition. Overall, small businesses have had success in obtaining business using eVA, which helps provide increased access to State procurement opportunities. In addition, purchases from certified women and minority-owned businesses have substantially increased. However, the small business definition appears to be overly broad.

Small business respondents to a JLARC survey about eVA indicate that increased outreach and training efforts could improve their access to procurement opportunities. Also, it appears that registration and transaction fees are discouraging some small businesses from registering with eVA. Finally, eVA revenues are exceeding total operating expenses and there is currently a cash balance of almost $18 million. Options could be considered to better balance eVA revenues and expenses.

Members of the Joint Legislative Audit and Review Commission

Chairman
Delegate M. Kirkland Cox

Vice-Chairman
Senator Charles J. Colgan

Delegate H. Morgan Griffith
Delegate Phillip A. Hamilton
Delegate Frank D. Hargrove, Sr.
Senator R. Edward Houck
Senator Janet D. Howell
Delegate Johnny S. Joannou
Delegate Harvey B. Morgan
Senator Thomas K. Norment, Jr.
Delegate Robert D. Orrock, Sr.
Delegate Clarence E. Phillips
Delegate Lacey E. Putney
Senator Walter A. Stosch

Walter J. Kucharski, Auditor of Public Accounts

Director
Philip A. Leone

JLARC Staff for This Report

Bob Rotz, Division Chief
Eric Messick, Project Leader
Janice Baab
Paula Lambert
Shannon White

This report is available on the JLARC website at http://jlarc.virginia.gov

Copyright 2009, Commonwealth of Virginia.

Commission Draft

This document is a Commission draft of the JLARC Report *Impact of eVA on Small Virginia Businesses*. The draft has been assembled for discussion and factual review. Do not publish or release any material contained in this document because it is subject to additional verification and editorial review.

Joint Legislative Audit and Review Commission

July 13, 2009

Table of Contents

JLARC Report Summary		i
1	**Overview of State Procurement and eVA**	1
	Dollar Amount of State Purchase Orders for Goods and Services	2
	eVA Is Virginia's Electronic System for Procuring Goods and Services	4
	Potential Advantages and Challenges of Government-Administered E-Procurement Systems	9
	JLARC Review	11
2	**State Policies Regarding Procurement of Goods and Services and Small Business**	13
	Virginia Public Procurement Act (VPPA) Establishes Competition as Basis for State Procurement	13
	VPPA Objectives Are Implemented by Various State Agencies	14
	Almost All Virginia Businesses Are Eligible for Small Business Certification	19
3	**State Procurement of Goods and Services From Small Virginia Businesses**	23
	Since eVA's Start, Small Businesses Received Over A Million Purchase Orders Worth Over $11.5 Billion	23
	Department of Transportation and Higher Education Institutions Are Among Top Users of Small Business	24
	Small Businesses Are Faring Well in the Proportion of Purchase Orders and Amount of Dollars Received	27
	Awards to Certified Small Businesses Have Increased, As Well As Awards to Certified Women-Owned and Minority-Owned Businesses	32
	State's Certification Criteria Appear to be Too Broad	35
	Greater Outreach or Self-Certification May be Needed to Increase Certification of Those Eligible	37
4	**Usefulness of eVA for Small Businesses**	45
	Total Number of Registered Small and Large Businesses Has Increased	45
	Participation May be Limited By Lack of Awareness About eVA and Registration Process	47
	Small Business Survey Respondents' Views of eVA's Overall Usefulness Are Mixed	50

	eVA Increases Small Businesses' Access to State Procurement Information	52
	State Agency Survey Respondents Report eVA is Useful For Identifying Certified Small Businesses	56
	Small Business Survey Respondents Indicate Limited Usefulness of Some eVA Functions and Training	57
	Increased Training and Outreach Could Improve Small Business Participation and Competitiveness	62
5	**Impact of Mandatory Use and Fees on Small Businesses**	71
	Requiring State Agencies to Use eVA Improves Business Opportunities for Most Businesses, but Internet Access Is an Issue for Some	72
	Registration and Transaction Fees Discourage Some Small Businesses from Using eVA	74
	Transaction Fees Impact Most Businesses Equally, but Smallest Businesses May Pay Slightly Higher Fees	77
	Small Businesses' Views Concerning Reasonableness of Transaction Fee Vary	80
	Options Could Be Considered to Reduce, Suspend, or Eliminate Certain Fees	85
List of Recommendations		93
Appendixes		
	A: Study Mandate	95
	B: Research Activities and Methods	97
	C: Non-Compliant Purchase Orders Since FY 2005	115
	D: Timeline of Major eVA Events	117
	E: Procurements From Out-of-State Businesses Since FY 2001	119
	F: Mandatory Sources	121
	G: Number of Small Businesses Based on Gross Receipts	125
	H: Total Purchase Orders and Award Amounts Issued by Ten State Entities, FY 2005-08	127
	I: Ten Most Purchased Goods and Services From Small Businesses By Agency, FY 2008	131
	J: Purchase Orders to All and DMBE-Certified Small Businesses, FY 2005-08	135
	K: Broadband Availability Map	137
	L: eVA Revenue Receipts and Expenses Data, FY 2007 to December 31, 2008	139
	M: Agency Responses	141

JLARC Report Summary:

Impact of eVA on Small Virginia Businesses

Key Findings

- The State's electronic purchasing system, known as eVA, was implemented to automate the procurement process and reduce State costs for goods and services, and its use is mandatory for most State purchases. (Chapter 1)

- Almost 99 percent of businesses in Virginia, employing about 55 percent of private sector workers, meet the State's small business definition. (Chapter 2)

- Overall, eVA has helped to increase access to and identification of State procurement opportunities for small businesses. Procurement data show small businesses have had success in obtaining business using eVA. Also, purchases from certified women-owned and minority-owned businesses have substantially increased. However, the small business definition appears overly broad, and more effort could be made to increase certification levels. (Chapter 3)

- The number of businesses registered with eVA has increased substantially from Fiscal Year (FY) 2004 to FY 2008. Small business survey respondents report somewhat mixed views about eVA's usefulness and impact for their business. Survey results suggest that increased outreach to businesses and other improvements, particularly improved training, would improve business access to procurement opportunities. (Chapter 4)

- An annual $25 registration fee and a capped one percent transaction fee appear to discourage some small businesses from registering in eVA. In addition, businesses' views on the reasonableness of the transaction fee are mixed, with some viewing the fee as a tax or a cost upon them to pay for a system which is designed, in part, to lower prices for the State. (Chapter 5)

- In FY 2008, eVA revenues exceeded total operating expenses by about $6.4 million and exceeded recurring operating expenses by about $13 million. A cash balance has been growing, and was almost $18 million as of June 2009. Options could be considered to reduce, suspend, or eliminate eVA fees to better balance eVA revenues and expenses and encourage greater small business participation. (Chapter 5)

House Joint Resolution (HJR) 119 from the 2008 General Assembly Session directs staff of the Joint Legislative Audit and Review Commission (JLARC) to study the impact of the State's electronic procurement system, known as eVA, on small Virginia businesses. The definition currently used by the State in certifying businesses as "small" requires 250 or fewer employees or average gross receipts of $10 million or less averaged over the previous three years

(§2.2-1401 of the *Code of Virginia*). JLARC staff were directed to identify the number of procurement purchase orders and dollar amounts annually awarded to small businesses in the Commonwealth since eVA's implementation in 2001. Additionally, JLARC staff were directed to examine the impact of eVA's required use and fee structure on the procurement opportunities of small Virginia businesses. Concerns about whether the mandatory use and fees impact small businesses to a greater extent than large businesses led to the review.

To obtain the goods and services needed to operate and provide services to their constituent groups, the Commonwealth of Virginia's agencies (including colleges and universities) issue purchase orders to non-governmental businesses. Since Fiscal Year (FY) 2005, State agencies issued more than two million purchase orders with a value of more than $18 billion; of these amounts more than 582,000 purchase orders worth approximately $4.6 billion were issued in FY 2008.

In March 2001, Virginia implemented eVA to streamline and better manage State purchasing. eVA development focused on automating procurement activities in a way that would allow the State to leverage its buying power to obtain more favorable prices for the goods and services it purchases. Typically, State procurement personnel, as well as businesses wishing to sell to the State, are required to use eVA. Furthermore, when an award is made, the buying and selling entities are each assessed a fee equal to one percent of the value of the purchase order, which is capped depending on certain factors related to the seller's business. The fees fund all eVA operating costs. The system is administered by the Department of General Services' Division of Purchases and Supply (DPS).

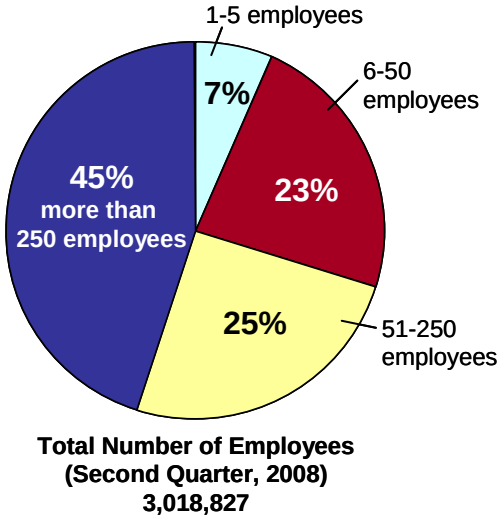
Electronic procurement systems can provide benefits to the public, buyers, and sellers. With regard to governmental procurement efforts, such systems can improve access, fairness, and accountability. State buyers can use the system to identify businesses, complete purchase orders, and review previous purchasing patterns. For businesses, the system presents a centralized website where they can register, identify or be notified of procurement opportunities, and review historical State procurement information.

Small Businesses Comprise Almost 99 Percent of Businesses, and Employ About 55 Percent of Private Sector Workers

Analysis for this review of businesses by number of employees indicates that on an annual basis, almost 99 percent of all businesses operating in Virginia meet the State small business definition's criterion of 250 or fewer employees. While these businesses comprised almost all businesses in the State in FY 2008, they em-

ployed about 55 percent of the State's workers (see figure below). The remaining 45 percent of workers are employed by large businesses with more than 250 employees, which constitute slightly less than one percent of all businesses.

Businesses With 250 or Fewer Workers Employ 55 Percent of All Virginia Private Sector Workers, Second Quarter 2008



Note: Not shown are roughly 23,800 businesses that reported zero employees to the Virginia Employment Commission (VEC) during the second quarter ending June 2008. Some were likely sole proprietorships.

Source: JLARC staff analysis of VEC employment data.

Overall, Small Businesses Have Had Success Obtaining Business Using eVA

Since eVA's implementation in 2001, businesses with 250 or fewer employees have been awarded more than one million purchase orders and more than $11.5 billion in award dollars (see table on the next page). Of these total amounts for small business, 68 percent of purchase orders and 72 percent of award dollars went to Virginia small businesses.

Beginning in July of 2004, all State agencies were required to process almost all procurement transactions through eVA; therefore procurement data available after that date may better reflect actual State procurement activity. Since FY 2005, the number of purchase orders awarded to small businesses has increased by 70 percent to about 335,000 in FY 2008. The dollar amount awarded to small businesses increased by about 16 percent during that time, to approximately $2.7 billion.

Since FY 2001, Small Businesses Have Received Over One Million State Purchase Orders Worth More Than $11.5 Billion

Fiscal Year	Awarded to Small Virginia Businesses [a]	Awarded to All Small Businesses [a]	Awarded to All Businesses
Number of Purchase Orders			
2001[b]	--	--	128
2002	--	--	26,880
2003	44,735	67,041	147,479
2004	91,254	125,353	233,609
2005[c]	142,296	197,298	366,205
2006	153,252	215,730	390,076
2007	171,335	253,332	448,447
2008	213,968	334,829	582,729
2009[d]	Unavailable	Unavailable	283,528
2005 – 2008 TOTAL	**680,851**	**1,001,189**	**1,787,457**
2001 – 2008 TOTAL	**816,840**	**1,193,583**	**2,195,553**
Dollar Amount Awarded ($ Million)			
2001[b]	--	--	<$1
2002	--	--	$141
2003	$379	$559	$1,124
2004	$814	$1,368	$2,442
2005[c]	$1,878	$2,284	$3,621
2006	$1,708	$2,502	$3,993
2007	$1,521	$2,193	$3,712
2008	$1,978	$2,651	$4,633
2009[d]	Unavailable	Unavailable	$2,126
2005 – 2008 TOTAL	**$7,085**	**$9,630**	**$15,959**
2001 – 2008 TOTAL	**$8,278**	**$11,557**	**$19,666**

[a] Virginia Employment Commission (VEC) provided employment data since FY 2003. Size of business for FYs 2001 and 2002 are categorized as "Unknown."
[b] March 5, 2001 through June 30, 2001 data.
[c] Beginning July 16, 2004, all State purchase transactions were required to be processed through eVA.
[d] July 1, 2008 through December 31, 2008 data.

Note: This table does not include non-compliant purchase orders. The number and dollar amount of non-compliant purchase orders issued since FY 2005 are listed in Appendix C.
Source: JLARC staff analysis of DPS and VEC data.

The analysis of purchase orders and awards was complicated by limitations in the data such that employment size for about one-third of purchase orders and for 20 to 29 percent of dollar amounts was not available. Therefore, the amounts shown for the volume of business obtained by small businesses should be regarded as minimums. The amounts could be greater, to the extent that small businesses account for State transactions with businesses of "un-known" size in the data.

Data analysis also indicates that businesses eligible for the small business designation have fared well in the proportion of purchase orders and dollars awarded during the timeframe from FY 2005 to FY 2008. The analysis indicates that

- across all procurements (including transactions where business size is unknown), businesses known to be small

Unknown Size of Business

JLARC staff received employment data from the Virginia Employment Commission (VEC) for FY 2003 to FY 2008, which was used to determine the size of each business in the eVA purchase order data, as well as how many businesses met the State's small business definition of 250 or fewer employees. The number of employees per business for FY 2001 and 2002 eVA purchase order data was categorized as "unknown." For a portion of transactions in later years, the size of business also could not be identified and was classified as "unknown."

accounted for an average of 57 percent of purchase orders and 60 percent of dollars awarded, and

- as a percent of those transactions for which the size of the business is known, small businesses accounted for an average of about 85 percent of purchase orders and 80 percent of dollars awarded.

These figures compare favorably to the 55 percent portion of Virginia's private sector employment that is accounted for by small business. Additional analysis of small businesses subgroups (employment sizes of five or less, six to 50, and 51 to 250) indicates too that the portion of all transactions obtained within these subgroups is similar to their portion of private sector employment.

Orders and Dollars to All Certified Small Businesses, Including Women- or Minority-Owned Businesses, Have Increased

In January 2004, a consultant study done for the Department of Minority Business Enterprise (DMBE) found that State agencies were significantly underutilizing women-owned and minority-owned businesses when procuring goods and services. The study found that "disparities were also evident after controlling for the size of contract and firm characteristics." The 2004 General Assembly then enacted legislation providing in part that if there is "a persuasive analysis that documents a statistically significant disparity between the availability and utilization of women- and minority-owned businesses, the Governor is authorized and encouraged to require state agencies to implement appropriate enhancement and remedial measures consistent with prevailing law."

In response, an executive branch initiative was started that same year. The initiative included an aspirational goal to provide 40 percent of discretionary spending to small businesses that obtained State certification in the hopes of also assisting small women- and minority-owned businesses. To spur even greater use of certified small businesses, since October 2006, State agencies have been required to set-aside procurement opportunities of $50,000 or less for State certified small businesses as part of the initiative.

Analysis of eVA data indicates that the total number and value of purchase orders awarded to certified small businesses has increased since FY 2005. For example, among all purchase orders awarded to small businesses, State-certified businesses' share of purchase orders increased from 18 percent in FY 2005 to 60 percent in FY 2008, and dollars increased from seven percent to 49 percent over the same time. Additionally, the number and dollar value of purchase orders issued to certified small and women-

owned and certified small and minority-owned businesses increased from FY 2007 to FY 2008. For example, the number of orders issued to certified small and women-owned businesses increased from roughly 17,000 in FY 2007 to more than 58,000 in FY 2008. During that time, the total value of purchase orders awarded to these businesses increased from about $48 million to more than $109 million. The number and dollar value of purchase orders issued to certified small and minority-owned business also increased over the same time period. The number of purchase orders awarded to small minority-owned businesses increased 75 percent to more than 31,000, and the dollar value increased from more than $67 million to approximately $99 million.

In April 2009, the executive branch initiated action to obtain a second consultant study of disparity issues. According to the initial Request for Proposals (RFP) for this study, the study is to "evaluate any progress that has been made in redressing the disparity identified in the 2004 study and provide guidance regarding future actions the Commonwealth can take consistent with applicable law." (The initial RFP was withdrawn. A second RFP is expected to be issued during the summer of 2009, with results expected in early 2010.)

Almost All Businesses Are Eligible but Few Are Certified, Indicating a Potential Need for Eligibility and Certification Changes

While almost 99 percent of businesses are eligible for small business certification, only about 11 percent of all businesses were actually State-certified as of June 30, 2008. These facts suggest that the State's small business definition may be overly broad, and there may be a need to improve the certification process.

The State definition seems overly broad, particularly if the intent is to create a remedy for a subset of businesses experiencing a disparity between their availability and utilization. An approach which makes most businesses eligible for such a remedy does not seem efficient. Also, analysis of purchase orders and dollars indicates that as a group, businesses eligible for certification as small businesses under the current definition are faring well in the procurement process—as a group, their goods and services do not appear to be underutilized. In addition, there are some other small business definitions that are more limited.

In whatever way eligibility for certification is defined, greater outreach or audited self-certification may be needed to increase the certification of those who are eligible. The fact that only about one in nine businesses currently eligible for certification are actually certified may be due in part to some businesses not providing the type of goods and services that the State purchases, while other

businesses may not be interested. Still, there are small businesses participating in State procurements that are not certified. For example, eVA purchase order and VEC data indicate that at least 7,000 non-certified small businesses obtained purchase orders in FY 2008, compared to 6,800 certified small businesses. (The figure for non-certified small businesses could be higher than 7,000 due to the number of businesses for which size is not known.)

Also, responses to a JLARC survey of Virginia businesses indicate there may be some businesses which are not aware of the small business certification option and the potential benefits that provides. State efforts aimed at increasing the number of certified and eVA-registered businesses might lead to more small businesses becoming certified and receiving awards, and might also result in greater competition and lower prices for the State.

Recommendations in the report provide that (1) the General Assembly may wish to consider a definition for certification eligibility that is more limited, or more clearly identifies a group of businesses facing a disparity in their utilization, and (2) the Department of Minority Business Enterprise should seek to increase its outreach efforts to substantially increase the proportion of eligible businesses that become certified.

Small Business Survey Respondents Report Mixed Views About eVA Effectiveness, Indicating a Need for Some Improvements

An increase in the number of eVA registered businesses suggests users are obtaining at least some benefit from the system. From June 30, 2004 to June 30, 2009, the number of eVA-registered businesses increased by 111 percent to 41,490. However, additional participation may be restricted by a lack of awareness about eVA among the business community. For instance, the primary reason cited by 33 percent of non-registered small businesses for not registering with eVA was a lack of awareness about the system or opportunities to sell to the Commonwealth (39 out of 117 respondents).

Survey results suggest that differences in viewpoint exist among small businesses regarding eVA's overall usefulness. On two general measures of eVA's impact on their ability to obtain procurement opportunities, less than half of small business respondents indicated eVA was helpful. When asked to rate eVA's overall effectiveness in enhancing their procurement opportunities, 39 percent of small business respondents rated the system's effectiveness as good or excellent, while 27 percent rated it as fair and 24 percent rated it as poor. In addition, when asked whether eVA has had a positive impact on their procurement opportunities, 45 percent of small business respondents agreed, while 40 percent disagreed and

the rest had no opinion or reported that it was not applicable to their situation.

Nonetheless, eVA appears to increase small businesses' access to State procurement information. Registered businesses can use eVA to view almost all State procurements opportunities. Indeed, the majority of small businesses found eVA's electronic notification and bidding tools helpful for identifying opportunities. In addition, State agency survey results indicate that eVA has improved their ability to identify certified small business from which they can purchase.

Despite these benefits, survey results suggest small businesses are less aware of other functions or find them less useful. Among small, eVA registered survey respondents, 209 (44 percent) of 471 reported being unaware of or unable to use eVA reports that could help them market their businesses to State buyers, and another 240 (51 percent) of 470 respondents were unaware of or unable to utilize the online training tools and tutorials that could help them better use the system. Less than half of respondents felt they received adequate training to create an eVA account, register their products, and identify and respond to business opportunities.

The majority of small survey respondents, 61 percent, reported that changes are needed to improve their procurement opportunities through eVA. About one-quarter indicated that no improvements to eVA are needed, while another 15 percent of the respondents did not find the system helpful to their business and did not think that changes to it could make it helpful for them. Businesses identified increased training as a key improvement that is needed, particularly in the areas of using eVA reports to identify State buyers and prices and responding to solicitations. Additionally, some businesses reported needing assistance registering their products to receive automatic notifications.

To improve the business community's awareness of eVA's potential benefits and how their use of the system's tools and reports can be advantageous to their procurement efforts, this report recommends that the Division of Purchases and Supply

- increase outreach efforts to small businesses with a focus on how eVA can increase their opportunities to obtain procurement awards from the State,
- require businesses obtaining premium registration to identify the goods and services they provide,
- improve its training tools to address the concerns expressed by businesses during this review,

- identify other State agencies providing eVA outreach and training, and regularly coordinate their efforts to reflect current training information, and
- convene a users group of small businesses to obtain regular feedback about eVA's strengths and areas for potential improvement from their perspective, as well as consider other means of obtaining small business feedback.

Mandatory Use of eVA Appears to Benefit Most Businesses

In order to maximize efficiencies gained by using electronic procurement, most agencies and businesses are required to use eVA for State purchases. According to survey responses, over half of small businesses feel that requiring agencies to use eVA promotes openness and fairness of the procurement process (57 percent) and maximizes their procurement opportunities (55 percent). Nonetheless, because businesses must access the Internet to use eVA, mandatory use of this system may exclude businesses that do not have reliable, high-speed Internet access. While data suggests availability is limited in certain counties in Virginia, high-speed Internet access appears to be available across most of the State.

Small Business Views on Reasonableness of Fees Appear Mixed

When asked about the reasonableness of the eVA transaction fee, small business respondents had mixed views. While 40 percent of the respondents agreed that the transaction fee was a reasonable cost of doing business with the State, 45 percent disagreed, and another 15 percent either had no opinion or found the question not applicable to their circumstances. Among the respondents for whom the fee was unreasonable, many indicated that they did not think they should have to pay for the expenses associated with a State system that was developed in large part to maximize competition and thereby lower the prices that they, as businesses, can obtain for their goods and services. Still others found the transaction fee to be another State-imposed tax on small businesses. Survey responses also seem to indicate that small businesses that view eVA as less effective are more likely to view transaction fees as unreasonable.

Options Could Be Considered to Bring eVA Fee Revenues and eVA Expenses Into Better Balance

Since FY 2007, eVA revenues from business and agency fees have outpaced the system's expenses by a growing margin. In FY 2008, revenues generated by the registration and transaction fees exceeded total operating expenses by about $6.4 million. Included in the FY 2008 expenses was a $6.7 million payment retiring an out-

standing Treasury loan balance. Therefore, the revenues generated exceeded the recurring portion of operating costs from that year by about $13 million, or more than businesses paid in registration and transaction fees that year. As of June 2009, DPS staff report a cash balance for eVA of almost $18 million. (DPS indicates that it has identified $7.6 million in improvements to eVA for FY 2010 and FY 2011.)

In light of the widening gap between revenues and expenses, the growing cash balance, and comments from the business community, options could be considered to reduce, suspend, or eliminate certain fees. Such changes could increase business participation in eVA and subsequently result in lower prices for the goods and services the State procures.

It appears that the transaction fee charged to businesses and State agencies should be reduced to a level that more accurately reflects actual operating costs and any additional costs for system upgrades and improvements. Given the current magnitude of the difference between revenues and costs, consideration could be given to suspending all or part of the transaction fee until such time as more fee revenues are needed to meet costs. An advantage of a fee suspension or "holiday" is that the fee structure would remain in place and might be more readily reinstituted if needed.

Besides the transaction fee issue, three nearby states contacted during this review (Florida, Maryland, and North Carolina) do not charge a registration fee. About one in six small business survey respondents not registered with eVA reported that the registration fee is a factor in their choosing not to register. Not charging a registration fee could be considered in Virginia as well.

To address the increasing difference between revenues and costs, the General Assembly may wish to consider directing DPS to conduct a financial analysis of eVA and report the findings to the Department of Planning and Budget, House Appropriations, and Senate Finance by July 1, 2010. The report should address how the revenues and costs of eVA can be brought into better balance.

Chapter 1

Overview of State Procurement and eVA

In Summary

Since Fiscal Year (FY) 2005, State agencies and institutions of higher education (agencies) have issued more than two million purchase orders to non-governmental sources, worth approximately $18 billion, for the goods and services they need to operate and to provide services to their constituent groups. In March 2001, the Commonwealth implemented an electronic procurement system, known as eVA, to better manage its procurement of goods and services and obtain more favorable prices for the products it buys. For businesses, eVA centralizes all State procurement activity, and the system can electronically notify them of procurement opportunities. State agency use of the system, with some exceptions, was mandated in July 2004. Businesses selling to the State are required to register with the system. eVA is funded through an annual $25 business registration fee and a two percent transaction fee based on the value of the purchase order. A one percent capped transaction fee is paid by the purchasing agency, and a one percent capped transaction fee is paid by the business providing the good or service.

Procurement

Procurement describes the acquisition of goods and/or services for the purchasers' direct benefit, generally through a contract. Such acquisitions by State government range from office supplies, consultant services, and trash removal to building design and road construction. Additionally, procurement describes the process by which goods and services are acquired, including product identification, solicitation of price quotes or formal bids, business selection, and contract award and administration.

House Joint Resolution (HJR) 119 of the 2008 General Assembly directed the Joint Legislative Audit and Review Commission (JLARC) to study the impact of eVA on small businesses in the Commonwealth (Appendix A). Concern about whether State procurement opportunities through eVA are as equally available to small businesses compared to large businesses led to the review. The study mandate describes two primary tasks for the study: (1) identify the total number of purchase orders and the total dollar amount awarded to small businesses in Virginia since the implementation of eVA, and (2) examine how the registration and transaction fees and the required use of eVA may affect small Virginia businesses' procurement opportunities.

For this review, JLARC staff interviewed state agency staffs who manage electronic procurement systems in Virginia and selected other states and Virginia State agency staff who assist businesses in accessing State procurement opportunities. In addition, JLARC staff surveyed small and large Virginia businesses and State executive branch agencies and institutions of higher education, reviewed revenue and cost data associated with eVA, analyzed purchase order and billing data maintained in eVA, and conducted a review of the relevant literature (see Appendix B for a more detailed description of study methods).

DOLLAR AMOUNT OF STATE PURCHASE ORDERS FOR GOODS AND SERVICES

Purchasing by public sector entities provides substantial market opportunities for businesses. For example, federal procurement of goods and services was worth about $415 billion in 2006. In FY 2008, Virginia State agencies issued purchase orders worth $4.6 billion, or about 13 percent of the Commonwealth's $36.6 billion budget that year and one percent of the State's $397 billion gross domestic product. State entities purchase everything from pens and pencils to the construction of office buildings. Such spending supports community businesses and, in turn, employment. In addition, State purchasing can help to expand the capacity of businesses' markets.

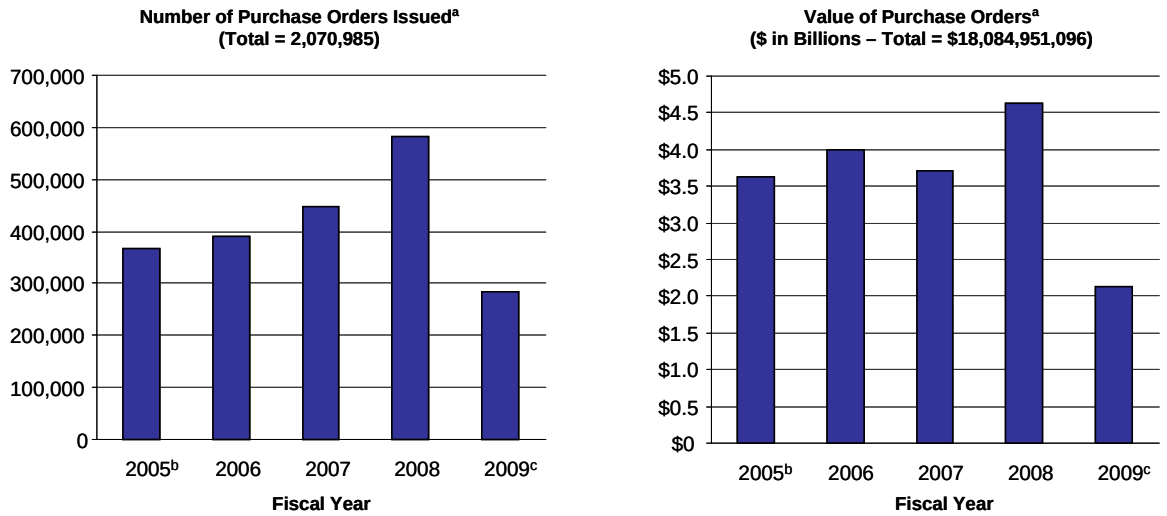
State Agencies

For this review, the terms "State agency" and "State agencies" refer to executive branch agencies and their facilities, colleges, and universities.

Value of Goods and Services Procured by State Agencies Totaled More Than $18 Billion Since FY 2005

To operate and provide services to their constituent groups, more than 170 State agencies purchase goods and services from non-governmental and governmental sources. Figure 1 identifies the number of purchase orders annually issued by State agencies to non-governmental sources and the total dollar value of those orders since FY 2005. During that time, more than two million purchase orders were issued worth more than $18 billion. From FY

Figure 1: State Agencies Have Processed About Two Million Purchase Orders Through eVA Worth $18 Billion Since FY 2005



[a] Data represents purchase orders processed through eVA.
[b] Beginning July 16, 2004, all State purchase orders were required to be processed through eVA to eVA-registered businesses.
[c] July 1, 2008 through December 31, 2008 data.

Source: JLARC staff analysis of data provided by the Department of General Services' Division of Purchases and Supply.

2005 to the middle of FY 2009, the number of purchase orders increased by almost 60 percent, while the dollar value of these orders rose by approximately 28 percent. During FY 2008, State agencies issued more than 580,000 purchase orders worth more than $4.6 billion.

Buyers

For this review, buyer refers to personnel at State agencies and institutions of higher education, who are authorized to purchase goods and services.

All purchase transactions, with some exceptions, are required to be processed through eVA. Centralized transaction data permits identification of products ordered and prices paid, as well as who the buyers and sellers are. Nonetheless, some transactions are not processed through the system. State agencies report the dollar amount of these "non-compliant" transactions to eVA on a monthly basis. Since FY 2005, a total of almost 841,000 non-compliant purchase orders have been issued worth about $341 million (Appendix C). The number of procurement transactions and dollar amounts identified in this review represent the compliant transactions processed by executive branch agencies, colleges, and universities only.

Ten State Agencies Issued More Than Three-Quarters of Purchase Order Dollars in FY 2008

In FY 2008, ten State agencies accounted for approximately 78 percent of the value of all State purchase orders (Table 1). The Virginia Department of Transportation (VDOT) accounted for the largest value of purchase orders issued. VDOT issued purchase orders totaling almost $1.6 billion, approximately 34 percent of all State procurement spending that year. State universities also

Table 1: Ten State Agencies Awarded 78 Percent of FY 2008 Purchase Order Dollars

State Agency	Total Purchase Order Amount Awarded to All Businesses ($ in millions)	Percent of Total Awarded
Transportation	$1,590.1	34.4%
George Mason University	409.5	8.8
University of Virginia (Academic Division)	395.6	8.5
Virginia Commonwealth University	226.7	4.9
Corrections[a]	200.6	4.3
James Madison University	178.4	3.9
Mental Health, Mental Retardation and Substance Abuse Services[a]	174.4	3.8
Virginia Tech	158.9	3.4
Community College System (System Office)[b]	153.5	3.3
Old Dominion University	130.2	2.8
Total for Ten State Agencies Listed	**$3,618.0**	**78.1%**
Total Awarded	**$4,633.0**	**100.0%**

[a] Includes purchase orders issued by multiple facilities in addition to their central office.
[b] Total for the Community College System (System Office) includes purchase orders issued for capital outlay projects at the individual community colleges.

Source: JLARC staff analysis of data provided by the Department of General Services' Division of Purchases and Supply.

accounted for a substantial amount of the Commonwealth's total procurement spending. Purchase orders issued by the six institutions of higher education identified in Table 1 comprise almost $1.5 billion, or almost 33 percent of total State procurement. Three State universities, George Mason, the University of Virginia (UVA), and Virginia Commonwealth University (VCU), accounted for more than $1.0 billion in purchase orders issued in FY 2008.

Ten Goods and Services Accounted for About Half of State Purchase Order Dollars in FY 2008

In FY 2008, State agencies issued purchase orders related to ten goods and services for almost $2.4 billion (51 percent) of the total $4.6 billion amount awarded that year (Table 2). Purchase orders issued for highway and road maintenance and repair amounted to more than $930 million, or about 20 percent of the total amount. In addition, together building and general construction services accounted for almost 690.7 million of the total. Another $254 million in purchase orders was issued by State agencies for building maintenance services.

Table 2: Ten Goods and Services Account for 51 Percent of Purchase Order Dollars, FY 2008

Good or Service	Total Purchase Order Amount Awarded to All Businesses ($ in millions)	Percent of Total Awarded
Highway and Road Maintenance and Repair	$936.6	20.2%
Building Construction, Non-Residential	486.4	10.5
Building Maintenance Services	254.2	5.5
General Construction Services	204.3	4.4
Building Maintenance and Repair Services	120.3	2.6
Asphaltic Concrete, Hot Laid Including Bituminous Materials	103.8	2.2
Excavation Services	99.4	2.1
Structural Engineering	72.1	1.6
Software Maintenance and Support	58.4	1.3
Transportation Services (Elderly, Handicapped, Juries, Others)	51.9	1.1
Total for Listed Goods and Services	**$2,387.3**	**51.5%**
Total Awarded	**$4,633.0**	**100.0%**

Source: JLARC staff analysis of data provided by the Department of General Services' Division of Purchases and Supply.

eVA IS VIRGINIA'S ELECTRONIC SYSTEM FOR PROCURING GOODS AND SERVICES

In order to streamline and better manage State purchasing, Virginia adopted an electronic procurement system. Launched on March 5, 2001, eVA is Virginia's web-based purchasing system that connects State agencies with businesses around the Commonwealth and the world. Businesses register with eVA and provide product and catalog information, and buyers use search features to locate and order products. In addition, agencies and

institutions can post bid and proposal requests, as well as award notifications. State agencies and businesses are required to use eVA for processing all purchase orders, with limited exceptions. Both buyers and businesses support eVA operations through a registration fee and a transaction fee paid on the value of purchases.

State Procurement Efforts Were Fragmented and Information Was Limited Prior to eVA

Before and after eVA's implementation, State agencies have needed to follow State procurement rules. However, prior to eVA agencies functioned largely as autonomous buyers and there was only limited visibility of their procurement spending, according to staff at the Department of General Services' (DGS) Division of Purchases and Supply (DPS). (DPS is responsible for establishing State policies for the procurement of goods and services, overseeing agency compliance with such policies, and administering eVA.) Agencies rarely coordinated and leveraged purchases of the same goods and services, except for items for which a Statewide term contract existed. As such, the State's buying power was not being optimized. Public access to information about what was being purchased and at what price was limited by the fact that such information was often maintained at the individual purchasing offices. The lack of centralized purchasing information prevented buyers from assessing whether they were obtaining the best prices. In other cases, due to limited public oversight of purchasing data, buyers were able to avoid using the competitive process (which has been required of State buyers since 1982) and rely on businesses with whom they had established relationships.

Goods and Services

For this review, goods and services exclude all technology goods and services and telecommunications. Procurement of technology goods and services and telecommunications is the statutory responsibility of the Virginia Information Technologies Agency.

Obtaining State procurement awards could be challenging for businesses as well. Requests for goods and services were posted on "bid boards" maintained at individual agency offices. Businesses interested in working with the State had to go to the individual agency or multiple agencies to identify opportunities. Businesses without an understanding of agencies' specific needs could be isolated off from procurement opportunities. Suppliers could also face added costs and time of registering their product information with multiple State agencies.

DPS staff report that these conditions resulted in higher prices for State purchases and higher costs for businesses to work with the State. Furthermore, analysis of the State's purchasing activity and history was virtually impossible.

Goal of eVA Was to Automate the Procurement Process and Reduce State Costs for Goods and Services

In the mid to late 1990s, businesses began to recognize both the potential cost savings and time savings of using technology to improve their procurement efforts. Businesses realized that conducting their procurement activities electronically rather than manually reduced prices paid for goods and services, lowered administrative costs associated with staffing levels and the time needed to conduct procurement, and improved the collection of procurement data leading to better management of purchasing activity. The federal government and many state governments quickly followed the private sector's lead and began initiatives implementing technology advances into their procurement processes. By 2000, e-procurement initiatives of varying functionality were underway in many states, including Virginia.

Leveraging State Purchasing Power

DGS implemented Virginia's first e-procurement effort in August 1999 with the creation of an electronic mall (e-Mall). Designed to "leverage the Commonwealth's buying power," e-Mall facilitates procurement activities for State buyers by enabling them to access listings of State contracts, electronic catalogs, mandatory sources, available surplus property, and other information using a single electronic site.

Governor Gilmore convened a task force in 1998 to examine private sector best procurement practices and recommend ways to accommodate new technologies into future State procurement objectives and policies. The group's core recommendation–creation of a centralized website for business registration and listing of procurement opportunities–led to the Governor's issuance of Executive Order 65 in 2000 directing DGS to implement an electronic procurement system, which became known as eVA. (Appendix D provides a timeline and description of some of eVA's key developments.) eVA was developed by a private contractor and focused on providing a centralized purchasing system for State agencies to increase competition, leverage the State's buying power, and reduce the need for individual agencies to maintain their own purchasing systems. Through eVA, the State also sought to improve the efficiency and speed of the purchasing process and ensure greater transparency and accountability of taxpayer dollars.

According to DGS staff, eVA quickly increased the level of competition for State spending on goods and services as manifested in the prices State agencies paid. An analysis conducted by DGS and a private consultant attributed price savings of $114 million to the use of eVA from its inception in 2001 to 2004. The analysis compared prices for a select group of goods and services prior to and after eVA implementation. DGS staff estimate that eVA saves the State about $30 million annually, when the price differential factor is applied to current prices. (DGS staff also indicate that eVA resulted in administrative savings as the result of automating the purchase order process.)

As a result of the State's effort to increase competition by making access to procurement opportunities easier, the number and dollar amount of purchase orders to out-of-state businesses has grown

(Appendix E). Since eVA's inception, the amount of purchase order dollars issued to out-of-state businesses grew from $48.2 million in FY 2002 to $1.0 billion in 2005, and then to $1.7 billion in 2008. (The Commonwealth has chosen not to implement a preference for Virginia businesses because such an action could lead to the same practice being applied against Virginia businesses operating in other states.)

eVA Offers Functions That May Benefit Buyers and Sellers

Today eVA is used by more than 12,000 agency and local government staff, and over 38,000 businesses. eVA provides buyers and sellers with several tools for soliciting and receiving bids and proposals. Some of these capabilities are summarized in Table 3. For instance, buyers use eVA to search business catalogs through the e-Mall, post bid and proposal opportunities. In addition, buyers can use purchasing data to analyze cost saving opportunities and identify potential partners with whom they can make volume purchases. In addition, agencies can use data to identify areas where the State can cultivate the development of small and women- and minority-owned businesses for products or services to improve supplier diversity and meet State goals.

eVA also offers businesses several advantages. For instance, eVA provides businesses a single and consistent way to access State procurement opportunities throughout the Commonwealth. Central registration reduces the need for businesses to register separately with each buying agency. In addition, businesses can publish electronic catalogs, receive email or fax notification of bid and proposal opportunities, and submit electronic bids and proposals. They can also access historical purchasing data to identify potential buyers and analyze product pricing.

Table 3: Summary of Some eVA Functions

Buyers	Sellers
Requisition and purchasing system for all levels and types of purchases	Centralized business registration
e-Mall for searching State contracts, mandatory sources, and business catalogs for goods and services	Online catalogs to market goods and services
Electronic notification and bidding allows buyers to quickly solicit bids for goods and services under $50,000	Automatic notification of bid and proposal opportunities via fax or email
Electronic posting and distribution of procurement-related notices	*Virginia Business Opportunities* alerts businesses to large purchases (over $50,000) through posted Requests for Proposal or Invitations for Bid
Data warehouse with business information and purchasing data	Electronic catalogs to link buyers searching the e-Mall directly to business websites
Bidder lists identify small and women- and minority-owned business certification status to help meet State goals	Spend reports with purchasing history to identify potential buyers and competitive prices
Electronic receiving and invoicing	

Source: DPS. "What is eVA?" Accessed May 17, 2009. http://www.eva.virginia.gov/learn-about-eva/learn-about-eva.htm.

eVA Use Is Mandatory for State Agencies Purchasing Goods and Services and for Businesses Selling to the Commonwealth

State procurement policies require all purchase orders to be processed through eVA to eVA-registered businesses. Furthermore, all businesses that accept State purchase orders must be eVA registered. According to DPS staff, buyers and sellers are required to use eVA because it is the only way to obtain comprehensive and detailed purchasing data needed to leverage the Commonwealth's purchasing power to reduce prices. Mandatory use also benefits the State by increasing the number of price quotes for bids and proposals buyers receive, leading to lower prices. DPS staff also stated that requiring the use of eVA can eliminate some costs associated with operating duplicate State electronic procurement and financial systems, which can be large. A 2001 review by the Auditor of Public Accounts reported that from 1995 to 2000 State agencies had spent or budgeted to spend in excess of $556 million dollars to replace or implement new independent financial systems.

There are some exceptions to the mandatory use of eVA by State agencies and businesses. For example, some businesses who refuse to register can still sell to the State if they are the sole source of a particular product. In these cases, however, there are financial penalties for the buying agency. Additionally, purchases of certain goods and services are exempt from being processed through eVA because it is neither practical nor efficient to process them using an electronic procurement system, and doing so would lend no value to the procurement, according to DPS staff. For example, honoraria and conference registrations are paid with checks rather than by using purchase orders.

In addition, some institutions of higher education have greater flexibility when it comes to eVA purchase requirements as a result of their management agreements with the State. For example, as part of their management agreements, UVA and Virginia Tech were allowed to purchase and implement another electronic procurement system, known as SciQuest. While other State agencies must process all procurement transactions through eVA, the management agreements limit the amount of transactions the universities must process through the system to 80 percent. In FY 2008, UVA processed 88 percent of purchase orders through eVA and Virginia Tech processed 86 percent.

State Agencies and Businesses Pay Fees for Using eVA

According to DPS staff, eVA operating costs for FY 2008 were approximately $21.9 million. These costs include all eVA expenses, such as administration, operating costs, and fee rebates to institutions of higher education for certain procurements. In addition,

$6.6 million was used to pay back a Treasury loan that was designated by the General Assembly to cover initial gaps between fee revenue and costs of developing and implementing the system that DPS finished paying back that year.

Part of this total also included $12 million that DPS pays a contractor, CGI, annually for providing the system. DPS initially contracted with AMS (now CGI) in 2001 to develop and operate eVA. As part of a renewal contract in 2006, DPS acquired greater responsibility for the system, including billing and collecting fees and providing customer care. According to DPS staff, under the 2006 renewal CGI's responsibilities include hosting eVA and its data warehouse in a secure data center and providing secure online access to authorized users. CGI also provides, maintains, and updates all required hardware, software, and related services to operate eVA. While the initial AMS contract cost about $15 million through FY 2006, the CGI renewal contract, which runs through 2011, costs about $12 million a year, with some additional costs for enhancements and improvements. DPS indicated that negotiations are underway to extend the contract to 2016.

Operating costs are funded through proceeds from an annual $25 business registration fee (for which businesses receive the benefits described in Table 3) and a two percent transaction fee paid by State agencies and businesses based on the value of purchases made through eVA. The State agency and the eVA-registered business engaged in the transaction are each responsible for paying one percent of the fee. For eVA-registered businesses, the fee is capped at $500 for all businesses that are State-certified as small businesses and $1,500 for all non-State-certified businesses (Table 4). The caps also apply to the purchasing State agency based on the business' State certification status. According to DPS staff, the lower cap amount is designed to minimize the impact on certified small businesses and to encourage agency procurement from them.

Table 4: Agency and Business Transaction Fees for eVA Purchases, by Type of Business

	Agency		Business		Total	
Business Type	**Fee**	**Cap**	**Fee**	**Cap**	**Fee**	**Cap**
eVA-registered, DMBE-certified small businesses	1%	$500	1%	$500	2%	$1,000
All other registered businesses and non-registered businesses that *agree* to pay fee	1%	$1,500	1%	$1,500	2%	$3,000
Non-registered businesses that *refuse* to pay fee	2%	$3,000	0%	$0	2%	$3,000

Source: eVA fee schedule; Division of Purchases and Supply.

State agencies may issue purchase orders to non-eVA registered businesses although such transactions are discouraged by DPS. Nonetheless, as described previously, circumstances may arise that require the use of such businesses. When such transactions do

occur, if the business refuses to pay the fee, the purchasing State agency is responsible for the entire two percent fee and the amount of the cap is increased to $3,000, as long as the transaction is processed through eVA. However, the purchasing State agency is responsible for the entire amount of the two percent fee (without a cap) when such transactions are processed outside of eVA.

POTENTIAL ADVANTAGES AND CHALLENGES OF GOVERNMENT-ADMINISTERED E-PROCUREMENT SYSTEMS

Electronic procurement systems offer a number of potential advantages for governments. For example, costs may be reduced through lower prices and administrative costs. As previously noted, these systems permit users to leverage their purchasing power to reduce prices by ordering mass quantities across multiple agencies. To the extent that the electronic procurement system increases competition, the system may also serve to reduce prices. E-procurement systems can also help buyers analyze their purchasing activity. A University of Maryland review (2003) stated that electronic transactions provide a complete, instantaneous, and accurate audit trail that allows management to track the status of orders and identify and fix problems sooner. Analysis of transaction data also allows for the assessment of purchasing behaviors and identification of additional cost savings.

Electronic procurement can also reduce the government's cost of maintaining redundant purchasing systems. A 2002 Office of Management and Budget study reported that redundant processes make it difficult for businesses to work with the government, create excessive duplicate spending on staff, IT, and administration, and generate duplicative reporting and paperwork burdens.

E-procurement also offers several potential benefits to businesses that sell to government. Foremost, e-procurement can increase private sector access to governmental procurement opportunities and visibility to buyers. A centralized e-procurement system presents a single and uniform place for suppliers to identify opportunities. Under some systems, suppliers can sign up to receive notices from buyers, making them aware of procurement opportunities they might not have learned about otherwise. A single purchase order template can also eliminate the confusion that occurs when a business wants to work with multiple agencies.

E-procurement can also reduce business costs associated with marketing and selling to government agencies, such as printing catalogs. The University of Maryland review and a 2004 review by the federal Small Business Administration (SBA) found that the average cost to a business of a paper-based procurement was between $50 and $200 per transaction, which included routing purchase or-

ders through various levels of authorization, bookkeeping entries, and check payments. The SBA study indicated that a mid-sized company could save up to $2 million per year by streamlining these processes using e-procurement.

Evaluations of e-procurement systems have also identified several limitations to full adoption by the buying and selling communities. Privacy and security concerns resulting from the sharing of personal information may cause some businesses to be reluctant to use an electronic procurement system to do business with the public sector. Acceptance of electronic procurement systems by private business and government employees has also been an issue. According to a May 2002 Virginia APA study, businesses had been slow to join eVA, in part because of complex online registration processes and reluctance to pay a transaction fee.

The benefits of e-procurement for small businesses are similar to other businesses. For instance, e-procurement has the potential to open markets for small businesses. In addition, e-procurement may provide opportunities for state governments to better identify small businesses from whom they can purchase and better track and analyze spending to small businesses.

Nonetheless, small businesses may also face some unique challenges in using e-procurement. The federal SBA review reported that small businesses face challenges when doing business through an e-procurement system due to capacity constraints. The review found that small businesses with only a few employees may require additional training and support for doing business electronically, and they may lack the time needed to search for procurement opportunities and submit bids and proposals (although this may not be unique to e-procurement). Another challenge is the extent to which users can navigate and operate within the procurement system. This challenge originates from the lack of communication as to what functions and information are maintained, the value of those functions or that information to system users, and how businesses can use those resources to improve their business activities.

The technology costs associated with using e-procurement systems are another potential challenge for small businesses. Small businesses may lack the technology needed to benefit from e-procurement, such as a high-speed Internet connection or up-to-date software. According to the 2004 federal SBA study, small firms tend to spend less per employee on e-commerce than larger firms. The study also reported that small businesses find smaller cost savings and lower returns on their investment, and subsequently may be reluctant to invest in new technology until that technology is well established.

JLARC REVIEW

The use of an electronic purchasing system has potential benefits for the State and its suppliers. From the standpoint of good government, such systems can improve access, openness, and accountability for State procurement activity. Virginia's system, eVA, appears to help registered businesses identify procurement opportunities and also appears to be implemented in a good faith manner. Based on the study mandate, this review focuses on how eVA impacts small (and large) businesses and identifies existing strengths of the system as well as ways in which the visibility, access to, usefulness and value of eVA for small businesses might be improved.

Chapter 2

State Policies Regarding Procurement of Goods and Services and Small Business

In Summary

The Virginia Public Procurement Act establishes competition, openness, fairness, and quality as the cornerstones of State purchasing efforts. Several State entities are involved with implementing the act's objectives. Regulations and policies developed by the Department of General Services' Division of Purchases and Supply guide State procurement of goods and services as well as agencies' use of eVA. In 2004, the Governor directed State agencies to develop and implement plans to achieve an aspirational goal to spend 40 percent of discretionary funds with certified small businesses, including women- and minority-owned businesses. In 2006, the policy was modified such that procurements of $50,000 or less are to be set aside for certified small businesses. Based on the certification criterion, almost 99 percent of businesses operating in Virginia are eligible for small business certification, and thus, the set asides. Small businesses employed about 55 percent of Virginia's private sector workers in 2008.

The Virginia Public Procurement Act (VPPA) establishes competition, open access, and quality as the foundation for the Commonwealth's procurement efforts. While DGS is responsible for administering the regulations and rules covering goods, non-professional services, and construction, it has decentralized much of the day-to-day purchasing authority to the State entities. State policies to support small businesses include setting aside procurements of up to $50,000 for those businesses obtaining State certification. While only ten percent of businesses are certified to participate in this program, nearly all Virginia businesses meet the eligibility criteria.

VIRGINIA PUBLIC PROCUREMENT ACT (VPPA) ESTABLISHES COMPETITION AS BASIS FOR STATE PROCUREMENT

> Competition affords every qualified vendor a fair opportunity to obtain public business. It avoids favoritism. It ensures that the public body is informed of the alternatives available, and provides the best chance that the expenditure of public funds will be made wisely.
>
> *Virginia Procurement Law Study – Final Report* (1980)

Codified in 1982, VPPA establishes a comprehensive framework outlining the State's objectives for acquiring goods and services

from non-governmental sources. (VPPA does not apply to procurements between governmental bodies.) Ensuring that the State's goods and services are obtained under competitive conditions is the act's primary goal. Additional objectives include providing equal access to procurement opportunities for all qualified businesses, ensuring the State's purchasing process is fair and impartial, and acquiring high-quality goods and services at reasonable prices.

Prior to VPPA, procurement statutes were agency specific. An advisory group reviewed Virginia's procurement laws in 1979 and 1980 and found existing policies to be confusing and inconsistent. In some cases, these problems resulted in conflicting statutory interpretations by the Office of the Attorney General. As a result, the group recommended coordinating State procurement efforts using a uniform framework of policies while leaving the actual procurement of these items decentralized. The act establishes the permissible methods of procurement, preferences for certain products, and exemptions, among other requirements and goals.

Most State entities are required to follow VPPA, although certain boards, commissions, and authorities are exempted by §2.2-4343 of the *Code of Virginia*, while others may be exempted by their enabling language. For example, the Virginia Port Authority is exempt from all VPPA requirements and the Virginia Retirement System is exempt for the selection of services related to the management, purchase, or sale of authorized investments. Purchases of goods and services by the legislative branch agencies are also exempt as determined by the chairs of either house's Rules Committee. In addition, some other boards, commissions, and authorities are exempt from State oversight of their actions, but still subject to VPPA requirements.

VPPA OBJECTIVES ARE IMPLEMENTED BY VARIOUS STATE AGENCIES

Responsibility for implementing VPPA's objectives is assigned to three State entities based on the type of product being procured. The *Code of Virginia* assigns authority for the procurement of goods and non-professional services to DGS' Division of Purchases and Supply (DPS). The division has delegated much of this authority to the agencies and implemented regulations and policies to guide their purchasing practices. DPS is also responsible for administering eVA. Procurement policies have been updated to address the State's aspirational goal of providing 40 percent of procurement dollars to businesses that are eligible for and obtain small-business certification from the Department of Minority Business Enterprise.

Procurement Authority for Goods and Construction Is Organized Within DGS, but VITA Is Responsible for Information Technology Purchases

Section 2.2-1110 of the *Code of Virginia* requires all State entities, with some exceptions, to purchase goods and nonprofessional services through DPS. The division has developed and implemented procurement regulations, policies, and guidelines regarding goods and nonprofessional services. The division has also decentralized certain aspects of its purchasing authority to the agencies. The *Code of Virginia* also assigns rulemaking authority for construction procurement to DGS' Division of Engineering and Buildings (DEB). Procurement of information technology (IT) and telecommunications goods and services is the statutory responsibility of the Virginia Information Technologies Agency (VITA). The *Code of Virginia* also lists a series of professional services for which procurement responsibility resides with the agencies, including accounting, architecture, dentistry, and medicine, among others. As shown in Table 5, DPS and DEB have decentralized most of their procurement authority to the individual State entities. However, VITA maintains full authority for IT items, and State entities desiring to make such purchases must go through VITA for approval.

Table 5: Procurement Authority Depends on Type of Good or Service

Type	Entity With Statutory Procurement Authority	Authority Delegated to State Agencies?
Goods and Non-professional Services	DPS	Yes[a]
Professional Services	DPS	Yes[b]
Construction	DEB	Yes[c]
Information Technology and Telecommunications Goods and Services	VITA	No

[a] Purchases of $50,000 or less (all agencies); non-printing purchases of $100,000 or less (11 agencies); all purchases (12 agencies, all non-printing purchases for six of the 12 agencies).
[b] Excludes telecommunications services.
[c] When cost does not exceed 110 percent of the cost consistent with DEB's requirements.

Note: UVA, VCU, William and Mary, and Virginia Tech, through their management agreements with the State, also have procurement authority for purchases of goods and non-professional services and construction.
Source: DGS staff.

Finally, four institutions of higher education (the College of William and Mary, the University of Virginia, Virginia Commonwealth University, and Virginia Tech) have management agreements with the State giving them autonomy over their financial and administrative operations, including procurement. However, these universities are still required to report certain procurement information to the State and process transactions through eVA.

State Procurement Policy Includes Mandatory and Optional Use Contracts, and Mandatory Sources

State buyers are required to follow DPS regulations and guidance when procuring goods and services. These rules are collected and published in the *Agency Procurement and Surplus Property Manual* (APSPM). While VPPA establishes the State's strategic purchasing objectives, the policies and directives in the manual serve as the buyers' guide to tactical implementation. The policies in the manual are designed to clarify and help State entities implement the provisions of the *Code of Virginia*. The APSPM addresses purchasing from the buyers' perspective and provides a list of the mandatory sources of supply, procurement methods to be used, and how and when procurements must be processed through eVA. DPS has summarized and rewritten portions of the APSPM in a vendor's manual, which describes the State's procurement policy from the business perspective. This manual is available on DPS' website.

DPS has developed mandatory use and optional use contracts for certain goods and services in order to obtain favorable prices and reduce administrative costs through volume purchasing. State entities are required to make purchases from mandatory use contracts unless an exemption is granted. Mandatory use contracts exist for school buses, air conditioners, ammunition, and other products. Optional use contracts are in place for certain goods and services that State entities have the option to use, or they can search for better agreements on their own.

In addition, there are several mandatory sources that buyers must use for certain purchases, such as Virginia Correctional Enterprises for office furniture; the Department for the Blind and Vision Impaired for postal services, pillows, and mattresses; DGS' Virginia Distribution Center for staple goods, canned food, and paper products; and VITA for IT items. Procurement transactions involving the State agencies designated as mandatory sources must be processed through eVA. The mandatory sources are exempt from paying the transaction fee for the goods they purchase and also exempt from paying the fee for the goods they sell. However, businesses that sell to and State agencies that purchase from the mandatory sources are charged the transaction fee. In FY 2008, State entities procured about $115 million, or about two percent of the $4.6 billion Virginia awarded that year, from mandatory sources. Appendix F lists the mandatory sources and the goods and services they provide.

Some goods and non-professional services cannot be obtained through mandatory use or optional use contracts, or mandatory sources. In such circumstances, buyers are required to use the pro-

curement methods identified and described in APSPM to ensure that purchases are conducted fairly and openly, and result in the greatest level of competition practicable (Table 6).

Table 6: State Procurement Methods and eVA Requirements Reflect Small Business Initiative

Method of Procurement	Value of Procurement	Details	eVA Requirement
Small purchase procedures	$50,000 or less	$5,000 or less: Must be set aside exclusively for State-certified small businesses. Buyers only need to solicit one bid from a certified small business. The bid can be obtained by phone, fax, or using e-Mall and does not need to be publicly posted.	$5,000 or less: Buyers are not required to solicit quotes through eVA.
		Greater than $5,000 - $50,000: Must be set aside exclusively for State-certified small businesses if there is a reasonable expectation that at least two certified small businesses will submit bids or quotes. Buyer must obtain four bids from State-certified small business if set aside.	Greater than $5,000 - $50,000: Buyers are required to use eVA to solicit bids or quotes from registered vendors. Solicitations must remain open at least one day to allow vendors to submit pricing. State agencies are required to include the following statement with eVA solicitations within this price range: "SET-ASIDE FOR SMALL BUSINESSES."
Invitation for bids (IFBs) or request for proposals (RFPs)	Greater than $50,000	Both methods involve competitive processes. IFBs are sealed bids publicly opened simultaneously and awarded to the lowest bidder. RFPs are sealed bids resulting in negotiations and are awarded based on initial criteria established in RFP. RFPs are used when precise specifications or scope of work cannot be prepared. Buyers may set aside these awards, if there is a reasonable expectation that at least two bids will be received from certified small businesses.	Buyers are required to post opportunities on eVA's V*irginia Business Opportunities* (VBO) webpage and use eVA to send electronic notifications to businesses registered for the goods and services being requested.
Emergency	None	Used when a serious and urgent need must be resolved immediately. Buyer must obtain competition where practicable and agency head or designee must approve in writing that emergency procurement was necessary.	Buyers are required to post a Notice of Award on eVA's VBO webpage.
Sole Source	None	Product or service must be available from only one business. Buyers must obtain and document quotes up to $50,000 and DPS approval is required for purchase amounts greater than $50,000.	Buyers are required to post a Notice of Intent to Award or a Notice of Award on eVA's VBO webpage.

Source: DPS, *Agency Procurement and Surplus Property Manual*.

State Procurement Policy Sets Goals and Requires Plans for Increasing Procurements From Certified Small Businesses

In January 2004, a consultant study done for the Department of Minority Business Enterprise (DMBE) found that State agencies were significantly underutilizing women-owned and minority-owned businesses when procuring goods and services. The study found that "disparities were also evident after controlling for the size of contract and firm characteristics." The 2004 General Assembly then enacted §2.2-4310(C) of the *Code of Virginia* providing in part that

> Whenever there exists (i) a rational basis for small business enhancement or (ii) a persuasive analysis that documents a statistically significant disparity between the availability and utilization of women- and minority-owned businesses, the Governor is authorized and encouraged to require state agencies to implement appropriate enhancement and remedial measures consistent with prevailing law.

State Agencies Must Develop Plans to Procure 40 Percent From Small Businesses

Procurement policy requires State agencies to annually prepare a plan addressing how they will facilitate small and women- and minority-owned (SWAM) business participation in their procurement transactions. Plans must identify use of SWAM businesses to obtain goods and services and the proportion of expenditures intended for such businesses. Plans must be submitted to the Department of Minority Business Enterprise and the appropriate secretariat by September 1. State agencies are measured on how well they meet the 40 percent goal.

In response to these events, an executive branch initiative was started that same year with an aspirational goal to provide 40 percent of discretionary spending to small businesses that obtained State certification in the hopes of also assisting small, women- and minority-owned businesses. Agencies were also required to develop and annually implement plans identifying the methods they intended to use to provide 40 percent of their procurement dollars to certified small businesses. To spur even greater use of certified small businesses, since October 2006, State agencies have been required to set-aside procurement opportunities of $50,000 or less for State certified small businesses as part of the initiative. (In FY 2008, 92 percent of purchase orders had values of $50,000 or less.)

Procurement policy outlines how agencies are supposed to implement the set-aside requirements. For purchase orders estimated at $5,000 or less, buyers must obtain at least one written or telephone quote from a certified small business. (In FY 2008, 62 percent of purchase orders had values of $5,000 or less) For purchase orders valued greater than $5,000 to $50,000, buyers must solicit four certified sources by mail, fax, or electronically. If there is a reasonable expectation that the buyer will not receive at least two bids from certified businesses, then the policy requirement does not apply and solicitations can be received from any size business, but at least four quotes must be received. DPS policies governing eVA usage have also been updated to reflect these requirements. For example, buyers must use eVA's electronic notification function to solicit bids or offers from certified businesses for purchase orders with estimated values from $5,000 to $50,000.

Department of Minority Business Enterprise Is Responsible for Certifying Small Businesses

Department of Minority Business Enterprise (DMBE)

DMBE's mission is to promote access to the State's contracting opportunities and ensure fairness in the procurement process. The agency is responsible for certifying businesses as small, women-, or minority-owned under Virginia's SWAM Procurement Initiative. DMBE supports certified businesses through business development and procurement advocacy programs.

The 2006 General Assembly amended section 2.2-1403(8) of the *Code of Virginia* to require the Department of Minority Business Enterprise (DMBE) to implement a formal, regulatory certification program for small businesses. (Between October 1, 2004 and July 1, 2006, the department used an informal certification process.) To obtain certification, businesses must complete an online application and provide documentation to DMBE verifying that they meet the State's small business definition by having either (1) 250 or fewer employees or (2) average gross receipts of $10 million or less averaged over the previous three years. Additional eligibility standards are outlined in DMBE's regulations and seek to ensure that business owners are U.S. citizens or comply with federal immigration law, control the management and daily operations of the business, and that the business is not a subsidiary of another entity.

As of June 30, 2008, there were 18,791 DMBE-certified small businesses. According to data provided by the Virginia Employment Commission (VEC), DMBE-certified business accounted for about 11 percent of the roughly 173,000 businesses operating in Virginia in 2008.

ALMOST ALL VIRGINIA BUSINESSES ARE ELIGIBLE FOR SMALL BUSINESS CERTIFICATION

Although about 11 percent of businesses are certified, based on small business criteria, many more are eligible for certification. In fact, analysis of businesses by number of employees indicates that 99 percent of businesses operating in Virginia in 2008 employed 250 or fewer workers. However, the proportion of Virginia employment is more evenly divided between small and large businesses, with small businesses accounting for 55 percent and large businesses 45 percent. Northern Virginia accounts for the largest percentage of eligible small businesses.

Determining Small Business Eligibility Using Gross Receipts Data

The number of small businesses used in the analysis for this report does not include businesses that would qualify as small based solely on gross receipts averaged over the previous three years. Appendix G describes the analysis of businesses by receipts data.

Almost All Virginia Businesses Meet Small Business Criterion of 250 or Fewer Employees

While about 11 percent of all businesses were DMBE-certified as of June 30, 2008, data analysis indicates that nearly all Virginia businesses were eligible for small business certification based on their reported number of employees. Table 7 identifies the percentage of businesses that reported employing 250 or fewer workers to the VEC. Under the Virginia Unemployment Compensation Act, businesses operating in Virginia are required to submit quar-

Table 7: Almost All Virginia Businesses Reported 250 or Fewer Employees From 2003 to 2008

Number of Employees	2003 (%)	2004 (%)	2005 (%)	2006 (%)	2007 (%)	2008 (%)
0[a]	10.7%	10.6%	11.1%	11.7%	12.1%	13.7%
1-5	52.0	52.4	52.3	52.3	52.8	52.6
6-50	32.1	31.8	31.4	30.9	30.1	28.9
51-250	4.2	4.2	4.2	4.1	4.0	3.9
>250	1.0	1.0	1.0	1.0	1.0	0.9
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total Number of Businesses	**149,149**	**155,131**	**159,499**	**165,029**	**169,466**	**172,858**

Note: Annual figures represent data reported to Virginia Employment Commission (VEC) for the second quarter ending in June of the given year. VEC prefers to use this date to represent annual employment levels because it is the least likely timeframe to be affected by seasonal employment.
[a] May include sole proprietorships and seasonal businesses with no employees.

Source: JLARC staff analysis of VEC employment data.

References to Small Businesses

DMBE-certified small businesses: Those having obtained State certification.

Non-DMBE-certified small businesses: Those identified as meeting State certification eligibility criteria but not certified.

Small businesses: Consist of both DMBE-certified and non-DMBE-certified small businesses.

terly reports to VEC identifying the number of workers they employed during that time and their associated wage information.

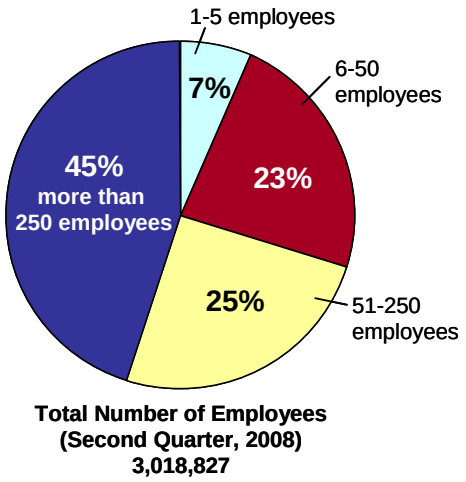
Employment levels shown in the table were reported for the second quarter ending in June of each year; thus some firms reported zero employees because of startups after and closures before the quarter, or the figure reflects seasonal work. As the table indicates, in each year since 2003 almost 99 percent of businesses reported employing 250 or fewer workers, and thus would have been eligible for certification as a small business. For example, 99.1 percent of the approximately 173,000 businesses operating in Virginia in FY 2008 met the criteria necessary for certifying as a small business based solely on their number of employees.

While small businesses comprised 99 percent of all businesses in FY 2008, they employed about 55 percent of the approximately 3.02 million workers that year in the private sector (Figure 2). The remaining 45 percent of workers – about 1.36 million people – were employed by large businesses which constitute slightly more than one percent of businesses that reported more than 250 persons on staff. Moreover, the proportion of workers employed by small and large businesses has remained largely unchanged since 2003.

Distribution of Small Businesses Located Throughout Virginia

As Figure 3 shows, approximately 57,000 small businesses are located in the DPS service area associated with Northern Virginia. (DPS has divided the State into ten service areas. When registering in eVA, businesses use service areas to designate where they can provide their goods and services. Service areas are also described in Appendix B.) An additional 30,000 small businesses (18

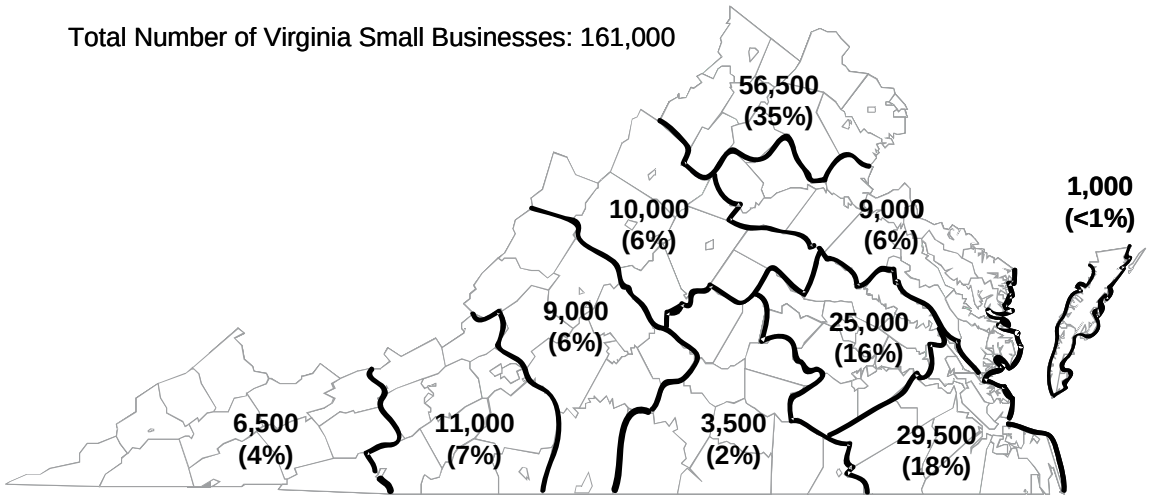
Figure 2: Businesses With 250 or Fewer Workers Employ 55 Percent of All Virginia Private Sector Workers, Second Quarter 2008



Note: Not shown are roughly 23,800 businesses that reported zero employees to the Virginia Employment Commission (VEC) during the second quarter ending June 2008. Some were likely sole proprietorships.
Source: JLARC staff analysis of VEC employment data (second quarter ending June 2008).

percent) are located in Tidewater area, and 25,000 (16 percent) in the Richmond metro region. Small businesses located on the Eastern Shore, Southside Virginia, and the far southwest account for only about seven percent of the total. About 10,000 (6 percent) small businesses are headquartered in other states.

Figure 3: Most Virginia Small Businesses Are Located in DPS' Northern Virginia Service Area, 2008



Note: Approximately 10,000 out-of-State businesses reported information to the Virginia Employment Commission (VEC).

Source: JLARC staff analysis of VEC employment data, second quarter ending, June 2008.

Chapter 3

State Procurement of Goods and Services From Small Virginia Businesses

In Summary

Overall, small businesses have had success in obtaining business using eVA. Since the inception of eVA, small businesses have received more than one million purchase orders worth more than $11.5 billion. One limitation in the data is that the size of the businesses is not known for all transactions. Still, as a percent of total transactions, small businesses accounted for an average of 57 percent of purchase orders and 60 percent of dollars awarded from FY 2005 to FY 2008. Further, as a percent of those transactions for which the size of the business is known, small businesses accounted for an average of about 85 percent of purchase orders and 80 percent of dollars awarded. These figures compare favorably to the 55 percent portion of Virginia's private sector employment accounted for by small business. Also, under current conditions, which include a set-aside of transactions of $50,000 or less for State-certified small businesses, certified small businesses appear to be faring well in the procurement process. State awards to all certified businesses, and especially to certified women-owned and minority businesses, have substantially increased.

However, only about 11 percent of businesses that were eligible for small business certification were actually certified in FY 2008. Depending on its intentions regarding small business, the State may wish to reconsider its certification criteria, or increased outreach to certify more small businesses.

House Joint Resolution (HJR) 119 directs JLARC staff to identify the total number of contracts and dollars awarded to small businesses in the Commonwealth since the implementation of eVA in March 2001. To address this issue, procurement data by size of business were obtained based on the State's small business definition. Analysis was also conducted on the proportion of contracts and dollar amounts obtained by small businesses in total, and also by secretariat and from specific agencies. The magnitude of awards received by certified and non-certified small businesses was also compared.

Changes in Inflation and State Population, FY 2005 to FY 2008

As measured by the change in the consumer price index over the four-year period from FY 2005 to FY 2008, inflation increased approximately ten percent. Also, Virginia's population increased by more than two percent during that period.

SINCE eVA'S START, SMALL BUSINESSES RECEIVED OVER A MILLION PURCHASE ORDERS WORTH OVER $11.5 BILLION

Since FY 2001, small businesses have received more than one million purchase orders worth more than $11.5 billion (Table 8). Of these total amounts, 68 percent of purchase orders and 72 percent of award dollars went to small Virginia businesses. Because State agencies were first required to process all procurement transactions through eVA starting July 16, 2004, most longitudinal comparisons in this report use FY 2005 as a base year. From FY 2005 to FY 2008, the number of purchase orders and the dollar value

Table 8: Since FY 2001, Small Businesses Have Received Over One Million State Purchase Orders Worth More Than $11.5 Billion

Fiscal Year	Awarded to Small Virginia Businesses [a]	Awarded to All Small Businesses [a]	Awarded to All Businesses
Number of Purchase Orders			
2001[b]	--	--	128
2002	--	--	26,880
2003	44,735	67,041	147,479
2004	91,254	125,353	233,609
2005[c]	142,296	197,298	366,205
2006	153,252	215,730	390,076
2007	171,335	253,332	448,447
2008	213,968	334,829	582,729
2009[d]	Unavailable	Unavailable	283,528
2005 – 2008 TOTAL	**680,851**	**1,001,189**	**1,787,457**
2001 – 2008 TOTAL	**816,840**	**1,193,583**	**2,195,553**
Dollar Amount Awarded ($ Million)			
2001[b]	--	--	<$1
2002	--	--	$141
2003	$379	$559	$1,124
2004	$814	$1,368	$2,442
2005[c]	$1,878	$2,284	$3,621
2006	$1,708	$2,502	$3,993
2007	$1,521	$2,193	$3,712
2008	$1,978	$2,651	$4,633
2009[d]	Unavailable	Unavailable	$2,126
2005 – 2008 TOTAL	**$7,085**	**$9,630**	**$15,959**
2001 – 2008 TOTAL	**$8,278**	**$11,557**	**$19,666**

[a] Virginia Employment Commission (VEC) provided employment data since FY 2003. Size of business for FYs 2001 and 2002 are categorized as "Unknown." Amounts shown for small business should be regarded as minimums in all years shown, because employment size was not identifiable for about one-fifth to one-third of transactions in recent years.
[b] March 5, 2001 through June 30, 2001 data.
[c] Beginning July 16, 2004, all State purchase transactions were required to be processed through eVA.
[d] July 1, 2008 through December 31, 2008 data.

Note: This table does not include non-compliant purchase orders. The number and dollar amount of non-compliant purchase orders issued since FY 2005 are listed in Appendix C.
Source: JLARC staff analysis of DPS purchase order data and VEC employment data.

awarded to small businesses increased by 70 percent (to about 335,000) and 16 percent (to about $2.7 billion).

DEPARTMENT OF TRANSPORTATION AND HIGHER EDUCATION INSTITUTIONS ARE AMONG TOP USERS OF SMALL BUSINESS

Based on eVA purchase order data, State entities agreed to award more than $2.6 billion–more than half of the total procurement amount–to small businesses in FY 2008. Of the $2.6 billion State agencies awarded to small businesses in FY 2008, awards for services accounted for a larger portion than awards for goods. Specifically, services comprised 76 percent of all purchase orders awarded to small businesses in FY 2008, compared with 24 percent for goods.

Unknown Size of Business

JLARC staff received employment data from the Virginia Employment Commission (VEC) for FY 2003 to FY 2008, which was used to determine the size of each business in the eVA purchase order datasets, as well as how many businesses met the State's small business definition criterion of 250 or fewer employees. The number of employees per business for FY 2001 and 2002 eVA purchase order datasets was categorized as "unknown." In addition, not all businesses in the datasets had a corresponding number of employees in the VEC datasets. As a result, these businesses were also included in the "unknown" category.

Table 9 shows the top ten goods and services purchased from small businesses. The top ten goods and services accounted for 62 percent of the $2.6 billion awarded to small businesses in FY 2008.

Table 9: Top Ten Services and Goods Procured From Small Businesses Accounted for 62 Percent of the $2.6 Billion Awarded

Services	Total Dollar Amount Awarded to Small Businesses ($ in Millions)
Building Construction – Non-residential	$425.4
Maintenance and Repair, Highway and Road	415.4
Construction Services (General)	172.3
Building Maintenance Services	155.7
Building Maintenance and Repair Services	108.8
Excavation Services	99.2
Structural Engineering	46.9
Civil Engineering	27.7
Software Maintenance/Support	22.4
Professional Engineering Services	22.3
Total for Top 10 Services	**$1,496.0**
Total Awarded to Small Businesses (All Services)	**$2,025.3**
Goods	
Chemical Laboratory Equipment	$33.9
Asphaltic Concrete	33.1
Fuel Oil, Diesel	24.2
Crushed Stone	15.3
Laboratory and Field Equipment – Other Sciences	13.7
Office Furniture	11.9
Automobiles and Station Wagons	11.5
Gasoline, Automotive	10.4
Books, Magazines, Pamphlets, Publications	8.1
Network Components: Adapter Cards, Connectors, etc.	7.9
Total for Top 10 Goods	**$170.1**
Total Awarded to Small Businesses (All Goods)	**$617.3**

Note: Approximately 2,400 purchase orders in the eVA purchase order dataset (totaling $7.8 million) did not have the information needed to identify the good or service they represent. JLARC staff was not able to categorize these orders as goods or services.

Source: JLARC staff analysis of DPS purchase order data and VEC employment data.

The Education and Transportation Secretariats ranked first and second among the secretariats in the amount of business procured from small businesses. The Education Secretariat accounted for about half of the purchases from small businesses, due to the magnitude of purchases made by higher education institutions. The Transportation Secretariat ranked second, due to the magnitude of procurements for highway and road maintenance and repair goods and services by the Virginia Department of Transportation (VDOT).

Table 10 shows the ten agencies in FY 2008 that issued the largest amount of purchase order dollars to small businesses. These ten agencies were responsible for $2.1 billion (79 percent) of the more

Table 10: Ten State Entities Accounted for Nearly $2.1 Billion of the $2.6 Billion of Purchase Order Dollars Awarded to Small Businesses, FY 2008

State Agency	Total Purchase Order Amount Awarded to Small Businesses ($ in millions)	Total Purchase Order Amount Awarded to All Businesses ($ in millions)	Percent of Total Amount Awarded to Small Businesses
Department of Transportation	$798.3	$1,590.1	50%
University of Virginia (Academic Division)	282.1	395.6	71
George Mason University	210.1	409.5	51
James Madison University	152.7	178.4	86
Community College System (System Office)	132.3	153.5	86
Virginia Commonwealth University	123.4	226.7	55
Virginia Tech	102.3	158.9	64
Mental Health, Mental Retardation, and Substance Abuse Services	100.2	174.4	58
Corrections	98.9	200.6	49
Old Dominion University	97.1	130.2	75
Total for Ten State Agencies Listed	**$2,097.3**	**$3,618.0**	**58%**
Total Amount Awarded	**$2,650.5**	**$4,633.0**	**57%**

Note: Amounts and percentages shown for small businesses should be regarded as minimums, because business employment size was not identifiable for a portion of the transactions.

Source: JLARC staff analysis of DPS purchase order data and VEC employment data.

than $2.6 billion in State purchase orders awarded to small businesses in FY 2008. These agencies also account for about $3.6 billion (78 percent) of the $4.6 billion awarded to all businesses. (These are the same agencies shown in Table 1 that awarded the greatest purchase order dollars to all businesses regardless of size.)

The prominent role of VDOT and the higher education institutions can be seen in this listing. VDOT had the largest dollar amount of purchase orders awarded to small businesses, as well as the largest percentage of all procurements of goods and services. Also, six of the ten agencies are colleges and universities that accounted for a total of nearly $967.7 million (about 37 percent) in dollars awarded to small businesses in FY 2008.

In terms of the percent of purchase order dollars awarded, nine of the ten entities awarded at least half of their total purchase order amount to small businesses that year, with JMU and VCCS (86 percent for both) awarding the largest percentages. Appendix H identifies the ten agencies that have issued the largest amount of purchase order dollars to small businesses on an annual basis. The appendix shows that on an annual basis the percentage of dollars awarded to small businesses by ten agencies has been between 63 percent and 57 percent in recent fiscal years.

Appendix I includes a listing of the ten most frequently purchased goods and services from small businesses for each of the ten State agencies listed in Table 10. In FY 2008, the ten agencies' most purchased good was chemical laboratory equipment and supplies, and the most purchased service was building construction.

SMALL BUSINESSES ARE FARING WELL IN THE PROPORTION OF PURCHASE ORDERS AND AMOUNT OF DOLLARS RECEIVED

JLARC staff acquired data and conducted an analysis of eVA purchase orders and dollar awards to examine the proportion of business obtained by small businesses in recent years. This analysis required the matching of certain employment data from VEC with eVA procurement data. However, due to limitations in the data, the employment size for about one-third of purchase orders and for 20 to 29 percent of award amounts is not available.

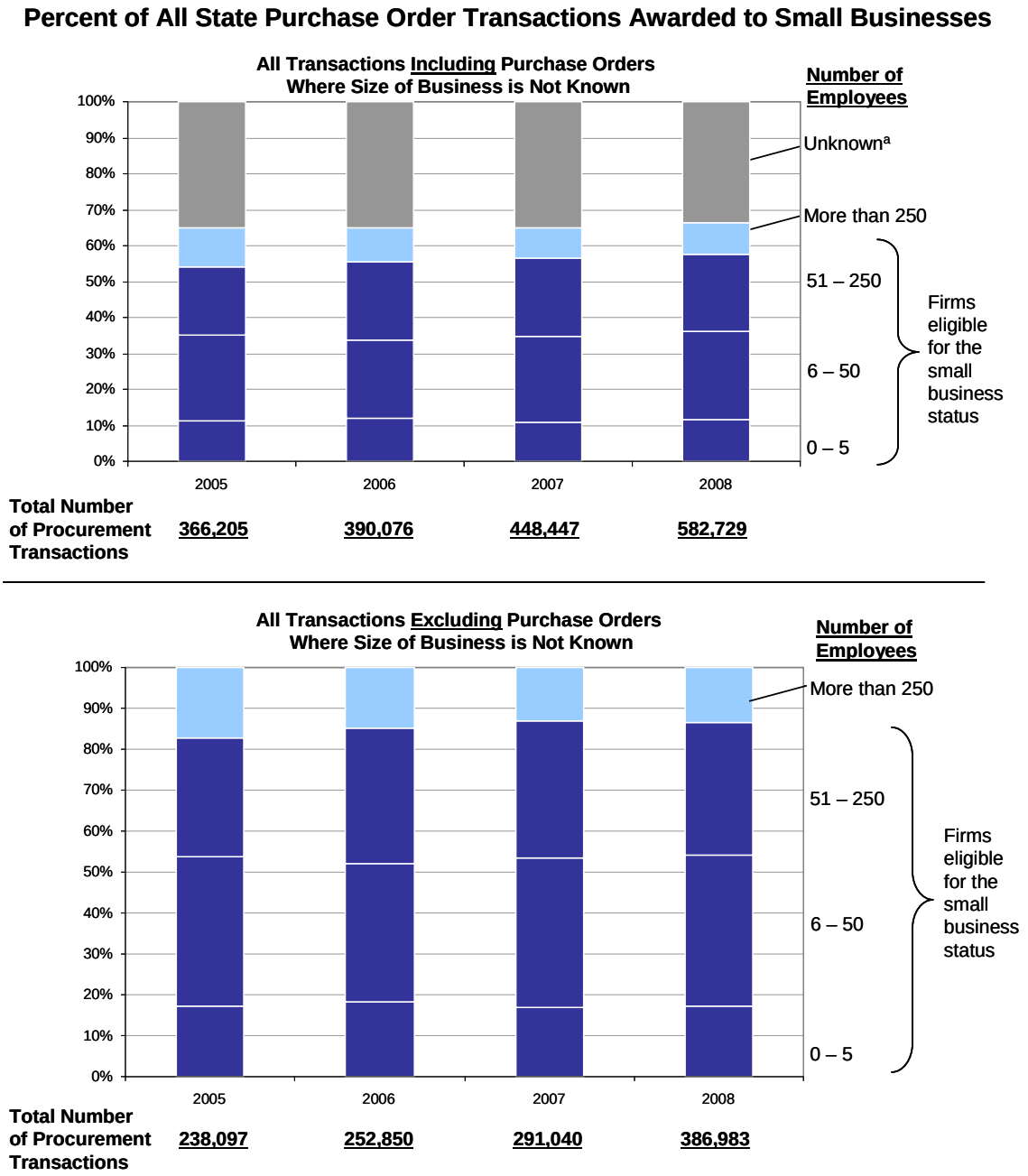
To account for this limitation in the data, JLARC staff analyzed the quantity of documented small business purchase orders and dollar awards as (1) a percent of all transactions, including transactions where the size of business is unknown, and (2) a percent of just the transactions where the size of business is known. The first type of percentage can be viewed as the minimum portion of the State business that is received by small businesses (because it is likely that small businesses also received a portion of the business which can only be identified as going to businesses of "unknown" size). The second type of percentage facilitates a direct comparison of the known small business percentage against the known large business percentage.

Analysis Shows Small Businesses Are Receiving More Than Half of State Procurements, and It May Be 80 Percent or More

Analysis of purchase order and employment data indicates that businesses meeting the State's small business criterion of 250 or fewer employees account for more than half of the total number of purchase orders awarded since FY 2005 (Figure 4). The upper half of the figure shows the percentages obtained by small businesses when all purchase orders are included in the analysis, including those to businesses of unknown size. In this analysis, the average of what small businesses received from FY 2005 to FY 2008 was 57 percent of all purchase orders.

The lower half of the figure shows the percentages of purchase orders received by small businesses if the analysis focuses just on those purchase orders that can be directly attributed to small and large businesses. The average of what small businesses received from FY 2005 to FY 2008 was 85 percent of purchase orders, when

Figure 4: Businesses Eligible for Small Certification Received Over Half of All Purchase Orders, and Over 80 Percent of Orders in Which the Size of the Business Is Known



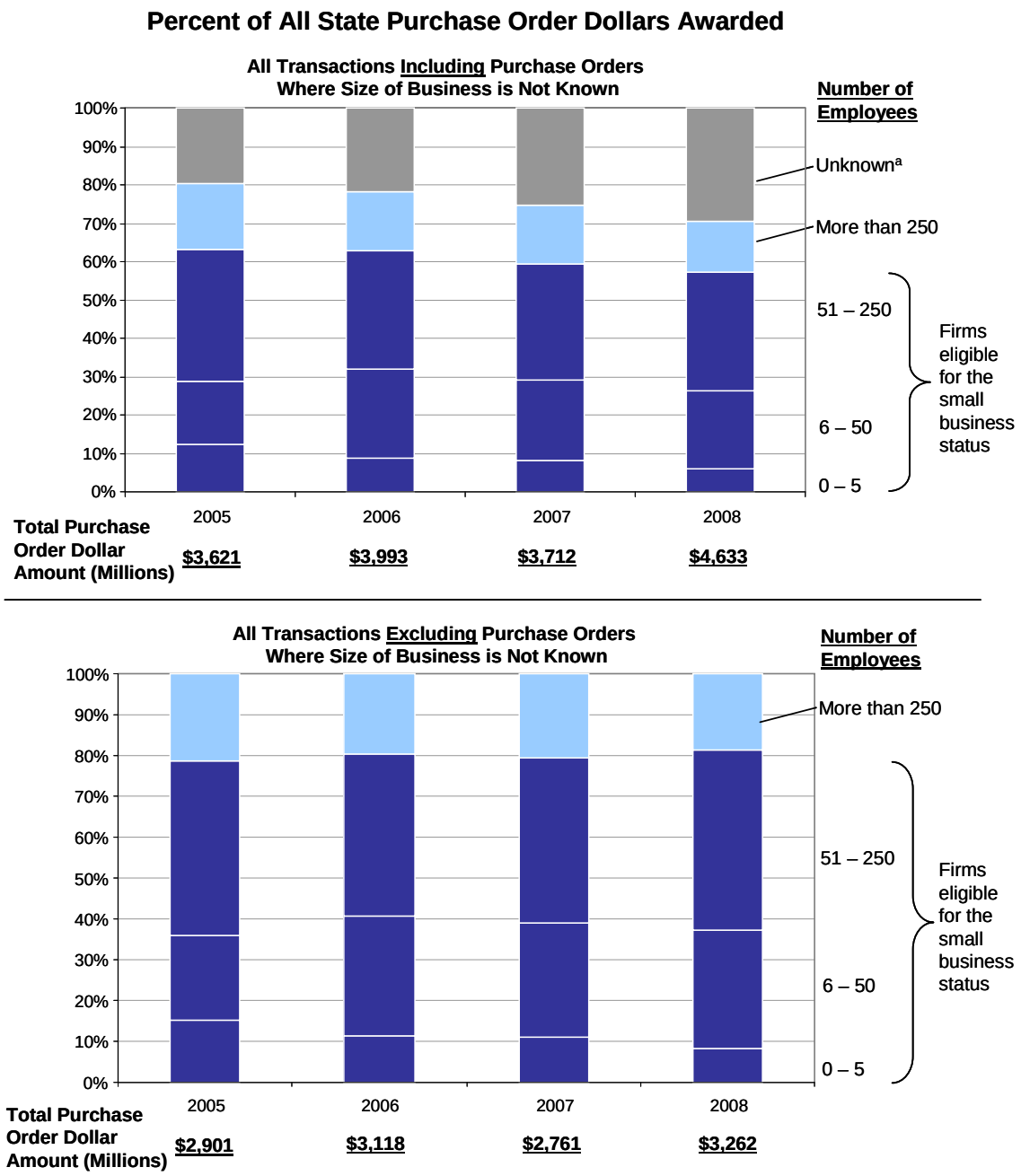
[a] Represents businesses for which VEC employment data were not available in the eVA purchase order data.
Source: JLARC staff analysis of DPS purchase order data and VEC employment data.

purchase orders to businesses of unknown size are excluded from the analysis.

Figure 5 shows similar results when dollar awards are assessed. The upper half of the figure shows results when all dollar awards

are included in the analysis (including awards to businesses of un known size). In this analysis, the average of what small businesses received from FY 2005 to FY 2008 was 60 percent. The lower half of the figure shows the results, focusing on just dollar awards that

Figure 5: Businesses Eligible for Small Certification Received Over Half of All Dollar Awards, and About 80 Percent of Awards Where the Size of the Business Is Known



[a] Represents businesses for which VEC employment data were not available in the eVA purchase order data.
Source: JLARC staff analysis of DPS purchase order data and VEC employment data.

can be directly attributed to small and large businesses. The average of what small businesses received from FY 2005 to FY 2008 was 80 percent, when dollar awards to businesses of unknown size are excluded from the analysis.

This analysis indicates that small businesses, as currently defined, appear to have done well in obtaining State purchase orders and dollars since FY 2005. As previously noted, while almost 99 percent of businesses qualify as small under the State's definition, these businesses account for about 55 percent of private sector employment in Virginia. While imperfect, the percentage of employment accounted for by small businesses may be seen as a reasonable proxy for their capacity to produce goods and services the State procures. Thus, receipt by small businesses over these years of an average of 57 and 60 percent of orders and dollars with business of unknown size included, and 85 and 80 percent of orders and dollars with businesses of unknown size excluded, compares favorably with their employment levels.

Subgroups of small businesses were analyzed to determine how the magnitude of awards varied based on their number of employees. The analysis shows that of the $4.6 billion total, small businesses obtained about what might be expected based on their employment level. Table 11 illustrates that businesses with one to five employees, six to 50 employees, and 51 to 250 employees each receive a portion of State procurements which is similar to their portion of private sector workers, although the 51 to 250 employee businesses appear to be fairing better than the six to 50 employee group. While this analysis is limited by the unknown size of some businesses receiving State procurements, it seems likely that a portion of those purchase orders and dollars, if not the majority, would have been awarded to small businesses based on the scope of the criterion, making their portion of dollars even higher relative to their portion of employees. (Appendix J shows the number

Table 11: State Procurement Awards Proportionate to Portion of Private Sector Workforce, FY 2008

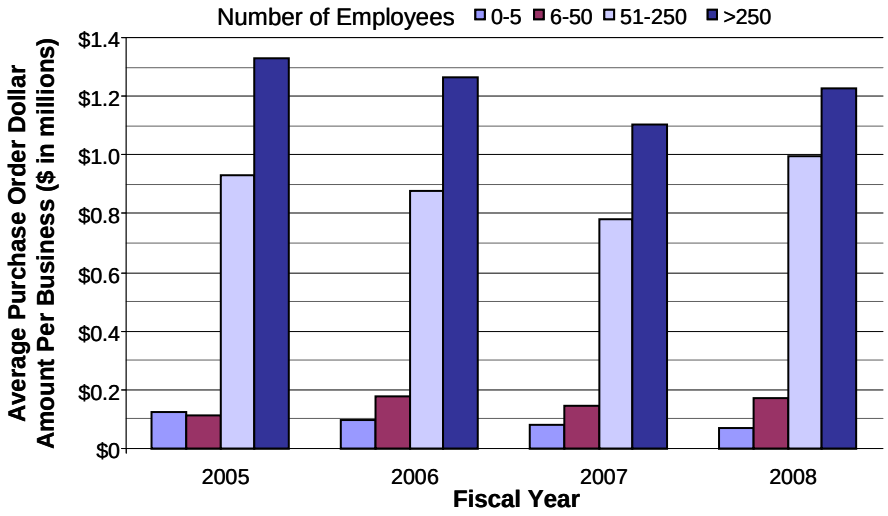
Number of Employees	Percent of Private Sector Workers	Percent of State Procurement Dollars
250 or less	55%	57%
1 to 5	*7*	*6*
6 to 50	*23*	*20*
51 to 250	*25*	*31*
More than 250	45	13
Unknown	NA	30
Total	**100%**	**100%**

Source: JLARC staff analysis of DPS purchase order data and VEC employment data.

and dollar amount of purchase orders issued by number of employees from FY 2005 to FY 2008.)

Not surprisingly, businesses with five or fewer employees received the lowest average purchase order value. As Figure 6 indicates, the average purchase order amount for small businesses with five or fewer employees has been less than other small businesses for every year since FY 2006. In FY 2008, the average purchase order value for small businesses with five or fewer employees was approximately $68,000. By comparison, small businesses with six to 50 employees received purchase orders averaging about $172,000 while small businesses with 51 to 250 employees received purchase orders worth approximately $997,000, on average, and businesses with more than 250 employees received purchase orders averaging $1.2 million.

Figure 6: Small Businesses With More Employees Received Greater Purchase Order Awards, on Average

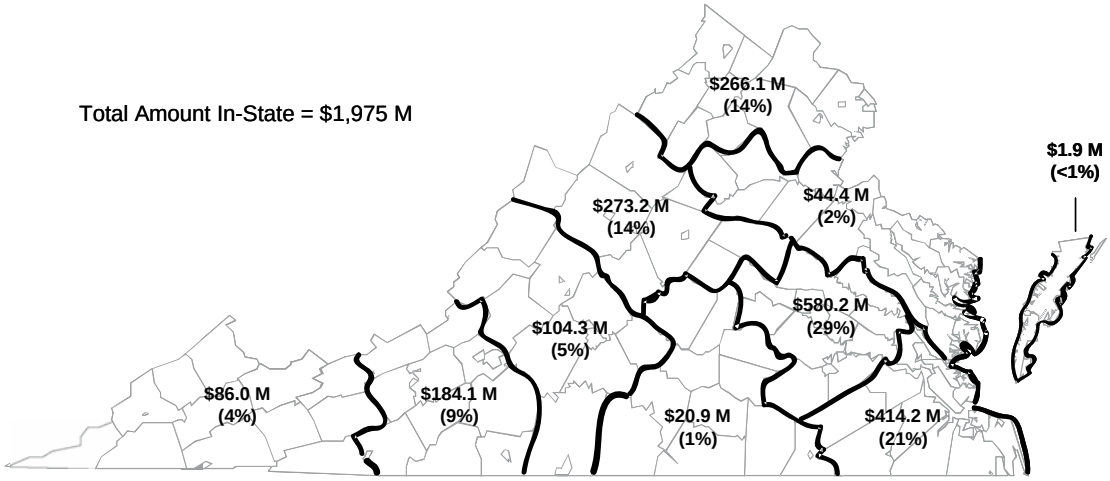


Source: JLARC staff analysis of DPS purchase order data and VEC employment data.

In terms of awards to different regions in the State, in FY 2008, small businesses located in Virginia received approximately $2 billion (75 percent) of the almost $2.6 billion in purchase orders awarded to small businesses that year. Among small businesses located in other states, those in Maryland received the greatest dollar amount, about $120 million. Small businesses located in Pennsylvania received about three percent of the $2.6 billion total.

Of the $2.0 billion, about $580 million (29 percent) was awarded to small Virginia businesses located in the Richmond metropolitan area (Figure 7). As shown in Figure 3 in Chapter 2, as of June 2008, about 16 percent of small Virginia businesses were located in

Figure 7: On a Regional Basis, Richmond Area Small Businesses Received Most Dollars Among Small Virginia Businesses, FY 2008



Note Data in map is for in-State businesses only. Purchase orders issued to out-of-State businesses in FY 2008 amounted to about $673 million. Small businesses with an unknown location received $2.7 million (1,800 purchase orders) in FY 2008, accounting for less than one percent of the total number and value of purchase orders awarded to small businesses.
Source: JLARC staff analysis of DPS purchase order data and VEC employment data.

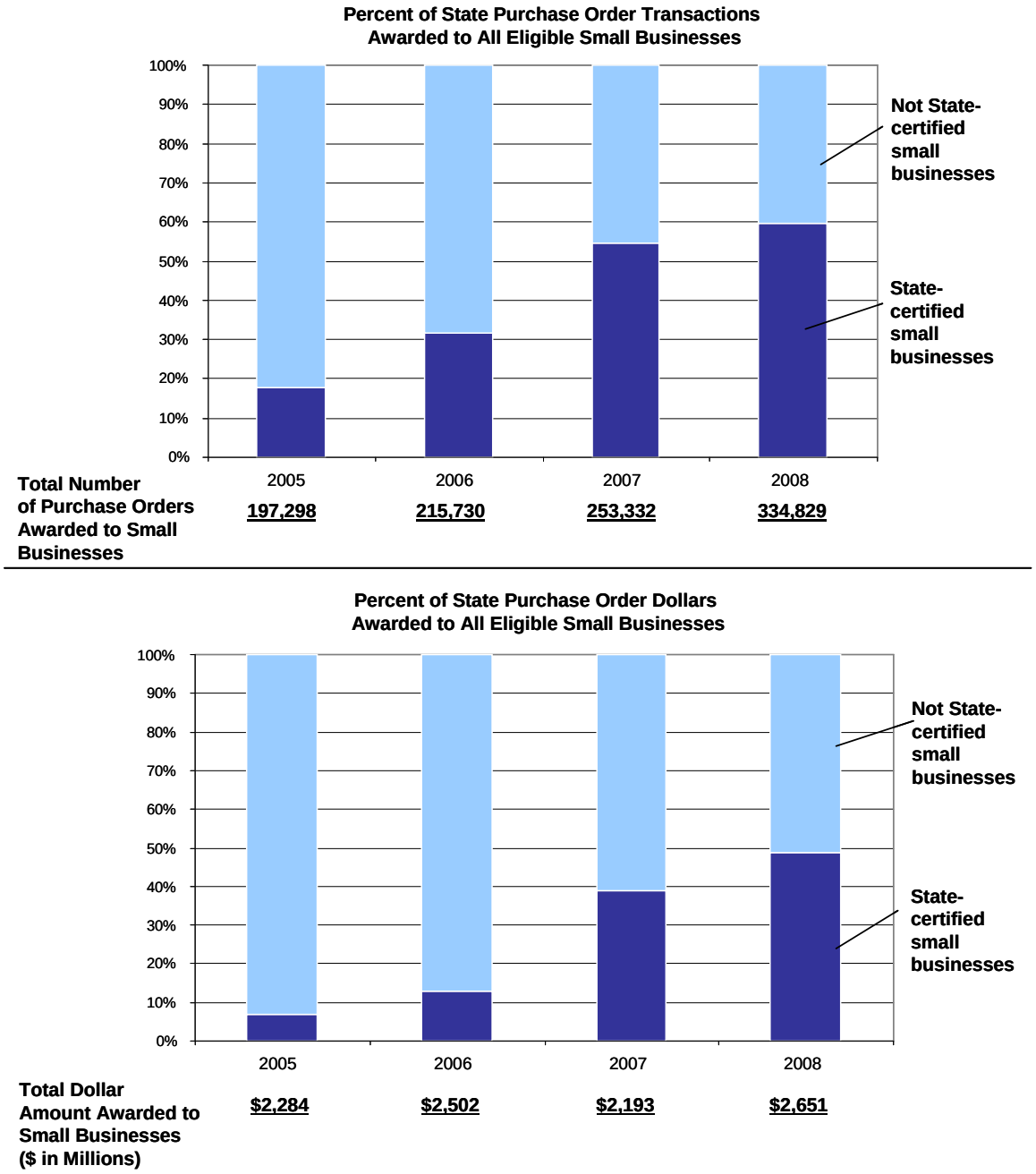
the 14 cities and counties that comprise the DPS service area centered around Richmond. While the DPS service areas associated with Northern Virginia and Tidewater account for larger percentages of small Virginia businesses, it seems likely that Richmond-area businesses receive a higher percentage of dollars because of their proximity to the large number of State agency headquarters and buyers in the area. Small Virginia businesses in the Northern Virginia and Tidewater areas received approximately 14 and 21 percent of the $2.0 billion awarded to all small Virginia businesses, respectively. Additionally, small Virginia businesses located in the two western-most service areas accounted for 13 percent of the total amount awarded in FY 2008.

AWARDS TO CERTIFIED SMALL BUSINESSES HAVE INCREASED, AS WELL AS AWARDS TO CERTIFIED WOMEN-OWNED AND MINORITY-OWNED BUSINESSES

A 2004 review found State agencies were significantly underutilizing women-owned and minority-owned businesses when procuring goods and services. In response, an executive branch initiative was launched that same year with an aspirational goal to provide 40 percent of discretionary spending to small businesses that obtained State certification in the hopes of also assisting small, women- and minority-owned businesses. Since FY 2005, the number and dollar value, as well as the percentage of awards issued to certified small businesses has increased substantially.

Purchase order data indicates that State-certified small businesses account for 22 percent of small procurement transactions and 15 percent of associated dollars since FY 2005. Figure 8 shows that both the total number of purchase orders and the associated dollar amounts awarded to State-certified small businesses have in-

Figure 8: Purchase Orders and Dollars Awarded to State-Certified Small Businesses as a Percentage of All Firms Eligible for the Small Business Status



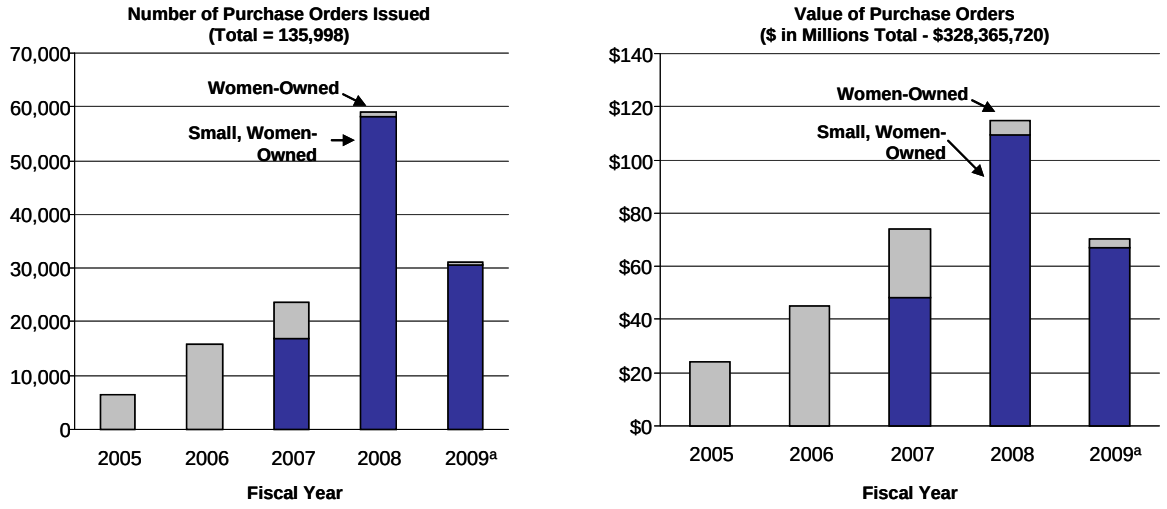
Note: DMBE informal certification began October 1, 2004. The certification process was codified July 1, 2006.
Source: JLARC staff analysis of DPS purchase order data and VEC employment data.

creased substantially since FY 2005. For example, State-certified small businesses accounted for 18 percent of all purchase order transactions awarded to small businesses and only seven percent of the roughly $2.3 billion awarded to small business in FY 2005. By FY 2008, these proportions had grown to 60 percent of all transactions and 49 percent of the more than $2.6 billion in procurement dollars awarded to small businesses.

In addition to certifying small businesses, DMBE also certifies businesses that are women-owned and minority-owned. The number and value of purchase orders issued to these businesses have increased since FY 2005. Prior to FY 2007, businesses could only certify under one of the following categories: small, women-owned, or minority-owned. To more accurately measure the number and value of purchase orders awarded to women-owned and minority-owned businesses, beginning in FY 2007, businesses could be certified in more than one category, such as small and women-owned, or women-owned and minority-owned, and this is reflected in eVA.

Figure 9 shows the number of purchase orders and associated dollar values issued by State agencies to certified women-owned businesses from FY 2005 to the first half of FY 2009. During that time, more than 135,000 purchase orders were issued worth more than $328 million. As the figure also shows, in each year since multiple certification was introduced the vast majority of purchase orders and awards were made to businesses that were certified as

Figure 9: Purchase Orders and Awards Issued to Certified Women-Owned Businesses Have Increased and Most of These Businesses Were Also Certified as Small



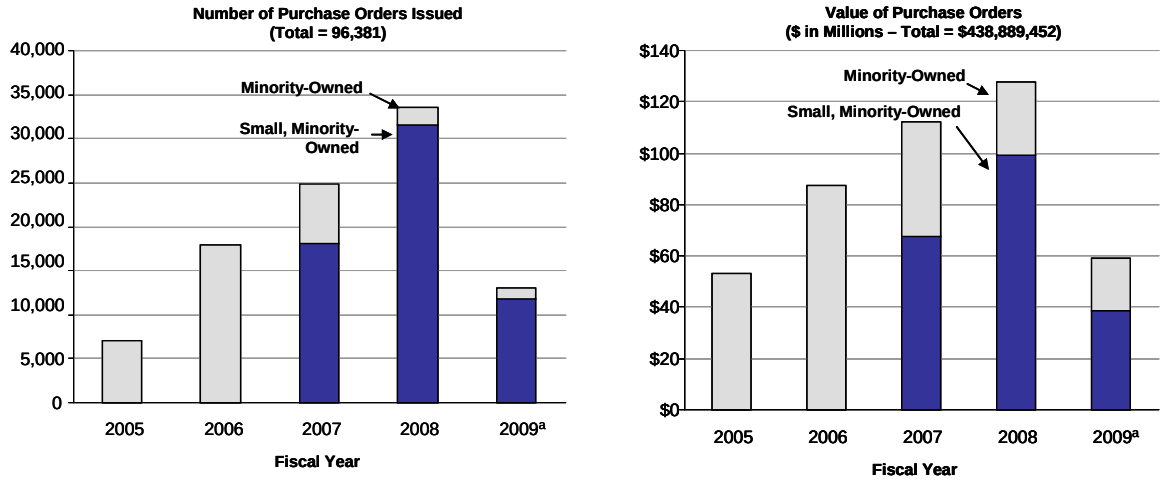
[a] July 1, 2008 through December 31, 2008 data.

Source: JLARC staff analysis of DPS purchase order data.

both women-owned and small. For example, in FY 2008, certified small women-owned businesses accounted for about 99 percent of the almost 59,000 purchase orders awarded to all certified women-owned businesses, and about 96 percent of the $114 million in award value.

Figure 10 identifies both the number of purchase orders and the total dollar value of those orders annually issued by State entities to certified minority-owned businesses from FY 2005 through the first half of FY 2009. During that time, more than 96,000 purchase orders were issued worth more than $488 million. As the figure also shows, in each year since FY 2007 the vast majority of purchase orders and awards were made to businesses that were certified as both minority-owned and small. In FY 2008, certified small minority-owned businesses accounted for about 94 percent of the more than 33,000 purchase orders awarded to all certified minority-owned businesses, and about 78 percent of the $127 million in award value.

Figure 10: Purchase Orders and Awards Issued to Certified Minority-Owned Businesses Have Increased Since FY 2005



[a] July 1, 2008 through December 31, 2008 data.

Source: JLARC staff analysis of DPS purchase order data.

STATE'S CERTIFICATION CRITERIA APPEAR TO BE TOO BROAD

The impact of the State's certification and set-aside programs depends in large part on the eligibility criteria. The State's current small business definition includes businesses with 250 or fewer employees or average annual gross receipts of $10 million or less averaged over the previous three years. According to a former spe-

cial assistant to Governor Warner, the small business definition was strategically worded so businesses could meet employment or gross receipts criteria, rather than both, in order to increase the eligible pool of small businesses. In addition to addressing small businesses, the definition appears to have been broadly drawn in order to maximize the availability of certification to women- and minority-owned businesses within a broad range of employees and gross receipts. These businesses were identified in a January 2004 consultant study. Legislation subsequently enacted by the 2004 General Assembly, authorizing the governor to require State agencies to implement appropriate enhancement and remedial measures" whenever there is…a persuasive analysis that documents a statistically significant disparity between the availability and utilization of women- and minority-owned businesses," seems to support this point of view.

However, the State's current small business criteria may be overly broad, particularly if the intent is to benefit a competitively disadvantaged business group. There are two concerns leading to the conclusion that the current criteria may be too broad. First, nearly all businesses in Virginia meet the criteria and are thus eligible for certification. Therefore, if the State's intent when developing the definition was to create a remedy (providing more State spending) for a subset of businesses which are at a competitive disadvantage, then an approach which makes almost all businesses eligible for the remedy does not appear to be an efficient solution for the concern. Businesses eligible for certification may have a substantial number of employees and revenues. For example, one DMBE-certified small business at the time of certification had 35 employees and annual average revenues of more than $106 million over three years (2004 through 2006). In DMBE's list of certified small businesses as of February 2, 2009, there are 41 businesses that reported gross receipts over three years averaging $100 million or more per year.

Second, the analysis of purchase orders and dollar awards discussed earlier in this chapter indicates that as a group, businesses eligible for small certification as currently defined have fared well in the procurement process throughout the period from FY 2005 to FY 2008. As a group, they do not appear to be underutilized.

If the State wishes to address a specific subset of small businesses, then a more narrowly tailored definition may be appropriate. Maryland's small business definition contains more restrictive eligibility criteria than Virginia's, limiting the number of businesses that can obtain small business status. The standards included in Maryland's definition vary by industry type and require that business meet both employee and gross receipts criteria. For example, in order for retail operations to be classified as small, they must

employ no more than 25 people, and their average gross receipts cannot exceed $3 million. The Virginia Department of Environmental Quality also has a more restrictive definition that statutorily defines a small business as one that employs 100 or fewer people and is a small business concern as defined in the federal Small Business Act (15 U.S.C. § 631 et seq.).

To the extent that the goals of lowering prices while supporting small businesses are at odds, the State will have to carefully consider which goal should take priority when designing policies. For instance, if ensuring that the State purchases from small businesses of all sizes is the goal, then a more tailored definition of small businesses for the purpose of State preferences may help achieve that goal. However, this would further restrict competition and could drive up prices.

Additionally, the State will need to consider the capacity of small Virginia businesses to provide the goods and services the State needs at the prices it is willing to pay and the level of quality it expects. A 2004 assessment of the use of women- and minority-owned firms conducted for the Commonwealth reported substantially low utilization of such firms as a percentage of the availability of these firms. It is likely that a similar study of small business utilization would need to be completed in order to determine whether small businesses under a different definition would have the capacity to serve the State's needs.

Recommendation (1). The General Assembly may wish to consider a definition for certification eligibility that is more limited, or more clearly identifies a group of businesses facing a disparity in their utilization, than is currently in place in §2.2-1401 of the *Code of Virginia*.

GREATER OUTREACH OR SELF-CERTIFICATION MAY BE NEEDED TO INCREASE CERTIFICATION OF THOSE ELIGIBLE

Regardless of how State certification eligibility is defined, increased business participation in State procurement activities is needed. Since FY 2005, the number of certified small businesses receiving a State procurement award has increased four-fold, from about 1,300 to more than 6,800. While this represents a substantial increase in certified small businesses receiving awards, these businesses account for less than five percent of the total number of businesses eligible for certification. Increased outreach to non-participating businesses could expand access to business opportunities and also result in greater competition and lower prices for the State. This could occur because more small businesses would be legitimately eligible to compete for the set-aside procurements.

Number of Certified Businesses Receiving an Award Has Grown Substantially, but Few Businesses Eligible for Small Certification Have Become Certified

As discussed in Chapter 2, DMBE-certified small businesses comprise about 11 percent of all businesses in Virginia. The number of certified businesses that have received a State procurement award has grown substantially since FY 2005, as has their portion of purchase orders and award dollars. However, by FY 2008, the approximately 6,800 certified small businesses receiving a purchase order constituted only about four percent of those eligible for small business certification (Table 12).

Table 12: A Low Proportion of Eligible Businesses Are Certified and Receiving Orders

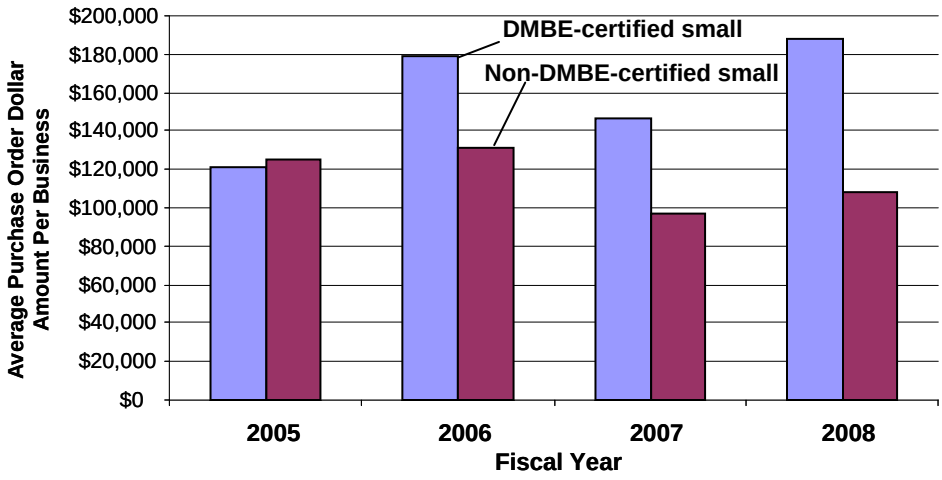
Fiscal Year	Total Number of Businesses	Number of Businesses Eligible for Small Business Certification[a]	Number of Certified Businesses That Received a Purchase Order	% of Eligible Small Businesses That Were DMBE-Certified and Received a Purchase Order
2005	159,499	157,929	1,301	0.82%
2006	165,029	163,431	1,810	1.11%
2007[b]	169,466	167,863	5,868	3.50%
2008	172,858	171,253	6,853	4.00%

[a] Based on number of employees.
[b] Since October 2006, State policy requires that procurements of $50,000 or less be set aside for DMBE-certified small businesses.

Source: JLARC staff analysis of DPS purchase order data and VEC employment data.

In addition, State certified businesses appear to benefit financially from certification. DMBE-certified small businesses have received more, on average, per purchase order since FY 2005 (Figure 11).

Figure 11: On Average, Small Businesses That Are Certified Receive More Per Purchase Order



Source: JLARC staff analysis of DPS purchase order data and VEC employment data.

State Should Focus on Ways to Increase Small Business Participation in State Procurement

Data analysis suggests opportunities for greater outreach to involve more businesses in the certification and set-aside programs. The fact that only about one in nine businesses currently eligible for certification are actually certified may be due, in part, to some businesses not providing the type of goods and services that the State purchases while other businesses may not be interested in selling to the State. Still, there are small businesses participating in State procurements that are not certified. Analysis of eVA purchase order and VEC data suggests that at least 7,000 non-certified small businesses obtained purchase orders in FY 2008, compared to 6,800 certified small businesses. (The figure for non-certified small businesses could be higher than 7,000 due to the number of businesses for which size is not known). Greater outreach to these businesses could improve their procurement opportunities while expanding the pool of certified business for State set-asides.

Because not all eligible businesses are participating in the set-aside initiative, competition for State procurement opportunities is restricted, resulting in a negative financial impact on State spending. For this reason, it is particularly important to maximize certification and competition among those eligible businesses. For example, 99 percent of the purchase orders issued in FY 2008 were worth $50,000 or less and thus, at least initially, are set aside for DMBE-certified small businesses. However, as previously described, DMBE-certified small businesses comprised only 11 percent of all small businesses that year. Therefore, 99 percent of purchase orders were set aside for 11 percent of eligible businesses. (Because businesses provide different commodities, not all purchase orders were available to the 11 percent of certified small businesses. More than likely, subsets of certified businesses competed for subsets of the 99 percent of purchase orders.)

When legislation was introduced during the 2005 Session requiring that all procurements of $50,000 or less be set aside for small businesses, DPB's financial impact statement noted that the set-aside requirement would "decrease competition and thus increase the cost of goods and services." DPB reported that based on less competition, "DGS estimates that there could be a loss of $69 million in cost avoidance savings to State agencies and local governments."

One State buyer illustrated the issue of price competitiveness among SWAM vendors:

> Set aside requirements are not efficient or cost-effective without dollar limits. In some cases, SWAM [vendors] become established providers at fair and reasonable prices in excess of what can be obtained from non-SWAM vendors.

Additionally, another State agency respondent cited problems with identifying nearby certified small businesses,

> Being from a rural area with a farming operation at the institution, we still have difficulty locating DMBE-certified businesses for items that we need.

Potential changes could be undertaken to notify more small businesses about State procurement opportunities and make the certification process easier. For example, to increase small business participation in State procurement, Virginia could consider increasing outreach efforts to certify and register more of these businesses. Participation might also increase if the current certification process were replaced with a simpler process. These options are not mutually exclusive. Additionally, these changes would likely increase competition which could lessen the program's negative financial impact on the State.

Increasing Outreach Efforts to Certify and Register More Small Virginia Businesses. Responses to the JLARC staff survey of businesses indicate that additional efforts to raise awareness about State procurement benefits could be useful. For example, among non-certified survey respondents that were eligible for small business status, the top reason they gave for not becoming certified, chosen by one in five (21 percent), was because they were not aware of the DMBE-certification program. Despite reportedly meeting eligibility criteria, another 17 percent indicated that not qualifying for the program was one of the reasons why they did not become certified, suggesting a potential lack of understanding about the program's criteria.

However, when businesses are aware of opportunities to sell to the State, including the SWAM program, they appear far more likely to obtain certification. Of the 522 certified small business survey respondents, 62 percent reported obtaining certification to increase their State procurement opportunities through the SWAM program. Nonetheless, fewer than half reported that prior to their certification there was adequate information or training available about the certification process and its benefits.

These findings suggest a need for greater outreach efforts to the business community to expand the number of certified and eVA-registered small businesses. Addressing awareness could increase the number of eligible small businesses obtaining certification and

registration and increase their access to set-aside opportunities. Currently, set asides are reserved for certain businesses which are no different from other businesses based on their number of employees or gross receipts, but are different in the fact that they are certified. Moreover, increasing the number of businesses eligible for the set-aside program could result in the State obtaining more favorable prices through increased competition. By increasing the number of businesses eligible to compete for small business set-asides, the State could continue to obtain price savings while directing procurement opportunities to more small businesses.

To support its mission of increasing supplier diversity by creating contracting opportunities and promoting fairness in the State's procurement process, DMBE has identified the number of promotional activities it presents aimed at the SWAM and DBE certification programs as one of its performance measure. The department's baseline is to provide three media placements each year and its target is to provide 12 such placements. In FY 2007, the department was able to provide 14 such promotional activities. However, citing budgetary constraints, the department provided only three promotional activities in FY 2008 and another six through the first half of FY 2009. The department also tries to have a presence at vendor forums and similar events.

Improving outreach efforts may require a coordinated statewide media campaign. However, such efforts are often expensive and require a consistent application of the message to achieve the optimal result.

Opportunities exist for inter-agency assistance with informing the public about SWAM certification. For example, the Department of Business Assistance (DBA) administers the Business One-Stop program. Business One-Stop provides specific licensing, permitting, and registration information to anyone considering starting or expanding a business. Existing plans for future improvements to One-Stop include directing those interested in selling goods and services to the State to DMBE for assistance.

Recommendation (2). The Department of Minority Business Enterprise should increase its outreach efforts to substantially increase the proportion of eligible businesses that become certified.

If Outreach Does Not Result in Certification of a High Proportion of Eligible Businesses, Then DMBE Could Consider Self-Certification. If, after a reasonable amount of time, DMBE determines that its increased outreach efforts are not having the desired result, the department could also consider allowing self-certification in order to increase participation among small businesses. The current cer-

tification process has been described as cumbersome by DPS and as cumbersome and intrusive by some businesses, even after DMBE made improvements. Eliminating this process could encourage more businesses to seek certification. By allowing State-audited self-certification, the business community benefits from increased opportunity because more businesses would be eligible for the procurement that is now set aside for only 11 percent of the eligible population. The State also benefits from greater competition for its spending.

Self-certification is used by the federal government in order to meet its goals for assisting small businesses. The federal government has established an aspirational goal of 23 percent of its spending to small businesses. To self-certify, businesses identify themselves based on the primary activities they perform using the North American Industrial Classification System (NAICS). The U.S. Small Business Administration assigns a size standard based on the number of employees or average annual receipts to each NAICS code. Generally, size standards for goods-producing industries are based on the number of employees, while standards for service industries are based on average annual receipts. There is no certification fee nor is there an audit of vendors' records to ensure the criteria are met. The federal government reports meeting its set-aside goal on a regular basis.

Concerns about the use of self-certification have been raised previously, specifically by Governor Warner's 2003 Advisory Commission on Minority Business Enterprise. The Advisory Commission recommended eliminating the self-certification process for minority-owned businesses in place at the time because it limited the collection of reliable data certifying how frequently these businesses were being used. For this review, DMBE staff expressed concern about potential fraud issues associated with self-certification. They cited their experience with the transfer of the self-certification program for women-owned businesses from the Department of Business Assistance to DMBE. DMBE staff indicated that about half of the women-owned businesses which had obtained certification through the self-certification process had to be disqualified because they were determined to not be women-owned,

However, the current certification process may not be adequate to determine eligibility. According to DMBE staff, the department performs a document review to establish that the certification requirements are met, but does not have sufficient staff to conduct on-site audits. These audits are reportedly conducted only when DMBE receives a complaint. Also, certification lasts for three years, during which time the status of a business could change, but DMBE does not perform any follow-up once a business is certified.

Because the State's small business criteria make nearly all businesses eligible, the likelihood that a large number of ineligible businesses would become certified may be small. As long as the State's small business definition remains so expansive, one approach that DMBE could take to certification would be to prepare a list of the approximately one percent of businesses that are not eligible for certification, and ensure that they are not certified. This approach would help enable DMBE to prevent invalid certifications and avoid an "after the fact" approach to verifying eligibility. Additional approaches could include random audits as well as investigations of complaints to help ensure that ineligible businesses are not certified.

Chapter 4 Usefulness of eVA for Small Businesses

In Summary

Increases in the number of registered businesses suggest they find the system beneficial. Nonetheless, a lack of awareness about eVA and confusion about the annual renewal process appear to restrict additional small business participation. Most small business respondents found the system's automatic notification and electronic bidding functions useful. Additionally, State agency respondents reported that the system has improved their ability to identify DMBE-certified small businesses from which to purchase. However, most small business respondents did not find eVA's marketing tools to be useful and many reported that State training efforts have not been adequate to meet their needs. The majority of small business respondents indicated that some changes could improve their procurement opportunities through eVA. In particular, many indicated that increased training would have a positive impact on their ability to identify opportunities and market their products. Greater outreach and training could also result in higher levels of business satisfaction with eVA, and more competition for goods and services the State buys.

According to DPS staff, eVA was implemented to improve procurement efficiency and effectiveness for buyers and suppliers, to facilitate procurement transparency and accountability to State officials and the public, and to increase competition and leverage the State's buying power in order to obtain more favorable prices for the products the State buys. To achieve the objectives related to improving business opportunities and competition, businesses must be aware of eVA and able to effectively use the system to compete for State business. For example, greater competition is achieved by increasing businesses' access to, and participation in, State procurements. To this end, a variety of functions and training tools are offered to registered businesses to help them identify opportunities and market their products to State buyers.

In order to gauge whether eVA increases opportunities for small businesses, JLARC staff conducted surveys of State agencies and Virginia businesses. State agencies were surveyed about the impact of eVA on their ability to identify small businesses while businesses were surveyed about their level of satisfaction and participation in eVA.

TOTAL NUMBER OF REGISTERED SMALL AND LARGE BUSINESSES HAS INCREASED

Increasing numbers of businesses registering in eVA suggests that to some extent businesses find the system beneficial. As Table 13

eVA Registrations

The number of registrations includes both small and large businesses. Purchase order and billing data limitations led to discussions with DPS and CGI staff to determine how to identify the annual number of registered businesses, and it was decided that a point-in-time approach was the most appropriate method. According to CGI staff, an historical analysis of SWAM status cannot be performed.

Table 13: Number of eVA-Registered Small and Large Businesses Increased 111 Percent From 2004 to 2009

Year	Number of eVA-Registered Businesses as of June 30	Annual Percent Change
2004	19,630	--
2005	28,155	43.4%
2006	32,314	14.8
2007	33,528	3.8
2008	36,814	9.8
2009	41,490	12.7
Total Change 2004-2009	**21,860**	**111.4**

Source: CGI staff analysis of eVA data.

indicates, the number of registered businesses has grown each year since 2004. Overall registrations more than doubled from June 30, 2004, to June 30, 2009. This trend suggests that, to some extent, users find that eVA's benefits outweigh its costs. If the opposite were true, one would expect to see the number of registered businesses declining over time as users determined they were not benefiting from continued participation. This trend was also noted as a positive effect of eVA in a 2008 consultant's report.

When making this assumption about registrations, it is important to consider that since October 1, 2001, eVA registration has been required in order to do business with the State. In FY 2008, State procurement represented a $4.6 billion market for businesses. It can be argued that businesses wanting to obtain a share of this market would register with eVA regardless of how they view its usefulness. To some degree, this reasoning depends on the availability of other markets for businesses. If businesses perceive their problems with eVA as greater than the benefits they receive, then they will likely pursue other markets more vigorously.

Survey data seems to suggest that businesses are registering with eVA despite access to other markets. Of the 661 business survey respondents who reported an interest in selling to the State or receiving at least some portion of total gross receipts from sales to Virginia agencies, about 86 percent indicated that sales to the State accounted for less than a quarter of their total sales in FY 2008 – indicating that these respondents had access to other markets. As such, it appears increases in the number of eVA registrations can be associated, to some extent, with business satisfaction with the system. Furthermore, data on eVA registration fees suggest that approximately 90 percent of businesses that registered for the first time in FY 2007, or renewed their registration that year, also renewed their registration in FY 2008.

PARTICIPATION MAY BE LIMITED BY LACK OF AWARENESS ABOUT eVA AND REGISTRATION PROCESS

While the number of registered businesses has increased, this growth may be limited by a lack of awareness among businesses about eVA and opportunities to sell to the Commonwealth. Although the initial registration process does not appear to be a barrier for most small businesses, a general lack of awareness about eVA and confusion about the renewal process may prevent interested businesses from competing for State procurements. Almost three-quarters of small business respondents indicated that it was easy for them to create an eVA account and register the products they sell. Furthermore, only 11 percent of non-registered small businesses responding to the online survey, and nine percent of DMBE-certified small businesses responding to the phone survey, indicated that a reason they did not register was because they need more support or assistance to become registered.

Survey of Businesses

JLARC staff conducted an online survey which targeted eVA-registered businesses, as well as those that do not use eVA. JLARC received 781 responses from businesses headquartered in Virginia, the vast majority of which met Virginia's small business definition. Throughout this chapter, small business respondents refer to those meeting that definition.

JLARC staff also conducted a more targeted phone survey of 40 certified small businesses that are not eVA registered to solicit additional feedback about why this group has not registered with eVA.

Additional eVA Registrations May be Restricted by Businesses' Lack of Awareness About the System

DPS staff participate in several outreach events to educate businesses about eVA, although the division sponsors only one outreach event each year. DPS staff have attended (or plan to attend) about 47 other events sponsored by a variety of agencies and organizations between 2007 and 2009 (including three out of state events). DPS staff indicated that their role in these events may include speaking, instructing, and answering questions about eVA. According to information provided by DPS, outreach and training efforts have been concentrated in only certain regions of the State, although these are also the regions with the greatest numbers of small businesses (Table 14). In addition, DPS staff noted that

Table 14: Some DPS Service Areas Had No Outreach Events From 2007 to 2009

DPS Service Area	Description	Percent of Small Businesses	2007	2008	2009	Total
98	Richmond	16%	9	8	5	22
97	Tidewater	18	5	4	1	10
100	Northern Virginia	35	6	3	1	10
101	Northern Valley to Louisa	6	1	0	2	3
103	Southern Valley to Pittsylvania	6	1	0	0	1
104	Roanoke to Carroll	7	1	0	0	1
99	Northern Neck and Culpeper	6	0	0	0	0
102	Southside	2	0	0	0	0
105	Far Southwest	4	0	0	0	0
106	Eastern Shore	<1	0	0	0	0
Total		**100%**	**23**	**15**	**9**	**47**

Source: DPS outreach information and JLARC staff analysis of VEC employment data.

budget cuts have forced them to reduce their participation in these events since FY 2007. (Appendix B provides a complete list of cities and counties in each service area.)

Survey results suggest that a lack of awareness about eVA may limit participation. On the online survey, a lack of awareness of eVA was the primary reason given by the 117 non-registered small businesses for not registering (Table 15). An even higher portion of 40 phone respondents who are DMBE-certified (42 percent) indicated this was the reason they did not register. To the extent that this lack of awareness prevents interested businesses from competing for State procurements, business opportunities are limited and the State is not achieving maximum participation.

Table 15: Small Business Respondents Cite Lack of Awareness as Top Reason for Not Registering

Reason	Respondents	Percent
Not aware of eVA or opportunities to sell to the State	39	33.3%
Do not want to pay the one percent eVA transaction fee on sales to the State	25	21.4
Do not have sufficient staff or time to register and use eVA	23	19.7
Do not sell goods or services the State purchases	21	17.9
Do not want to pay the registration fee each year	19	16.2
Prefer to conduct business through personal relationships rather than electronically	15	12.8
Need more support or assistance to become registered	13	11.1
In the process of registering	11	9.4
Used to be registered but did not find it beneficial for our business	8	6.8
We are subcontractors and do not contract directly with the State	8	6.8
Not interested in selling to the State	5	4.3
No reliable broadband internet in my area	4	3.4
Do not have consistent access to a computer or staff with necessary computer or technology skills to use eVA	3	2.6
We are a sole source provider and can sell to the State without registering with eVA	2	1.7

Note: Based on responses from 117 small businesses that reported being non-registered. Ten respondents cited "other" and eight cited "do not know" as reasons for not registering.

Source: JLARC staff survey of Virginia businesses, March-April, 2009.

Confusion About Annual Renewal Requirement May Limit Small Business Participation in eVA

Keeping their account information up-to-date is important for businesses to ensure they continue to receive appropriate notifications of procurement opportunities. Not only do businesses have to keep their product information current, but they also need to provide accurate contact information for notifications. According to DPS' vendor manual (which provides guidance to businesses about how to sell to the Commonwealth), "it is the responsibility of each vendor to maintain a current and accurate registration account in eVA." The majority of small business respondents (58 percent) reported that they find it easy to update their account and keep their

product information current. However, results from online and phone surveys cast doubt on whether businesses are effectively keeping their information up-to-date.

Among the 781 survey respondents, 108, or 14 percent, indicated that they did not know whether they were eVA registered. Although it is not clear why businesses responded in this way, their responses seem to suggest that either (1) the individual responding to the survey was not aware of whether the business used eVA, or (2) the business was registered with eVA at one point, but the respondent was not certain whether its registration had expired.

Additional survey results provide even more compelling evidence that businesses are confused about their registration status. During one phase of the online survey, JLARC staff targeted over a thousand DMBE-certified, non-registered businesses using email notification. This group was not included in DPS' list of registered businesses as of January 2009. Yet when asked whether they were eVA registered, 46 percent of the 99 respondents indicated they were and another 31 percent reported that they did not know. While a portion of the 46 percent could have registered between January and April (when they received the survey), this would likely account for only a small portion of those responses. It appears the others were unaware that their registration expired. The extent to which this occurred during two earlier administrations of the survey is unclear because those surveys targeted a mixture of eVA registered and non-registered businesses. (See Appendix B for more information on the survey of Virginia businesses.)

According to DPS staff, businesses are notified that they need to renew their registration through an invoice that is mailed to their contact address on file. If the business does not respond to the invoice, it will continue to receive invoices during each billing period. If the invoice is returned to DPS because it could not be delivered, DPS staff attempt to obtain a new mailing address. The fact that so many businesses do not realize their registration expired seems to suggest that (1) they disregarded or did not understand the invoice notifying them of the required $25 renewal fee, or (2) they did not receive notification because their contact information was not accurate.

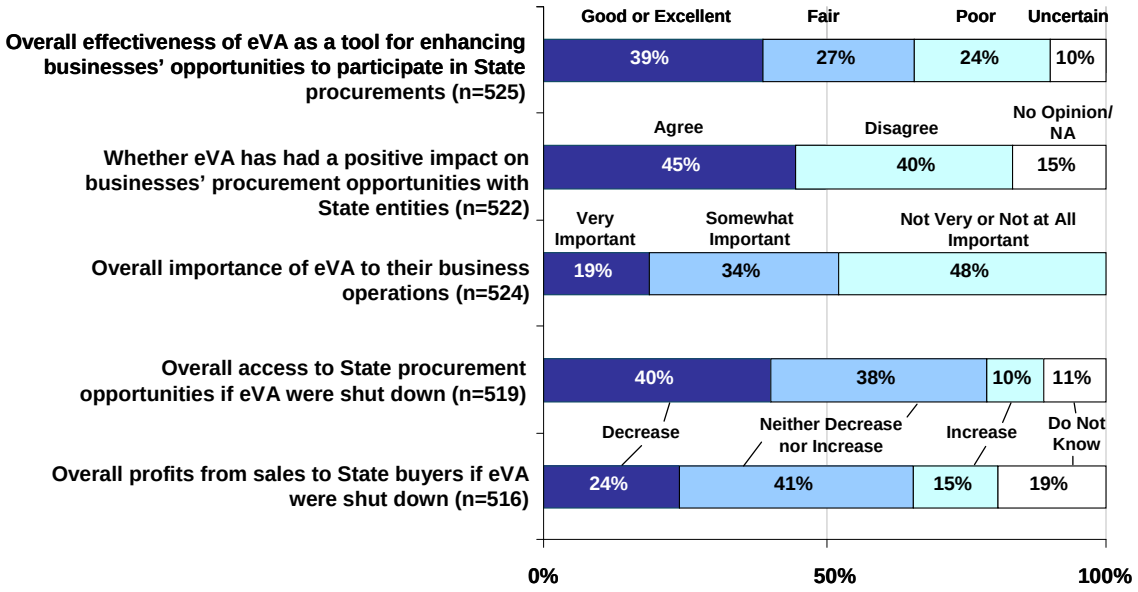
A lack of awareness or understanding by businesses of the registration renewal requirements and their need to keep their contact information up-to-date has important implications for businesses and the State. Businesses that are not currently registered are missing notification opportunities for State procurements. In addition, these missed opportunities could result in a level of discontent about eVA among businesses that think they are registered but are not receiving the benefits of automatic notifications of pro-

curement opportunities. Consequently, this limits competition and selection for State buyers and could prevent them from obtaining the highest quality or lowest priced goods and services.

SMALL BUSINESS SURVEY RESPONDENTS' VIEWS OF eVA'S OVERALL USEFULNESS ARE MIXED

According to a report by the National Electronic Commerce Coordinating Council (NECCC), the benefits of e-procurement for buyers are well documented, while "supplier benefits are more difficult to quantify." Businesses responding to the JLARC staff survey had mixed views about the overall effectiveness of eVA (Figure 12). For instance, 39 percent of small businesses rated eVA's overall effectiveness in enhancing their opportunities to participate in State procurements as good or excellent, while 27 percent rated it as fair, 24 percent rated it as poor, and the remaining 10 percent were uncertain. When asked whether they agreed that eVA has had a positive impact on their State procurement opportunities, 45 percent of small registered businesses agreed, 40 percent disagreed, and the rest had no opinion (or said it was not applicable).

Figure 12: Registered Small Business Respondents Reported Mixed Views Concerning eVA's Usefulness and Impact



Note: Sum of percentages may not total 100 percent due to rounding.
Source: JLARC staff survey of Virginia businesses, March-April, 2009.

As a subset of small registered businesses, DMBE-certified small businesses found eVA to be more effective than non-certified small businesses, with 42 percent rating its effectiveness as good or excellent, compared to 26 percent of non-certified small businesses. DMBE-certified small businesses were also more likely to agree

(49 percent) than non-DMBE certified small businesses (37 percent) that eVA has had a positive impact on their State procurement opportunities. These findings may reflect a perception that eVA helps State agencies identify certified small businesses from which they can purchase (discussed later in this chapter). Further, as discussed in Chapter 3, the average annual purchase order amount is higher for DMBE-certified small businesses than non-certified small businesses. One certified small business explained to JLARC staff:

> [eVA] has been tremendous in assisting us find business partners and has been absolutely tremendous in leveling the playing field in order to keep the small businesses competitive with the very large businesses . . . It is a life blood for small business in general.

Small business respondents' views of the importance of eVA for their business operations also varied. For instance, over half of small registered businesses rated eVA as somewhat or very important to their business operations, while 48 percent reported eVA as not very important or not at all important to their business.

DPS staff expressed concerns that businesses which have not won any State business are more likely to express dissatisfaction with the system. Survey results seem to support this assertion. For instance, 40 percent of small businesses that reported a portion of their revenue from State sales felt the overall effectiveness of eVA as a tool for enhancing their opportunities to participate in State procurements was excellent or good, compared to only 27 percent of small businesses with no revenue from State sales. Similarly, when asked whether eVA has had a positive impact on their procurement opportunities with State agencies, small businesses that have won business were much more likely to agree (50 percent versus 18 percent). Businesses that reported a portion of their revenue from State sales were also more likely to rate eVA as very or somewhat important to their business (54 percent) than businesses that reported that none of their revenue came from State sales (40 percent).

Small businesses' opinions about whether there would be a positive or negative impact on their business if eVA were shut down were mixed, with many expecting neither a positive nor negative impact. While 40 percent of small businesses felt their State procurement opportunities would likely decrease if eVA were shut down, nearly as many reported their opportunities would neither increase nor decrease. Thirty-eight percent of small businesses felt their access to State procurements would neither increase nor decrease if eVA were shut down and another 11 percent did not know what impact to expect. Forty-one percent of small businesses felt

their overall profit from sales to State buyers would neither increase nor decrease if eVA were shut down, and 19 percent did not know how this would impact their profit.

eVA INCREASES SMALL BUSINESSES' ACCESS TO STATE PROCUREMENT INFORMATION

As discussed in Chapter 1, the literature indicates that electronic procurement systems increase businesses' access to information. E-procurement systems generally result in a single point of entry for businesses to register, identify opportunities, and review data and other information. Businesses also benefit from the electronic notification functions most of these systems include.

eVA Is Single Point of Contact for Businesses to Interact With State Procurement Efforts

According to DPS, the centralizing aspect of eVA is one of the system's primary benefits. For example, businesses only need to register once in eVA to make themselves visible to all State buyers. Prior to the system's implementation, they would have to register their business and product information with multiple agencies in order to be notified of procurement opportunities. DPS has also said that most of the information needed to participate in the procurement process, such as buyer contact information, is available on the eVA website. Additionally, registering their products by commodity codes in eVA allows businesses to receive electronic solicitations from State buyers about procurement opportunities for these products, DPS staff said. This saves businesses from having to search over 170 individual agencies and institutions of higher education for this information. The costs associated with such searches could be substantial, especially for small businesses with few employees who are focused on operating the business. According to the director of DMBE, the agency responsible for the SWAM program:

> eVA has leveled the playing field for small, women, and minority business owners to find opportunities to bid on State contracts as well as those at colleges, universities, and local governments.

Commodity Codes

Commodity codes are a standardized coding system used by businesses to indicate the goods and services they sell. eVA uses National Institute of Governmental Purchasing (NIGP) codes that were developed specifically for public sector procurement.

Slightly less than half of eVA-registered small businesses responding to the survey indicated that registering through a single portal improved their competitiveness. For example, when asked whether centralized registration makes competing for State procurement more time and cost-efficient, 49 percent of respondents agreed, compared with 24 percent who disagreed. Another 21 percent of respondents indicated that they did not know or had no opinion regarding the question. Because businesses only register once in

eVA, they may not view the impact of this event as having a lasting effect on their overall business operations. Additionally, businesses that did not have to register with multiple agencies prior to eVA may not perceive the value of a single portal.

The importance of a single, centralized source of procurement information has also been addressed by other entities. A 2004 Small Business Administration review of e-procurement efforts at the federal level recommended expediting the federal government's centralization of procurement opportunity information after finding numerous places where a small business was required to register to obtain such information. Among its findings, the review suggested that centralization would likely benefit small businesses because "[A] central place to search for business opportunities reduces search costs for those selling to the [federal] government."

The task force assembled by Governor Gilmore in 1999 also identified the need for a centralized website for the business community to interact with the State. According to the group's report, easy access to information about opportunities and the State's contracting process was the number one issue identified by businesses. The task force also reported that businesses would benefit from not having to access multiple locations to learn about procurement opportunities. During this review, a representative from CGI, the contractor maintaining eVA, indicated to JLARC staff that access to the substantial amount of information maintained on the system is one of eVA's most important features from a business perspective.

Majority of Small Business Respondents Find eVA Electronic Notification and Bidding Functions Helpful for Identifying State Procurement Opportunities

Based on their survey responses, small businesses report as most useful those tools that help them identify procurement opportunities (Table 16). More than three-quarters of respondents cited receiving automatic notification of business opportunities as useful.

While businesses have access to all the information posted on the eVA website, only registered businesses will receive these electronic solicitations indicating a benefit for participating in eVA. Almost 60 percent of respondents cited their ability to respond electronically to a Quick Quote solicitation as useful. A smaller portion of respondents found the information available online in the *Virginia Business Opportunities* resource and future business opportunity listings to be useful, although this may be because nearly one-third of respondents indicated they were unaware of these resources.

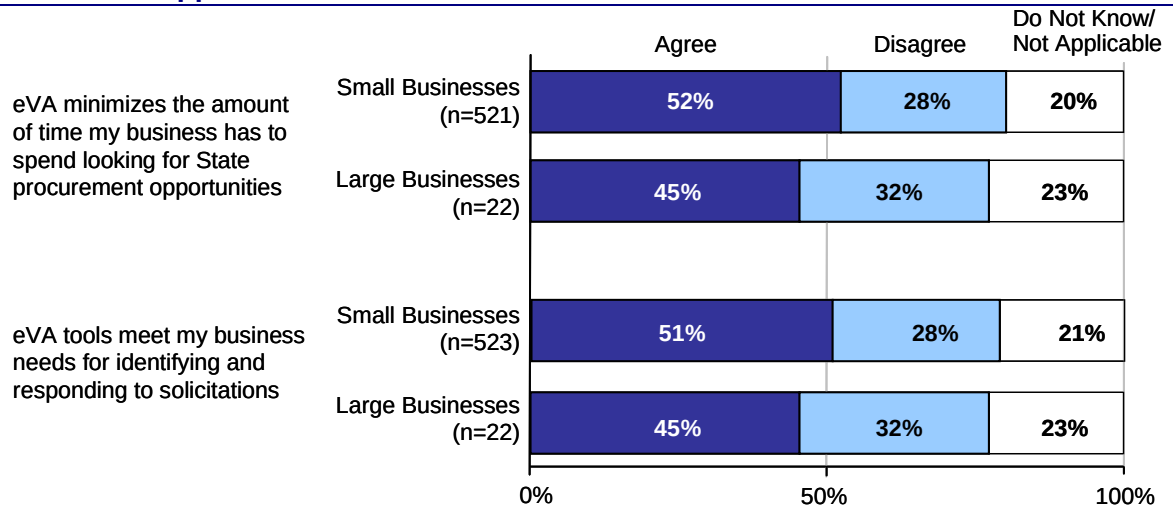
Table 16: Registered Small Business Respondents Indicate Conducting Business With the State Electronically Is Useful

	Percent				
eVA Function	**Useful**	**Not Useful**	**Not Aware**	**Don't Know How / Not Able to Use**	**No Interest / No Need to Use**
Receiving automatic notification of business opportunities through email or fax (n=473)	77%	11%	8%	3%	2%
Bidding electronically through Quick Quote (n=471)	59	15	13	8	5
Virginia Business Opportunities and future business opportunity listings (n=474)	46	10	30	9	4

Source: JLARC staff survey of Virginia businesses, March-April, 2009.

Furthermore, according to registered small businesses responding to the JLARC staff survey, centralized information provided through eVA assists them in accessing State procurement opportunities. For instance, the majority of registered small business respondents agreed that eVA minimizes the time their business has to spend looking for State procurement opportunities (Figure 13). The number of responses from large registered businesses (having more than 250 employees) was limited, but of the 22 respondents, ten (45 percent) agreed that eVA minimizes their time looking for procurement opportunities. Also, 51 percent of registered small businesses agreed that eVA tools meet their needs for identifying and responding to State solicitations, while 45 percent of large business respondents agreed.

Figure 13: Registered Small Business Respondents Report Online Tools Help Identify Procurement Opportunities



Source: JLARC staff survey of Virginia businesses, March – April, 2009.

While more than half of respondents indicated certain eVA functions help them identify opportunities, less than 40 percent of

small business respondents reported that their operations would be negatively impacted if eVA were shut down. When asked what impact eVA's shutdown would have, only 37 percent expected their overall time and costs of identifying opportunities to increase, while 35 percent thought it would neither increase nor decrease.

However, these responses may be impacted by the extent to which businesses are aware of and use the system's tools, as discussed later in this chapter. For example, 60 percent of small businesses respondents who indicated they were aware or able to use all eVA tools strongly agreed or agreed that eVA had a positive impact on their State procurement opportunities.

It is State policy that procurement opportunities should be equally available to all businesses. To this end, one of eVA's most important functions for assisting DMBE-certified small businesses to identify procurement opportunities is the electronic solicitation and bidding tool, eVA Quick Quote. Procurement policy requires use of eVA Quick Quote for all procurements valued from $5,000 to $50,000. Policy also requires that solicitations include the commodity codes associated with the good or service. Businesses registering their commodity codes with eVA have the option to be automatically emailed or faxed whenever solicitations with matching codes are processed using eVA Quick Quote. They can also submit electronic responses to eVA Quick Quote requests for unsealed bids and proposals. To further assist DMBE-certified small businesses identify opportunities, Quick Quote solicitations for set-aside procurements must be titled "SET-ASIDE FOR SMALL BUSINESSES."

State agency use of eVA Quick Quote to notify DMBE-certified small businesses has increased in recent years. For example, in FY 2005, about 348,000 Quick Quote solicitation notices were sent to DMBE-certified small businesses. By FY 2008, that figure had increased to 1.2 million. After almost doubling from one million Quick Quote requests sent in FY 2005 to more than two million sent in FY 2007, the number of solicitations sent to non-DMBE certified businesses decreased by nine percent in FY 2008. DPS staff indicated that although non-certified businesses are ineligible for set-aside opportunities, they are notified through Quick Quote in order to encourage them to obtain their certification. Overall, about 3.1 million Quick Quote requests have been sent to DMBE-certified small businesses since FY 2005. During that same time, almost 6.7 million Quick Quote requests were sent to eVA-registered businesses that were not DMBE-certified small businesses.

DPS staff also provided data on the number of Quick Quote bid responses received from DMBE-certified businesses. Since Quick

Quote requests can be for price bids or proposals (depending on the type of good or service being solicited), the number of bids received is a subset of the total number of Quick Quotes that were received. According to the data, almost 109,000 bid responses were received from certified small businesses since FY 2005.

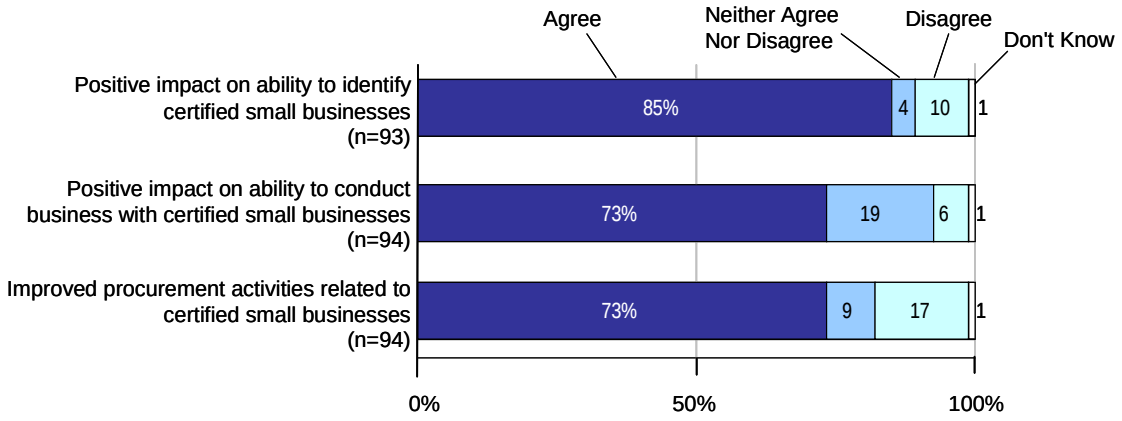
Survey of State Agencies

Between March 23 and April 3, 2009, JLARC staff conducted an online survey of 165 State agencies, colleges, and universities to obtain their perspective about how eVA affects their work with DMBE-certified small businesses. Ninety-five responses were received.

STATE AGENCY SURVEY RESPONDENTS REPORT eVA IS USEFUL FOR IDENTIFYING CERTIFIED SMALL BUSINESSES

State agencies largely express support for eVA in assisting their work with DMBE-certified and eVA-registered small businesses. Based on their survey responses, it would appear that from the State agencies' perspective, eVA has improved access to State procurement opportunities for DMBE-certified small businesses. When asked whether eVA has had a positive impact on their agency's ability to identify certified small businesses, 85 percent of respondents agreed (Figure 14).

Figure 14: State Agency Respondents Report eVA Helps Them Work With Certified Small Businesses



Source: JLARC staff survey of State agencies, March-April, 2009.

The following responses from State agency personnel expand on their views of eVA's usefulness in identifying certified small businesses:

> It has been a plus that DMBE and DPS have partnered so that SWAM information from the two databases interface which gets the SWAM data to the agency users more quickly.

* * *

> [This agency] utilizes the Quick Quote function since it is especially helpful in finding qualified small business below the required $5,000 threshold for its use.

(Quick Quote refers to eVA's electronic solicitation notification and bidding function and is described more later in this chapter.)

Because such a large proportion of agency respondents find eVA useful as an identification tool, it could benefit small businesses to obtain certification and register with eVA if they want to conduct business with the State and take advantage of the set asides (purchases of $50,000 or less). It is also important for the State to certify and register as many small businesses as possible, as increased competition for set asides may lead to lower prices.

Additional survey responses indicate eVA is also beneficial to State agencies' business relationships with DMBE-certified small businesses in other ways. For example, 73 percent of respondents indicated that eVA had a positive impact on their agency's ability to conduct business with certified small businesses. (However, six of the ten respondents from institutions of higher education reported eVA had no impact or a negative impact on their ability to conduct business with this group.) The same percentage of respondents reported that eVA had improved their agency's procurement activities involving certified small businesses. Staff at one agency said, "Particularly efficient is the ability to quickly procure goods and services through Quick Quote."

SMALL BUSINESS SURVEY RESPONDENTS INDICATE LIMITED USEFULNESS OF SOME eVA FUNCTIONS AND TRAINING

According to the eVA website, eVA offers small businesses a variety of tools to help them access State procurement opportunities. As described previously, some tools allow businesses to identify and respond to State purchasing needs. In addition, eVA offers businesses marketing tools, as well as a variety of training and other informational material. To the extent that businesses can use these tools effectively, they may be able to better identify opportunities, offer more competitive prices, and win State business.

However, according to survey results, the majority of small businesses do not find most eVA tools useful for their business. In fact, in many cases small businesses indicate that they are not aware of the tools or do not know how to use them. This is particularly true for tools designed to help businesses market their products. In addition, businesses report having inadequate training tools and opportunities.

Most Small Business Respondents Do Not Find eVA Marketing Functions Useful

There are several eVA tools designed to allow businesses to market their products to State buyers. However, as illustrated in Table 17, most small business respondents did not find eVA useful for marketing their goods and services to State buyers, in part because of limited use or knowledge about eVA's marketing tools.

Table 17: Majority of Small Business Respondents Are Unaware of Marketing Functions or Find Them Not Useful

	Usefulness of Function			
Marketing Function	**Useful**	**Not Useful / Unnecessary**	**Unaware of / Unable to Use**	**Impact of Functions**
Various spend reports identifying State purchasing history and competitive pricing (n=471)	37%	18%	44%	Only 30% agreed reports meet their needs for identifying potential buyers and conducting market research, and 37% agreed that product registration and online catalogs minimize their marketing costs. 31% said their overall marketing time and costs would increase if eVA were shut down, and 42% thought they would neither increase nor decrease.
Online catalog (n=470)	28%	28%	44%	
Punchout catalog (n-472)	18%	29%	52%	

Notes: Number of small business respondents varied for questions about the impact of eVA functions from 517 to 541. Sum of percentages may not total 100 percent due to rounding.

Source: JLARC staff survey of Virginia businesses, March-April, 2009.

A Minority of Small Business Respondents Find Public Reports Useful. Through eVA, both registered and unregistered businesses have access to public reports with a variety of information about State purchases. Businesses can use these reports to identify which agencies are purchasing products they sell. In addition, they can find information about the prices paid for those products, which can help them offer more competitive prices in future bids. One eVA-registered, DMBE-certified small business described how it was able to use eVA reports to improve its chances of winning future bids:

> ***Case Study***
>
> *Many times we did not win the award due to pricing or other issues. However, through eVA, we were able to research who won the award and were able to use that information to allow us to sharpen our pencils and build better relations with our suppliers so that the next time a similar opportunity arose, [we] would have a better chance to win the business.*

The usefulness of the reports, however, appears to be limited by a lack of awareness among registered small businesses. Forty-four percent of small business respondents indicated that they are not aware of those reports or do not know how to use them. Furthermore, only 30 percent felt the reports met their needs for identifying potential buyers and conducting market research.

Most Small Business Respondents Are Unaware of Catalogs or Do Not Find Them Useful or Necessary. According to DPS,

> At no additional cost a business can post a basic electronic catalog on eVA's Electronic Mall. . . This saves a business the cost of having to print so many paper catalogs and deliver them to agencies and local governments.

However, according to the National Electronic Commerce Coordinating Council (NECCC), maintaining and updating a catalog can be complex and time-consuming. Often, the more complex and dynamic a product line, the greater the effort required to keep the catalog up-to-date.

According to survey responses, only 28 percent of small businesses found online catalogs useful, while 28 percent did not find them useful or necessary, and 44 percent were unaware of this tool or unable to use it. Based on the eVA website, less than three percent of registered businesses actually have an online catalog. Thirty-seven percent of small businesses agreed that online catalogs and commodity code registration minimize their marketing costs.

In addition to a free online catalog, registered businesses can create a "punchout" catalog, which allows buyers browsing an eMall to link directly to a business' website where they can shop for products before completing the requisition in eVA. According to the NECCC, this feature can help businesses that use it:

> Suppliers benefit from having the user browse and configure products on their system, as it is more likely the user will select one of their (versus a competitor's) products. Hosting these functions also gives the supplier the opportunity to recommend upgraded . . . or 'companion' . . . products.

Nevertheless, DGS staff indicated that the feature was designed primarily to accommodate businesses that already maintained online catalogs on their own websites. Staff at the Department of Business Assistance (DBA) suggested that only businesses with large or complex product listings need to use this feature, and paying a software consultant to set up this capability could be cost prohibitive for small businesses. The JLARC staff survey found

that most small businesses were unaware of this feature, did not know how to use it, or did not find it necessary or useful for their business. Several small businesses at a procurement forum told JLARC staff they had tried unsuccessfully to develop a punchout catalog.

Small Business Respondents Report Limited Effectiveness or Awareness of Training Opportunities

The effectiveness of DPS training and outreach efforts for small businesses regarding eVA usage could affect their procurement opportunities. DPS staff indicated that the majority of training and assistance for businesses to register and use eVA is provided though online training materials on the eVA website, by their customer care call center, or by staff at other State agencies.

Majority of Small Business Respondents Do Not Find Online Informational Documents and Training Tools Useful. The eVA website includes a variety of informational documents and training materials designed to assist businesses in registering and using eVA tools to identify and respond to solicitations, identify potential buyers, and market their products. Among the informational documents included on the website are a vendor manual which includes State procurement guidelines, contact information for State buyers, and a commodity code list for notifications and catalogs. DPS has also posted numerous training materials and tutorials on the eVA website, including several video demonstrations (Table 18). DPS staff indicated that they focus on making materials available online because this is the most cost-efficient way to reach the largest number of businesses and the information is available around the clock.

Table 18: eVA Website Offers Online Training for a Variety of Subjects

Subject of Training	Type of Online Training
Registration	Video
Account Maintenance	Video
Learn How to Receive Email Notifications	Video
Who Is Your Target Audience	Video
Adding Commodity Codes to Your Vendor Account	Document(s)
Public Access to Solicitations	Document(s)
Resetting Your Password	Document(s)
Getting Electronic Orders Using Ariba[a]	Document(s)
Creating a Vendor Catalog	Document(s)
Quick Quote Aid and User Guide	Document(s)
Virginia Business Opportunities Quick Guide and User Guide	Document(s)
Catalog Creation	Document(s)

[a] Ariba is the supplier that provides electronic notification and bidding capabilities.
Source: eVA website, May 2009.

According to small business respondents, less than half found online informational documents useful to their business, and less than a third found online training and tutorials useful. Many businesses reported not being aware of those tools. According to DPS staff, the training tools page on the eVA website received over 28,000 hits between May of 2008 and May of 2009; yet, 51 percent of small business respondents reported that they were unaware or unable to use those training tools and tutorials (Table 19). It seems likely, however, that some businesses have not tried to identify the full range of training tools available to them.

Table 19: Less than Half of Small Business Respondents Find Informational Documents and Training Tools Useful

	Usefulness of Tool			
Information and Training Tool	**Useful**	**Not Useful / Unneces-sary**	**Unaware of / Unable to Use**	**Impact of Tools**
Informational documents (n=474)	46%	17%	37%	Less than a third (29%) agreed training was adequate for using reports to identify potential buyers and conduct other market research. 40 to 42% agreed training was adequate for identifying and responding to solicitations, and creating their account and registering their products.
Online training tools and tutori-als (n=470)	29%	20%	51%	

Notes: Number of small business respondents varied for questions about the impact of eVA from 517 to 541.

Source: JLARC staff survey of Virginia businesses, March – April, 2009.

Most Small Businesses That Use eVA Customer Care Seem Satisfied. Businesses and agencies that have technical questions or problems with eVA can call the eVA customer care center for help. When asked if eVA customer care responded in a reasonable amount of time and was helpful in addressing their problem, 39 percent of registered small business respondents agreed, 21 percent disagreed, and 41 percent did not know or said the question was not applicable. According to a DPS customer care survey conducted during July 2008, 90 percent of business respondents were satisfied with their customer care response.

Group and One-on-One Training Efforts Are Reportedly Inadequate. Beyond online tools and the customer care center, DPS staff provide very limited training to businesses about how to use eVA. However, some State agencies provide their own training. The full extent to which other agencies provide assistance is unknown, although it seems likely that staff at many agencies offer support when interested businesses contact them looking for opportunities. While some agencies may provide training as part of efforts to identify potential sellers or SWAM businesses to meet their pur-

chasing needs, at least one State agency reported additional efforts have been necessary because DPS training has been inadequate.

The Department of Business Assistance (DBA) provides group and one-on-one training to businesses, although staff reported that budget cuts have forced them to reduce the number of trainers from six to four for the entire State. Further, DBA efforts do not focus exclusively on eVA. DBA staff indicated that some businesses they help have been registered for several years but have not been using eVA correctly, and therefore have missed procurement opportunities. DBA staff also suggested that businesses may benefit from having DPS staff attend these events to provide assistance, which they typically do not do.

The Martinsville-Henry County Economic Development Office has also allocated part of a staff person's time to assisting businesses in becoming DMBE certified and eVA registered, based on an identified need to provide more assistance to businesses in their area. Businesses attending an event sponsored by the Economic Development Office told JLARC staff they would not have been able to complete the certification and registration processes without staff assistance.

Staff at another State agency explained that they provide one-on-one training to businesses because DGS has not offered that level of assistance. They stated that the registration process is too complicated for online documents to be useful. They explained that while the eVA website may offer sufficient information to get a business interested in using eVA, there is not adequate training to help them register and use the system.

Small business survey respondents reported that these training opportunities have not been adequate to meet their needs. Less than half of small business survey respondents agreed they had adequate training to create an eVA account, register their products, and identify and respond to business opportunities. Even fewer (29 percent) agreed they had adequate training to use eVA reports to identify potential buyers and conduct market research.

INCREASED TRAINING AND OUTREACH COULD IMPROVE SMALL BUSINESS PARTICIPATION AND COMPETITIVENESS

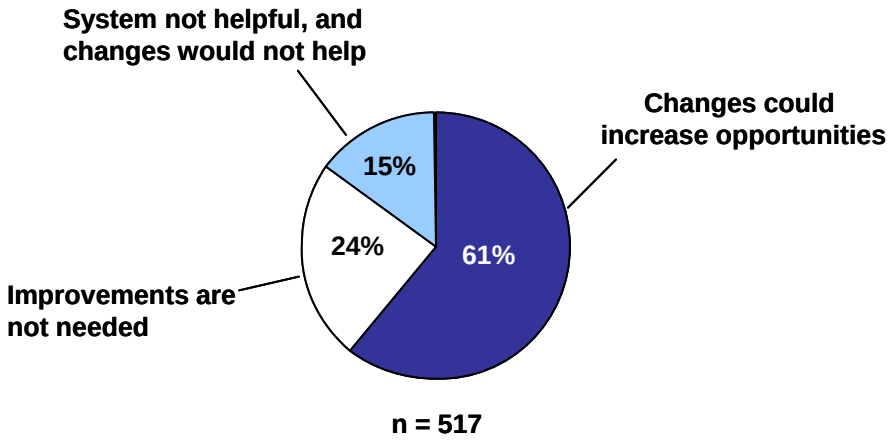
DPS staff and evaluations of e-procurement systems have identified outreach and training as being potentially beneficial to businesses in general, and small businesses in particular. In addition, small business survey respondents identified a number of opportunities for additional training to better meet their needs. DPS should consider expanding its outreach and training efforts to address these needs. Additionally, as the lead agency for eVA, DPS

should be coordinating training and assistance activities provided by other agencies to help ensure these efforts are providing the most up-to-date information. Finally, soliciting business feedback more frequently may also help DPS respond to business concerns and identify opportunities for further outreach and improvements.

Most Small Business Respondents Feel Improvements Could be Made, Including Increased Training

When asked whether changes could be made that would increase their procurement opportunities through eVA, 61 percent of small business respondents agreed (Figure 15). Fifteen percent of respondents indicated that no improvements could be made that would help their business and 24 percent felt improvements were not needed.

Figure 15: Sixty-One Percent of Registered Small Business Respondents Felt Changes Would Increase Their Procurement Opportunities Through eVA



Source: JLARC staff survey of Virginia businesses, March-April, 2009.

Among the 61 percent of respondents who indicated that changes to the procurement system could lead to improvements, changes involving additional training on various functions were frequently cited (Table 20). For example, 108 out of 315 respondents cited a need for training assistance with using eVA reports to identify potential buyers and competitive prices. A staff person at DBA who provides eVA training for businesses also identified this as the number one training need for small businesses. Additional training for responding to solicitations was identified by an almost equal number of businesses. Calls for training in these areas suggest that small business respondents see a need to make them-

Table 20: Registered Small Business Respondents Said Increased Training Opportunities Are Needed to Improve Identification of Procurement Opportunities

Potential Change	Responses	Percent
Increased training for using eVA reports to identify potential buyers and competitive prices	108	34.3%
Increased training for responding to solicitations	105	33.3
Reduced transaction fee	88	27.9
Improving accuracy of vendors' and/or buyers' use of commodity codes to better match products [a]	80	26.8
Increased training for catalog creation	83	26.3
Increased training for registration	65	20.6
Increased technical assistance	44	14.0
Having more restrictive total employees and/or gross receipts criteria for becoming DMBE-certified	39	12.4
Increased opportunities to provide feedback about eVA	33	10.5
Having an annual cap for transaction fees	31	9.8
Increased assistance with becoming DMBE-certified	30	9.5
Reduced registration fee	20	6.3

[a] Percentage is based on responses from 299 small businesses.
Note: Based on responses from 315 small businesses. Sixty-one respondents indicated that "other" potential changes would have the greatest positive impact on their procurement opportunities.

Source: JLARC staff survey of Virginia businesses, March-April, 2009.

selves more competitive and think the products in eVA can help them do so.

As part of its review of e-procurement and small businesses, SBA reported that small businesses have limited resources (time, technological infrastructure, and capital), and need training, support, and networking in order to use an e-procurement system. As a result, SBA recommended that policy makers should encourage training opportunities. From the State's perspective, increased business training could lead to greater competition.

Respondents also identified a need for additional training regarding improving their use of commodity codes. From the business perspective, having commodity codes that accurately describe business activities is critical in eVA. For example, as discussed, Quick Quote requests are sent to all businesses registered for the commodity codes contained in the solicitation. However, registering for too many or too few commodity codes can limit the usefulness of the notification function. Nonetheless, some businesses try to ensure that they do not miss any notifications and select commodity codes that are tangential to their core activities. In some cases, this results in businesses receiving solicitations for products they do not provide. This can lead to frustration among business owners. On the other hand, businesses can choose too few commodity codes and prevent themselves from obtaining solicitations that are pertinent to their activities. In some cases, businesses and State agencies may use different codes for the same products resulting in missed opportunities. The following comments from businesses highlight these problems:

> We get almost an overabundance of emails. Most of them do not even pertain to anything remotely close to what we do.
>
> My business is so specialized it has no visibility in any purchasing categories used. People can't find me and I can't find them.
>
> [eVA] has great potential, but many of the opportunities never get to us because the user with the state opportunity has used the wrong commodity code.

According to staff at one State agency, businesses have great difficulty selecting the correct commodity codes that represent their goods and services, and this is one of the primary problems their businesses encounter, as illustrated in the following case study:

> ***Case Study***
>
> *Staff at a State agency reported that they often prepare to advertise for a good or service through eVA only to find that a business they know to be certified and registered, and which provides the item for which the agency is advertising, does not appear on the vendor list. As a result, staff contact the business about their eVA account and determine that the appropriate commodity codes have not been registered. Staff then walk the business through the process of adding the correct codes to their eVA account. Staff indicated this is time consuming for them.*

Currently, businesses are not required to enter commodity codes for the products they sell when they create their eVA account. Although DPS indicated that some businesses may not want to receive notifications, it may be beneficial to make this field required. If businesses do not register their products, they do not receive automatic notifications and buyers cannot identify them as suppliers of products they need. Because there are two levels of registration, DPS could consider making product registration mandatory for businesses choosing premium registration. This change would also reduce the need for DPS staff to contact businesses that do not register commodity codes. DPS staff indicated that they periodically email businesses that have no products registered.

Recommendation (3). The Division of Purchases and Supply should require businesses obtaining premium registration to register at least one commodity code with eVA or to formally acknowledge their awareness that failing to register a commodity code may negatively impact their ability to receive electronic solicitation notifications from eVA.

More Effective Use of eVA Functions Could Improve Businesses' Competitiveness

The capability of small businesses to effectively use eVA tools could impact their ability to win procurements. Table 21 demonstrates that small businesses that reported having no State sales were more likely to report that they were either unaware or unable to use eVA functions. Staff at DGS and DBA agreed that knowing how to use eVA functions gives businesses a competitive advantage. DBA staff explained that by using eVA reports, businesses can identify a competitive price range for their products. They can also identify buyers with whom they can establish relationships so they may be contacted (by phone for instance) for opportunities under $5,000 that are not competitively solicited through eVA.

Table 21: Small Businesses That Receive No State Procurements More Likely to Report Being Unaware or Unable to Use eVA Functions

	Percent of Business Respondents Unaware of or Unable to Use eVA Functions Reporting	
eVA Function	**Zero State Sales[a]**	**Some State Sales[b]**
Online training tools and tutorials and other similar business resources	63.6%	48.4%
Punchout catalog which directs State buyers to business' websites where they can browse for products and use shopping cart technology to check-out and complete their requisition	63.0	51.8
Various reports identifying goods and services being purchased by State agencies as well as pricing and other information	55.1	42.1
Online catalog with product information which State buyers can browse in an eMall	51.4	43.2
Access to informational documents such as vendor manual, commodity list, list of state procurement offices, etc	51.4	35.2
Virginia Business Opportunities and future business opportunity listings	49.5	38.2
Viewing information about State contracts	45.0	31.0
Bidding electronically through Quick Quote	31.2	18.9
Receiving automatic notification of business opportunities/solicitations	16.5	10.2

[a] Percentages based on responses from 109 small businesses that reported having zero percent of gross receipts from State sales, despite being interested or trying for State business.
[b] Percentages based on responses from 304 small businesses that reported some portion of their gross receipts from States sales.

Source: JLARC staff survey of Virginia businesses, March-April, 2009.

Although there is likely a portion of businesses that will never be interested in using all eVA functions, some businesses may benefit through increased awareness and training about eVA tools. To the extent that they find these tools more effective in enhancing their business opportunities with the State, they may have a more positive opinion about eVA and its fees, and a greater chance of successfully competing for State procurements. As one small business explained:

> We must pay the eVA TAX, which has done nothing to help us identify the opportunity! It simply becomes an additional fee that eats into our revenue. Does it have potential? Yes. I could not imagine having to look at separate websites around the state to try to figure out who needs what. However, as it is, we have received ZERO benefit with eVA.

DPS Should Increase Its Outreach and Training Efforts

Based on the findings that have been discussed, greater outreach and training directed at the business community is needed. DPS staff acknowledge that increased communication with the business community about eVA is important for increasing participation. Likewise, training users on the system's functionality is important for business satisfaction and success with eVA. Public outreach efforts should focus on making more businesses aware of eVA's potential to improve their access to procurement opportunities. Additionally, DPS should address the training needs identified by survey respondents (Table 22). A State buyer's comments on the JLARC staff survey summarized what addressing these issues might mean:

> There is a great deal of training needed to navigate eVA; however, once learned the eVA system does provide a vast amount of procurement information which is extremely helpful.

Table 22: Registered Small Business Respondents Indicate Online Training Would Benefit Them the Most

Type of Training	Respondents	Percent
Online training materials or tutorials	118	56.5%
Local contact person for day-to-day questions	85	40.7%
One-on-one training	76	36.4%
Local group training or forums	65	31.1%
Central phone support / customer care	61	29.2%
Training or tips from other businesses	36	17.2%
Other	1	0.5%

Note: Responses of 209 small businesses that indicated that more training would have the greatest positive impact on their procurement opportunities through eVA.

Source: JLARC staff survey of Virginia businesses, March-April, 2009.

Among small businesses that indicated that additional training would have the greatest positive impact on their State procurement opportunities, over half indicated that the type of training that would benefit them the most was online training materials or tutorials. However, a number of different online tools are already available. DPS should consider how businesses become aware of and use these materials to identify if they are adequate to meet

businesses' needs. Small businesses also identified having a local contact person for day-to-day issues and one-on-one training as activities that would improve their use of eVA.

DPS staff indicated they are aware of these needs. However, in recent months, both the outreach and training positions have become vacant. DPS staff also indicated they are currently recruiting to fill these positions so these functions can be provided. They have also stated an intention to implement some regional training events in the future. Despite these challenges, the division, as the agency responsible for eVA, needs to ensure that its business outreach and training efforts are increased in order to better inform potential suppliers about eVA, and better train those businesses who are already using the system.

Recommendation (4). The Division of Purchases and Supply (DPS) should increase its efforts to inform small businesses about eVA's potential to increase their State procurement opportunities. These outreach efforts should take place in each DPS service area at least biennially.

Recommendation (5). The Division of Purchases and Supply (DPS) should improve its training tools to address the adequacy issues identified by businesses in this report, including the need for additional training and changes to the online training tools to better reflect the perspective of businesses. DPS should update its training tools by December 31, 2009.

DPS Should Coordinate Others' eVA Outreach and Training

Because of DPS' limited outreach and training efforts, other State agencies are attempting to meet this need. For example, DBA provides eVA outreach and training as part of its business assistance efforts. Furthermore, at least one State agency respondent indicated that they have conducted their own eVA business training program since 2004. In addition, they pay for part of a full-time position's salary and training materials to assist their business partners to register with and use eVA. Other State agencies may provide training as part of their efforts to increase purchases from small businesses. DPS staff said that the division informally coordinates these efforts by updating training information on the eVA website and communicating to State buyers that business training or questions can be addressed there.

DPS should identify other State agencies providing eVA outreach and training and regularly coordinate their efforts to reflect current training information. While the aforementioned State agencies told JLARC staff that they discuss their training efforts with

DPS staff, they added that they have no formal agreements with DPS to do so. Furthermore, if businesses want to work with the State but are unable to access training that is sufficient to meet their needs, or are unaware of the eVA website, they are likely to seek out other sources. Therefore, it is important for businesses' initial contact regarding eVA to be knowledgeable and helpful. As a result, DPS should seek to implement formal arrangements with each State agency providing formalized eVA training to help ensure that such training provides information about the system that is current, accurate, and useful from the business perspective.

Recommendation (6). The Division of Purchases and Supply should identify other State agencies providing eVA outreach and training by December 31, 2009, and regularly coordinate their efforts to reflect current training information.

More Business Input Could Improve eVA

Providing businesses with more opportunities to discuss their experiences using eVA's functions could address some issues that have been identified. For instance, 43 percent of survey respondents disagreed with the statement "I know who to contact if I am having trouble using eVA or I am having a problem with my account," indicating that businesses experiencing eVA-related problems may not know how to get their issues resolved.

According to DPS staff, the division has created an eVA users group for State agency personnel. The group meets every other month via the Internet to provide feedback about the system and discuss future changes. DPS staff said that resource constraints are a primary reason they have not created a similar users group for the business community. In addition, staff said that scheduling such events in a way that makes them accessible for small businesses may be difficult. DPS staff added that businesses share their views about eVA with the division in other ways.

Nonetheless, it may be useful for the division to convene a business users group with a mission similar to the State buyers group. Approximately ten percent of survey respondents indicated that providing opportunities for additional feedback about eVA would have a positive impact on their procurement opportunities. Furthermore, because DPS contracts for changes or improvements to the system based on user input, more input from businesses may be necessary to ensure that such changes reflect their needs. DBA staff indicated they feel small businesses would participate in this type of input session if it were conducted as a webinar, particularly over the lunch hour. They stated that they have held webinars for

other topics and have found that businesses have been willing to participate.

In addition to a users group, DPS could consider other options to supplement its efforts to elicit feedback from businesses on a regular basis. Currently, the eVA website provides a complaint form that businesses can submit to DPS which focuses primarily on complaints about specific purchases. DPS staff also surveyed businesses in July 2008 about their experiences with customer care. Neither of these efforts have focused primarily on gaining feedback about businesses' experiences using eVA. Business surveys and focus groups, in addition to a users group, could offer businesses a variety of opportunities to provide feedback to improve eVA. DPS should incorporate the information it obtains into eVA-related policies and functions wherever possible.

Recommendation (7). The Division of Purchases and Supply (DPS) should convene a permanent technical users group of businesses, including small businesses, to elicit feedback about eVA usability. DPS should use the users group to identify how businesses interact with the system, including the identification of opportunities, submission of electronic bids or proposals, use of system reports, and online training, among other business uses. DPS should collect this information and incorporate it into eVA-related policies and functions where possible. Meetings of the users group should include alternatives to face-to-face meetings, including use of the Internet and teleconferencing.

Recommendation (8). The Division of Purchases and Supply should regularly solicit feedback about the strengths and potential system improvements businesses have identified with eVA. The division should consider using surveys, focus groups, and/or other means to collect this business feedback and incorporate such feedback into eVA-related policies and functions where possible.

Chapter 5

Impact of Mandatory Use and Fees on Small Businesses

In Summary

Mandatory use of eVA by most State agencies and businesses helps ensure that registered businesses have broad access to State procurements and that the procurement process is fair and open. However, requiring businesses to use eVA also imposes additional costs on them through registration and transaction fees. While some small businesses report that the benefits of using eVA outweigh these costs, others report dissatisfaction with the fee and that it is unreasonable for them to fund a system that is intended to increase competition and lower prices for the State. Although the transaction fee is capped to limit the potential impact of this cost on small businesses, data indicates that most businesses do not benefit from these caps.

In addition, eVA's revenues have been exceeding operating costs. Revenues and costs could be brought into better balance by reducing, suspending, or eliminating fees that are in part paid by small businesses. In FY 2008, eVA revenues exceeded total operating expenses by about $6.4 million and exceeded recurring operating expenses by about $13 million. A cash balance has been growing, and was almost $18 million as of June 2009.

State agencies represent a substantial market in which private sector businesses can sell their goods and services. As noted in the mandate for this study, eVA represents a single collective source used by State agency and locality procurement staff. Furthermore, State agencies issued more than 582,000 purchase orders worth more than $4.6 billion in FY 2008. Since July 2004, State agencies have been required to process all transactions through eVA. According to DPS staff, this "mandatory use" of eVA was implemented to help maximize competition and obtain favorable prices, as well as generate sufficient fee revenue to cover system costs. To help pay for eVA's costs, businesses that sell goods and services to the Commonwealth are expected to pay an annual $25 eVA registration fee as well as a transaction fee on each order equal to one percent of their sales price, capped at $500 or $1,500 depending on the business' certification and registration status.

Concerns have been raised about the impact on small businesses of requiring registration with eVA in order to sell to the State and the system's fee structure. To examine whether eVA's mandatory use and fees affect small businesses, JLARC staff reviewed information about Statewide Internet access and assessed the financial impact of the fees by analyzing eVA billing, purchase order, and

revenue and expense data. JLARC staff also surveyed Virginia businesses.

REQUIRING STATE AGENCIES TO USE eVA IMPROVES OPPORTUNITIES FOR MOST BUSINESSES, BUT INTERNET ACCESS IS AN ISSUE FOR SOME

Small business survey responses indicate that mandating eVA use by State agencies helps them find procurement opportunities and also imparts a sense of fairness about the procurement process. However, whether small businesses have the technological capacity and resources to use eVA has been questioned. To address the technology issue, JLARC staff reviewed the broadband availability map recently released by the Virginia Office of Telework Promotion and Broadband Assistance.

More Than Half of Respondents Believe That eVA Provides Transparency and Maximizes Procurement Opportunities

As discussed in Chapter 2, openness to State procurement opportunities and impartiality in the award process are cornerstones of the Virginia Public Procurement Act. Furthermore, the Governor's SWAM program is intended to increase opportunities for these businesses. In response to JLARC staff's State agency survey, DMBE's director indicated that the required use of eVA is important to fulfilling the intent of the small, women- and minority-owned business program (SWAM), and in a larger sense, VPPA's intent:

> Without mandating the utilization of eVA, SWAM vendors would not know what bids were current and we would return to the days of selected contractors having all of the business in a geographical area. It is because of eVA that the percentage of SWAM expenditures has almost reached 40 percent. The Commonwealth cannot return to the "old ways" of doing business.

A majority of small businesses contacted for this review reported that requiring State agencies to use eVA enhances their access to procurement opportunities. When asked whether requiring State agencies to use eVA promotes openness and fairness of the procurement process for all businesses, 57 percent of small business respondents agreed, compared with 26 percent who disagreed. Additionally, 55 percent of respondents agreed with the statement that requiring all State agencies to use eVA to solicit bids and proposals maximizes their procurement opportunities, while 28 percent disagreed. This comment from a State buyer appears to underscore the survey responses: "eVA provides small businesses the

opportunity to learn about procurement requirements and to compete on a level playing field."

The survey responses are important because concerns have been raised that eVA may make it more difficult for small businesses to access procurement opportunities compared to large businesses. While some survey findings in this review have been more mixed about eVA's impact on opportunity, small businesses appear to believe that they benefit from the system's required use by State agencies.

Required Use of eVA Excludes Small Portion of Businesses That Lack Internet Access

To the extent that businesses must have access to a computer and the Internet to use eVA, mandating the use of this system could exclude businesses that do not have reliable access to the needed technology. Among businesses responding to the JLARC staff survey, the overwhelming majority reported adequate access to computers or high-speed Internet. For instance, 96 percent of registered small business respondents reported having access to a personal or business computer they can use to access eVA on a daily basis, and 95 percent reported having access to reliable high speed Internet. Nevertheless, businesses that do not have access to reliable internet were unlikely to respond to an online survey, and some evidence suggests that there may be small businesses in some areas of the State that lack necessary Internet access to use eVA.

While the majority of Virginians appear to have Internet access, comments from small businesses and State agency staff suggest that small businesses in some parts of the State may lack necessary access to reliable high-speed Internet. For example, small businesses that spoke with JLARC staff at a procurement event in the Martinsville area expressed concerns about the reliability of Internet in their area. One State agency that responded to JLARC's survey indicated:

> In rural areas, many small vendors still do not do business with computers or operate on-line. This rules them out as potential suppliers for goods and services. . . We lose this option with the mandatory registration requirement since we are not willing to pay the [business' portion of the] 1% [transaction fee] ourselves.

Data about the availability of broadband in Virginia also suggest that small businesses in certain parts of the Commonwealth may not have access to high-speed Internet. Areas without broadband service are most prevalent in the counties of Charlotte, Appomat-

tox, Buckingham, Bath, Highland, Craig, Madison, and Rappahannock. Service appears limited in other counties as well, particularly in Southeastern Virginia and around Greensville County. (A copy of the Virginia Office of Telework Promotion and Broadband Assistance's map illustrating broadband coverage in Virginia appears in Appendix J.)

Nevertheless, Internet access for small businesses in Virginia should continue to improve. Funded by grants from the U.S. Department of Commerce and the Virginia Tobacco Commission, the Mid-Atlantic Broadband Cooperative (MBC) was formed in 2003 with the goal of revitalizing the economy of Southside Virginia. According to the MBC, their network now includes over 800 miles of new fiber-optic infrastructure in the region. This effort is estimated to provide high-speed Internet access to nearly 700,000 Virginians and 19,000 businesses that did not have access before. The State has also adopted a goal to have broadband access to all businesses by 2010 and created the Office of Telework Promotion and Broadband Assistance to help facilitate construction of "last-mile" broadband technologies throughout the State.

eVA Business Fees Include Purchases from Localities and Non-Executive Branch Agencies

The total business fee figures in this chapter include a small portion of fees which are paid by businesses for sales to non-executive branch agencies and localities that use the system. While localities are exempted from paying the agency portion of the fee, businesses still pay the fee (DPS staff noted that this policy was adopted to incentivize localities to use the system). When combined with fees paid by businesses for transactions to legislative, judicial, and independent agencies, those fees amounted to less than three percent of all business fees in FY 2007 and FY 2008.

Another potential barrier to required use of eVA by businesses in the Commonwealth is the level of computer skills or experience needed to use eVA. Of the registered small businesses who responded to the electronic survey, 83 percent reported having staff with the necessary technology skills or background to effectively use eVA.

REGISTRATION AND TRANSACTION FEES DISCOURAGE SOME SMALL BUSINESSES FROM USING eVA

As noted previously, almost all businesses have been required since October 2001 to register with eVA in order to provide goods and services to the Commonwealth. For this registration, DPS charges businesses an annual fee of $25. In addition, whenever a registered business receives a procurement award, they pay a fee equal to one percent of the value of the transaction (capped at $500 for DMBE-certified, eVA registered businesses, or $1,500 for all other businesses). Table 23 illustrates the amount of fees businesses were invoiced to participate in eVA from FY 2007 to halfway through FY 2009.

These fees are additional costs that businesses likely would not pay to do business with the State in the absence of eVA. Although the registration fee must be paid by all businesses, while the transaction fee is paid only by those receiving an award, businesses responding to the JLARC staff survey indicated that the transaction fee has a greater impact on eVA participation.

Table 23: Total Business Registration and Transaction Fees Invoiced to Businesses Were More Than $14 Million in FY 2008

	Fiscal Year		
Fee Source	**2007**	**2008**	**2009[a]**
Transaction Fee	$12,574,722	$13,518,676	$5,766,369
Registration Fee	909,025	835,200	455,026
TOTAL	**13,483,747**	**14,353,876**	**6,221,395**

[a] July 1, 2008 through December, 2008 data.

Source: JLARC staff analysis of eVA billing data provided by DPS.

Twenty-Five Dollar Fee Required to Use All eVA Functions May Discourage Some Businesses From Registering

While small business respondents indicated support for eVA's mandatory use by State agencies, some indicated less support for requiring their own participation in the system. According to the *Agency Procurement and Surplus Property Manual*, "all purchase transactions, regardless of funding source, governed by the VPPA without regard to agency specific exemptions, shall be processed through eVA to eVA registered vendors." In order to register, businesses must pay a $25 annual registration fee. This allows them to use eVA's notification and bidding tools.

Several Nearby States Do Not Charge Registration Fees

Florida and North Carolina, two states that administer e-procurement systems with functionality somewhat similar to eVA, also require businesses to use their system to participate in State procurement. While both charge businesses uncapped transaction fees (Florida charges one percent and North Carolina charges 1.75 percent on goods only), neither state charges a registration fee. In addition, Maryland eliminated all business fees in 2006.

Many businesses that contacted JLARC staff expressed dissatisfaction with being required to pay to do business with the State, including these two,

> I dislike the fact that I must pay to do business with governmental agencies and also that if I do not enroll with these entities I am not allowed to do business with the government.
>
> * * *
>
> If you are not registered with eVA because you don't want to pay the fees, than you cannot do business with the state…We pay enough in taxes to the state, and now we are forced to pay a fee just to do business with the state.

This fee appears to discourage some businesses from registering, although this is not the case for most businesses. Among all non-registered small business respondents, 16 percent indicated that the registration fee was a reason they did not register. The portion that cited this as a reason varied from five percent of non-DMBE certified small businesses to 22 percent of DMBE-certified small businesses.

While it is true that businesses must pay at least $25 per year to utilize all eVA functions regardless of whether they are actually awarded any procurements, DPS staff believe that eVA's benefits outweigh this minimal cost to participate. In particular, they point to cost and time savings for businesses that no longer have to travel and market to separate State agencies. Although not all businesses acknowledge these benefits, as discussed in Chapter 4, nearly three-quarters of registered businesses feel the registration fee is a reasonable cost for using eVA tools to identify and respond to State procurement opportunities.

One Percent Transaction Fee Has Greater Impact on Registration

In addition to the yearly registration fee, businesses are assessed a one percent fee (capped at $500 or $1,500) on each order processed through eVA. Although this fee is not required for a business to identify or respond to solicitations, some businesses may choose not to register because they do not want to pay the fee if they win an award. In both FY 2007 and FY 2008, about 60 percent of registered businesses did not receive an award, and therefore, were not invoiced a transaction fee, according to DPS billing data. Despite the fact that most businesses do not end up paying this fee in a given year, it appears to play a more significant role than the annual registration fee in small businesses' decisions not to register.

Based on survey responses, 21 percent of non-registered small businesses indicated that the transaction fee was a reason they did not register. The percentage citing this as a reason again varied by certification status, from 12 percent of non-DMBE certified small businesses to 33 percent of DMBE-certified small businesses. Based on the online survey results, this fee was cited as the number one reason DMBE-certified businesses chose not to register.

Although a lack of awareness about eVA was the primary reason small business respondents gave for not registering with eVA in both the online and phone surveys, it appears that the fee was the primary concern among businesses that were aware of eVA and interested in selling to the State that chose not to register. For instance, some small businesses reported that they did not register with eVA because they do not sell goods or services the State purchases, are not aware of eVA, or are not interested in selling to the State. When those respondents were excluded from the analysis, the transaction fee was the primary reason the remaining small businesses gave for not registering with eVA.

Of the 117 small business respondents who reported not registering in eVA, 25 cited the transaction fee as a reason they did not register. Among these 25, the primary reasons they gave for why the fee prevented them from registering were that (1) they found it

unreasonable for businesses to pay to support a system that was developed by the State, in part to keep the State's prices down, and (2) they considered the fee to be another form of tax. One business wrote to JLARC, "The fees are extortion. . . I simply will not pursue business with the state that requires use of this system."

TRANSACTION FEES IMPACT MOST BUSINESSES EQUALLY, BUT SMALLEST BUSINESSES MAY PAY SLIGHTLY HIGHER FEES

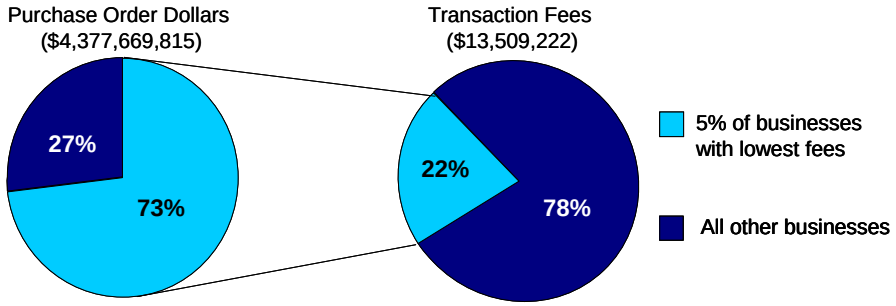
If the eVA transaction fee were a one percent fee assessed to all businesses, it would have an equal impact on all of them. However, the transaction fee that businesses pay is one percent per order capped at either $500 or $1,500, depending on the business' DMBE certification and eVA registration status. A capped fee is advantageous for businesses because it sets an upper limit of what they will have to pay for each order. For instance, due to the per order cap, transaction fees invoiced to businesses accounted for 0.31 percent of their total purchase order dollars in FY 2008. However, fee caps may result in some businesses paying a higher total portion of sales in fees if most of their orders fall below the cap threshold relative to other businesses.

Most Businesses Pay About the Same Percentage in Fees and Do Not Benefit From Caps

The vast majority of businesses that won State procurements in FY 2008 were invoiced fees equal to roughly one percent of the value of their total purchase orders. In fact, 91 percent of businesses were invoiced a fee of 0.9 percent or more of the total amount of their purchase orders. This is because the vast majority of purchases are valued at less than $50,000, and therefore fall below the threshold to benefit from either the $500 or $1,500 cap. In FY 2008, 98.8 percent of all purchase orders were worth $50,000 or less. Therefore, less than two percent of all purchases benefit from the per order cap, resulting in most businesses paying about one percent of sales in fees.

Businesses that win the most State dollars appear to benefit the most from the fee caps. For instance, the five percent of businesses that pay the lowest percentage in fees (less than 0.52 percent) received 73 percent of total State dollars in FY 2008 (Figure 16). By contrast, they were invoiced for only 22 percent of total fees.

Figure 16: Five Percent of Businesses With Lowest Fees Receive 73 Percent of State Purchase Orders but Pay Only 22 Percent of Fees



Note: Based on invoiced fee amounts for purchase order categories for which DPS billing rules indicate businesses should have been invoiced a transaction fee.

Source: JLARC staff analysis of eVA billing data provided by DPS for FY 2008.

Certified Businesses Pay Slightly Higher Fees, and Smallest Businesses Appear to Pay the Most

Concerns were raised that, despite a lower per order cap, DMBE-certified businesses may be disproportionately impacted by the transaction fee. In the words of one State agency:

> [the $500 cap] for SWAM vendors has little positive impact as the greatest quantity of eVA transactions with SWAM vendors does not reach the threshold where the cap would be applied. It is also more likely that SWAM vendors will perform many small jobs or provide many small product orders so that over time their collective transactions may meet the threshold but each individual order is always assessed the fee.

Based on billing data provided by DPS, the portion of purchase orders invoiced as fees was slightly higher for DMBE-certified small businesses in each fiscal year since 2007 (when the State first increased fee caps for all other businesses) (Table 24). Although most purchases fall below the cap threshold, this analysis suggests that non-DMBE certified businesses have more purchases that benefit from the cap.

This analysis was not conducted by size of business because billing data did not contain information about a business' size. Further, the number of employees reported to VEC could not be merged with DPS billing data without tax identification numbers, which

Table 24: Portion of Purchase Orders Invoiced as Fees, by Certification Status and Fiscal Year

Certification Status of Businesses	2007	2008	2009[a]
DMBE-Certified Small	0.36%	0.36%	0.34%
All Other Businesses	0.35	0.29	0.29

Note: Purchase orders and fee amounts were calculated by status at time of invoice. Because a business' certification status could change throughout the year, the data is not unduplicated by business. Registration status could not be included because manual adjustments made to purchase order amounts do not reflect the certification status of a business.

[a] July 1, 2008 through December 31, 2008 data.

Source: JLARC staff analysis of eVA billing data provided by DPS.

are not stored in billing data for security reasons, according to DPS staff. Therefore, to understand the impact of fees on businesses by size, purchase order data had to be used to estimate the impact of the fees on businesses by their number of employees. As noted earlier, gross receipts data by tax identification number was not available, so the impact of fees by a business' gross receipts could not be estimated. (See Appendix B for more information about this analysis.)

Estimated Difference in Fees for Small Businesses

In FY 2008, the average purchase order amount was $8,015 for all businesses. Based on that average, a 0.01 percent difference in fees would have been about $0.80. This amount was used to estimate the difference in fees for businesses based on size.

An assessment of the value of purchase orders and the number of employees per business suggests that businesses with the fewest employees are paying the most in fees (Table 25). Among all businesses, regardless of certification or registration status, estimated transaction fees are highest for businesses with zero to five employees, and lowest for businesses with more than 50 employees (this is also true among DMBE-certified small businesses). Based on the average purchase order amount in FY 2008, fees for businesses with zero to five employees were estimated to be $10.40 to $23.20 more per purchase order than for businesses with the most employees.

Table 25: Estimated Fees as Percentage of Total Purchase Orders by Size of Business, FY 2007 and FY 2008

Number of Employees	2007	2008
0 to 5	0.58%	0.49%
6 to 50	0.48	0.42
51 to 250	0.24	0.20
More than 250	0.37	0.36
Unknown	0.51	0.37

Source: JLARC staff analysis of eVA purchase order data provided by DPS.

Most Businesses and Agencies Do Not Report Major Impact of Fee on Competitiveness of Small Businesses

To the extent that the transaction fee impacts businesses differently, a business' profits and ability to offer competitive prices could be disproportionately impacted. Furthermore, some have suggested that the ability of a business to absorb the fee could also impact its ability to compete, although this may have more to do with a business' profit margin than size. However, business and agency survey results do not indicate a major impact of the fee on the ability of small businesses to compete.

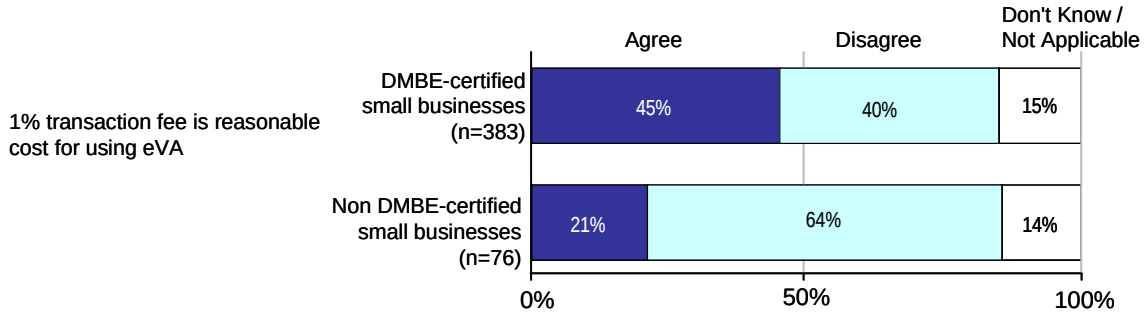
Perhaps because most businesses pay about the same percentage in fees, few noted a negative impact of the fee on their ability to compete for State procurements. Among small businesses that felt the transaction fee is not a reasonable cost for using eVA, only 14 percent felt this cost was unreasonable because they receive a higher volume of small purchase orders than other businesses, and therefore pay a higher portion of total sales in fees. Twenty-two percent felt the fee is unreasonable because they cannot offer a competitive price if they build the cost of the fee into their prices for State buyers. Among small businesses that reported building a portion of the fee into their prices, only 12 percent felt they had lost some portion of their bids because they added the fee to their price.

Like businesses, most State agencies did not report a major impact of the fee on the competitiveness of certified small businesses. For instance, 50 percent of State agency respondents agreed that the opportunities of DMBE-certified small businesses to compete do not appear to be impacted by the fee, while 22 percent disagreed, and the remaining were neutral or did not know. When asked why they were neutral, agency staff indicated that the fee does not impact all certified businesses to an equal extent.

SMALL BUSINESSES' VIEWS CONCERNING REASONABLENESS OF TRANSACTION FEE VARY

Registered small businesses responding to the online survey disagreed about whether the transaction fee is a reasonable cost for using eVA. According to survey responses, 40 percent of registered small businesses agreed that the fee is reasonable, while 45 percent disagreed and 15 percent either had no opinion or said the question was not applicable. DMBE-certified small businesses were more likely than non-certified small businesses (and those that did not know their certification status) to agree the transaction fee is a reasonable cost for using eVA (Figure 17). This may be because they understand that eVA helps State agencies identify DMBE-certified small businesses from which they can purchase to

Figure 17: DMBE-Certified Small Businesses More Likely to Agree Transaction Fee Is Reasonable Cost



Source: JLARC staff survey of Virginia businesses, March – April, 2009.

meet State goals, as discussed in Chapter 4. Survey respondents indicated various reasons why they did or not did not view the fee as a reasonable cost of using eVA to conduct business with the State, and their views of the fee appear to be influenced by their overall opinions of eVA.

Some Small Businesses Report Fee As Reasonable Because Only Paid When Award Is Received and Because of Increased Procurement Opportunities

The most often cited reason why some small businesses agreed the one percent capped transaction fee is reasonable is because they only have to pay the fee if they receive an award (Table 26). As indicated earlier, roughly 40 percent of registered businesses pay a transaction fee each year. Further, the median fee amount paid by businesses is modest. In FY 2008, businesses were invoiced for an

Table 26: Reasons Some Small Businesses Agreed Transaction Fee Is Reasonable

Reason	Respondents	Percent
We do not pay the transaction fee unless we receive an award	123	58.6%
eVA minimizes the time and cost of identifying and responding to State procurement opportunities	96	45.7
eVA has had a positive impact on my business procurement opportunities with State agencies	91	43.3
We can include the cost of the fee in our prices for State buyers	58	27.6
eVA has increased my visibility as a seller	53	25.2
eVA's product registration and automatic bid notifications have reduced business marketing costs	51	24.3
Reports are valuable for identifying potential markets and competitive pricing	42	20.0
My business's ability to post an online catalog through eVA has reduced our marketing costs	14	6.7
Other	9	4.3

Note: Based on responses of 210 small businesses that are eVA registered.

Source: JLARC staff survey of Virginia businesses, March – April, 2009.

average of $638 in transaction fees for the entire year, but a median of $49. The average and median fee amounts per purchase order for small businesses were estimated to be about $79 and $6.63, respectively (based on purchase order data).

In addition, over 43 percent of small business respondents reported that the transaction fee is reasonable because eVA minimizes their time and cost of identifying and responding to State procurement opportunities and has a positive impact on their State procurement opportunities. As one business described,

> eVA is a facilitator for small business, leading to enhanced associations with state agencies and jurisdictions in need of services. The level of technical delivery, sophistication and content ensure accuracy while providing a single resource for reliable project / vendor information. Based upon the preceding, fees are within reason for the content and services provided through eVA. All things considered, I believe the system is an asset for small businesses conducting commerce in the public work sector as well as vendor supply.

Some Businesses View the Fee as a Tax or a Cost on Them to Pay for a State Benefit

Businesses which indicated that the one-percent capped transaction fee is unreasonable did not seem to focus so much on its size, but rather that they have to pay a fee at all to use eVA. Among the 45 percent that felt the fee is not a reasonable cost, the primary reason why they felt the fee was unreasonable was because they did not feel they should have to pay to support a system which was developed by the State, in part to keep the State's prices down through increased competition (Table 27). A similar reason selected by nearly 60 percent of respondents was that they view the fee as a tax for conducting business with the State.

Several comments made by survey respondents focused on these concerns. For instance, one DMBE-certified small business explained, "I think the eVA system is no more than a tax that is called a fee. eVA is supposed to reduce costs but increases them for private enterprise." Another certified small business stated, "We the seller pay taxes and that is what should help pay for eVA." Another small business wrote,

> Because of the additional costs and time to use this system, I have stopped doing business with Virginia. I don't believe it is fair to charge us to do business with the State to which we already pay taxes.

Table 27: Reasons Some Small Businesses Disagreed Transaction Fee Is Reasonable

Reason	Respondents	Percent
Unreasonable for businesses to pay to support a system which was developed by the State, in part to keep our prices down	160	67.5%
Do not have a choice to conduct business with the State without using eVA	143	60.3
View the fee as a tax for conducting business with the State	142	59.9
Should not have to pay a fee because eVA has not increased our procurement opportunities with the State	101	42.6
Do not need or use eVA tools and reports, and therefore receive no added value from the system other than doing business with the State	95	40.1
Most purchase orders we receive are too small to benefit from the per order transaction fee cap	74	31.2
When my business builds the fee into our price for State buyers, our price is no longer competitive	51	21.5
One percent is too high, but a smaller percentage could be acceptable	47	19.8
Because we receive a higher volume of small purchase orders from the State than other businesses, we pay a higher portion of total sales in transaction fees	34	14.3
The per order cap is too high, but a lower cap could be acceptable	33	13.9
Do not see the value in using eVA since we are not looking to expand our business, only to continue doing business with existing clients or a very limited number of clients	29	12.2
Other	28	11.8

Note: Based on responses of 237 small businesses that are eVA registered.

Source: JLARC staff survey of Virginia businesses, March – April, 2009.

Sixty percent of those businesses that reported the fee is unreasonable also gave a reason that they do not have a choice to conduct business with the State without using eVA (this is due to the mandatory nature of eVA). The following quote illustrates the impact of the mandatory aspect of eVA and the fee on one small, non-certified business in Virginia:

> I have been required to be registered with eVA for several years now, as I hold a contract with [a State agency], and it is necessary to do so. I was not required to be registered when I was originally contracted in 2001. I resent the fact that I have to pay fees for a job that [I] obtained on my own. There is no benefit to being eVA registered other than being permitted to keep my contract with [a State agency]. . . I resent having to pay eVA fees, and have not benefitted from them at all…

About 40 percent of small businesses that identified the transaction fee as not a reasonable cost reported that eVA has not increased their procurement opportunities, or they do not need to use the various eVA tools and reports, as reasons why it is unreasonable. This finding reflects the belief of some businesses that the value they receive from the system is not worth the fees.

Businesses' Views on Effectiveness of eVA May Influence Their Opinions of Fees

According to the National Electronic Commerce Coordinating Council (NECCC), the success of funding an e-procurement system through fees assessed to businesses depends on the suppliers determining that the benefits of using the system are worth their investment. The NECCC stated:

> States are learning that suppliers must conclude that the time and resource investment – as well as the fee – are offset by the efficiencies and other market advantages. . . [of using the system].

Businesses that do not find eVA tools to be useful could have negative perceptions of eVA and the reasonableness of its associated costs.

According to survey results, small businesses that find eVA less effective are more likely to feel the transaction fee is an unreasonable cost for using eVA. For instance, among small businesses that agreed that eVA has had a positive impact on their procurement opportunities, 55 percent agreed that the transaction fee is reasonable, compared to only 26 percent of those that did not feel eVA positively impacted their procurement opportunities. Small businesses that agreed with the following statements were also more likely to agree that the transaction fee is reasonable:

- Centralized registration makes competing for State procurements more efficient;
- Commodity code registration and online catalogs minimize our marketing costs;
- eVA minimizes the amount of time we spend looking for State procurement opportunities;
- eVA tools meet our needs for identifying and responding to solicitations; and
- eVA reports meet our needs for identifying potential buyers and conducting market research.

As one DMBE-certified small business reported to JLARC:

> As for the fee structure, I find the 1% fee to not be overly burdensome and offset by the clear benefits of having access to the capabilities offered by eVA (reporting, research and quick quotes).

DBA staff echoed this finding by stating that the value of the spending reports available to businesses through eVA alone "more than gives them their one percent back."

By contrast, businesses that view eVA tools as unnecessary or ineffective appear to have more negative perceptions of the eVA fee. According to one small business, "it is our opinion that we are grossly overcharged for the minimal benefit that we receive from using eVA." Furthermore, among small business respondents that reported not registering with eVA because of the transaction fee, 32 percent indicated that the reason the fee prevented them from registering was because they did not need eVA tools and reports and therefore would not receive added value from using the system.

OPTIONS COULD BE CONSIDERED TO REDUCE, SUSPEND, OR ELIMINATE CERTAIN FEES

In FY 2007, FY 2008, and in FY 2009 to date, the revenues which have been collected to pay for eVA have exceeded eVA's actual expenses. In FY 2008, the last full year of data available at this time, revenues exceeded expenses by $6.4 million, or about 30 percent.

Currently, there are three primary sources of revenue: (1) the business registration fee, (2) the one percent transaction fee paid by State agencies, and (3) the one percent transaction fee paid by businesses. If revenues are expected to continue to exceed expenses, there appear to be various alternatives for reducing fees paid by businesses or State agencies.

In addition, the mandate for this review specifically required that the study examine the impact of the fee structure and mandatory eVA use on small businesses. As indicated in this chapter, some small businesses surveyed make the argument that the transaction fee is an unreasonable cost and represents an inappropriate tax for conducting business with the State. While this is a minority of businesses responding to the survey, it appears to be a factor that diminishes eVA use among small businesses to some extent. Whether or not these arguments made by these businesses are appropriate is a policy judgment. Reduction, suspension, or elimination of the transaction fee, however, could potentially result in increased eVA usage, and in more favorable price quotes for State agencies.

FY 2008 eVA Revenues Were $6.4 Million More Than Expenses, and a Cash Balance Has Been Growing

According to DPS staff, fees are not intended to produce a profit, but rather are set at a level estimated to be necessary to cover

UVA and Virginia Tech Operate Separate e-Procurement Systems

eVA contract costs (which exclude DGS costs, loan payments, and some other operating expenses) are over $12 million a year. The University of Virginia and Virginia Tech pay annual licensing fees of about $317,000 and $240,000, respectively, to operate their own systems. Although university staff expressed satisfaction with their systems' functionality, DPS staff indicated that the universities' e-procurement technologies do not have all the capabilities of eVA.

eVA's costs. Registration and transaction fees collected from businesses and agencies are intended to cover all eVA expenses, including administration, operating costs, CGI contract compensation, enhancements and improvements to the system, and certain sole source fee rebates to institutions of higher education (Section 2.2-5005.4 of the *Code of Virginia* requires DPS to rebate transaction fees paid by colleges and universities for sole source procurements to businesses that are not eVA-registered, if they meet certain statutory conditions). In addition, prior to July 1, 2008, fees were also used to pay back a Treasury loan that was designated by the General Assembly to cover any gap between fee revenue and costs of developing and implementing the system.

According to DPS data, eVA revenue from business and agency fees has been outpacing expenses by a growing margin. From July 1, 2006, through December of 2008, DPS collected about $62.8 million in fees from businesses and agencies, while operating costs over the same period totaled $48.3 million. Over that time, roughly 50 percent of fees were paid by businesses. Table 28 illustrates eVA revenues and expenses by fiscal year. In FY 2008, revenue exceeded expenses by $6.4 million. (These figures represent fees that were paid in each fiscal year and therefore vary somewhat from invoiced fees discussed earlier in the chapter.) Included in the FY 2008 expenses was a $6.6 million payment retiring an outstanding Treasury loan balance. Therefore, actual operating expenses were approximately $15.3 million that year and revenues exceeded those expenses by $13.1 million.

Table 28: Beginning in FY 2007, eVA Revenues Exceed Expenses by Growing Margin

	Fiscal Year ($ millions)			
Revenues and Costs	**2007**	**2008**	**2009[a]**	**Total**
Total Fee Revenues	$21.7	$28.4	$12.8	**$62.8**
Agency Fees	10.9	15.7	4.9[b]	**31.5**
Business Fees	10.6	12.7	7.9	**31.2**
Operating Expenses	18.4	21.9	7.9	**48.3**
Net Revenues	$3.3	$6.4	$4.8	**$14.5**
Net Revenues As Percent of Total Fee Revenues	15.1%	22.6%	37.8%	**23.1%**

[a] July 1, 2008 through December 31, 2008 data.
[b] In FY 2009, DPS rebated roughly $5 million in agency fees due to a revenue surplus from FY 2008. Agencies were able to use the rebates as credits for eVA charges incurred in FY 2010. DPS has announced agencies will again receive rebates for FY 2009 procurement spending.

Source: JLARC staff analysis of DPS revenue receipts and expense data.

The gap between revenue and expense is even more pronounced when eVA's beginning account balance is considered for each fiscal year. In FY 2008, the beginning cash balance was almost $9 mil-

lion, making the gap between revenue and expenses more significant at about $15.3 million (Table 29). From the end of fiscal year 2007 to December 2008, the ending cash balance in the eVA account grew by 126 percent. This cash balance includes fees collected from businesses and agencies (including general and non-general funds) to support the system. According to DPS staff, the cash balance as of June 26, 2009 was $17.8 million.

Table 29: DPS Reported a Cash Balance in eVA of $20 Million at End of December 2008

Fiscal Year	Beginning Cash Balance	Ending Cash Balance
2007	$5,648,936	$8,914,993
2008	8,914,993	15,338,293
2009*	15,338,293	20,165,158

*July 1, 2008 to December 31, 2008

Source: DPS revenue receipts and expense data.

During FY 2008, eVA revenues outpaced costs to the point where DPS provided rebates in the form of fee credits of $4.9 million for State agencies to use in the following fiscal year. Because eVA revenues were greater than expenses again in FY 2009, DPS has stated that it will offer rebates to agencies in FY 2010. However, instead of issuing rebates and maintaining a growing cash balance, fees could be adjusted to bring revenues and expenses into better balance.

FY 2008 Transaction Fees as Percent of Operating Expenses

In FY 2008, total transaction fee revenues are estimated at $27.6 million. This figure includes $15.7 million in agency fees and $11.9 million in business transaction fees ($12.7 million total business fees minus an estimated $0.8 million in registration fees).

Recurring operating expenses were $15.3 million. Thus, recurring costs were about 55 percent of transaction fee revenues.

Option One: Transaction Fee for Businesses and State Agencies Could Be Lowered

In FY 2008, the percentage of business and State agency transaction fee revenues that would have been needed to meet eVA's recurring operating costs (that is, excluding the loan repayment costs) is an estimated 55 percent of what was paid. One approach to bringing the revenues and expenses into better balance, then, would be to reduce the one percent fee that businesses and agencies each pay. Such a reduction in transaction fees would apply to all businesses, including small businesses. To help ensure that the lowered percentage continues to be adequate, two approaches could be considered. A higher percentage than exactly needed to cover costs could be used to provide a margin for meeting future costs, such as system upgrades and future requirements. Or, some of the current cash balance could be maintained to address shortfalls or meet future costs.

Option Two: Elimination of Business Registration Fee Could Increase Initial Registrations and Renewals

Another option is eliminating the business registration fee. The financial impact of the registration fee is relatively small – about $830,000 in FY 2008, or less than five percent of eVA's operating costs that year. Considering that revenues were about $6 million more than operating costs that year, this option could be pursued in conjunction with Option One. The impact would be that the transaction fee could still be lowered, but not by as much, due to the loss of registration fee dollars.

According to DGS staff, charging a $25 registration fee is a way to ensure that the only businesses registering in eVA are those that are actually interested in conducting business with the State, and that registered businesses keep their account information up-to-date. As discussed, almost three-quarters of registered business survey respondents indicated the $25 registration fee is a reasonable cost to be able to receive and respond to electronic solicitations and use eVA tools and reports. Nonetheless, some small businesses reported dissatisfaction with having to pay a fee to conduct business with the State, and about one in six unregistered business survey respondents cited this as a reason they did not register with eVA. Furthermore, paying the registration fee may negatively affect a business owner's opinion about the usefulness and effectiveness of eVA if they continue to register each year but never receive an award.

In light of fee-related findings discussed in this chapter, DPS could consider eliminating the registration fee as a way to increase business participation in eVA and address businesses' concerns about the cost of doing business with the Commonwealth. Also, DPS staff have indicated that the registration fee is not necessarily a critical funding source for eVA.

It would appear that there are other procedures available to ensure businesses are responsible for their accounts without charging them. For example, businesses are annually invoiced by mail for their registration fee and if the correspondence is returned to DPS the account is eventually deactivated. Businesses have the opportunity to reinstate their accounts and accounts are never deleted from the system. DPS could attempt something similar by annually emailing businesses requesting verification of their account information. Accounts for which the emails are returned as undeliverable could be deactivated if subsequent attempts to contact the business are unsuccessful. DPS staff have stated that previous attempts at sending emails to all registered businesses have been greeted poorly by the recipients. However, it seems likely that registered businesses would be willing to exchange the annual

$25 registration fee for an annual email asking them to review their account information – something they should probably be doing on a regular basis regardless.

In addition, DPS reduced business registration fees in the past to encourage greater participation. Prior to April, 2006, DPS annually charged a basic registration fee of $25 and a premium fee of $250. The premium level provided businesses with more services, such as email and fax notification of procurement opportunities, than the basic level. In order to increase access to opportunities for all businesses, DPS eliminated the higher fee, and businesses have the ability to opt out of the increased level of services. Eliminating the registration fee entirely could result in greater participation by removing an obstacle that some small businesses cite as a reason for not registering. It could also encourage businesses that may be reluctant to register because of the fee to further explore the system and its potential benefits.

Option Three: Business Transaction Fee Could Be Reduced, Eliminated, or Suspended to Potentially Increase eVA Participation and Lower Prices

UVA and Virginia Tech Account for 18.8 Percent of eVA Fee Revenue

In FY 2008, UVA was invoiced for $1.7 million, in eVA fees (including fees for non-exempt purchases processed outside of eVA minus higher education rebates for certain sole source purchases). Virginia Tech was invoiced for another $1.2 million in fees. Together, these universities accounted for about 18.8 percent of all eVA fees invoiced to State agencies that year.

Although the business transaction fee impacts a smaller portion of businesses than the registration fee, it is more costly to businesses obtaining State awards, and causes greater dissatisfaction among the business community. According to business survey comments and emails, several businesses indicated that eVA participation results in what amounts to two transaction fees, not just one. First, they must offer their goods and services at substantial discounts to the State. The following business email illustrates how competitive pricing can be:

> Quick quotes [for price bids] are so "competitive" that margins that are reasonable in the marketplace need to be cut so drastically that it is not worth the risk of guaranteeing the order. Paying an additional 1% tax for the benefit of super low margins? As a business owner how would you feel?

Second, after substantially discounting the costs of their goods and services, businesses also pay a one percent fee on the value of any purchase orders they receive. The following survey response by a certified small business captures the essence of several comments regarding the fee's impact on business competitiveness:

> eVA should not be charging vendors a fee. It is as if there is a penalty for dealing with state agencies. Small businesses often try to offer a discount to state agencies either to attract business or to save costs (it is after all, our own tax-

payer money being spent), but the eVA fees are a disincentive to offer discounts.

And while DPS has instituted a price ceiling on the fee amount businesses must pay, most businesses do not benefit from the caps and pay about the same percentage in fees, although some of the smallest businesses may be paying a higher percentage. This is because the vast majority of purchases is for less than $50,000, and therefore falls below the threshold to benefit from either the $500 or $1,500 caps.

Additionally, some State buyers and businesses indicate that the cost of the fee is added back into the prices being offered, resulting in higher prices. For example, one State buyer reported on the JLARC staff survey that "[T]he transaction fees paid by eVA-registered businesses are passed on [to] the customer in increased costs of goods and services," and another wrote, "[G]enerally speaking, transaction fees are included in the price of a product." To the extent that businesses build the fee into their prices, this could offset all or a portion of savings to the State achieved through increased competition.

However, the extent to which businesses add back the one percent fee is not clear. Overall, about 33 percent of registered small businesses indicated that they build the entire fee or a portion of the fee into their prices for State buyers, while 40 percent indicated they do not build any portion of the fee into their prices, and another 27 percent did not know how the fee impacts their prices. While many businesses may not know the impact of the fee, it seems possible that some businesses were simply reluctant to report in the survey that they include the fee in their prices. Other businesses may not use sophisticated pricing models.

Although survey results suggest that only a third of businesses are aware that they factor the fee into the prices they charge State buyers, small business comments suggest that this practice may be commonplace. For instance, one small business stated, "The 1% eVA processing fee simply gets figured into the cost of doing business with the state so there is no real money savings for the taxpayer." Another small business noted: "The simple fact is every vendor that I know [has] agreed that the mandatory fee paid to the system is simply calculated into the price quoted and charged to the State."

As discussed previously, a 2005 DPS comparison of pre- and post-eVA prices for the same market basket of goods found price savings of $114 million since eVA implementation. The study attributed the savings to the State's ability to leverage its vast buying power, something that eVA made easier with its data collection

function. Although these findings do not suggest that businesses were not passing the one percent fee to the State in their prices, they do suggest that to the extent that this was occurring, the increased competition resulting from eVA was sufficient to offset that impact. However, there is no indication that the identified price savings could not have been higher if no transaction fee had been imposed – and thus, no opportunity for businesses to pass the fee back to the State.

While agency fee revenue appears sufficient to cover current costs, there are some concerns regarding Option Three. In FY 2008, operating expenses, without the treasury loan payback, were about $15.3 million, and agency fee revenue was $15.7 million. However, given the State's current financial situation, the potential exists that additional restrictions on State purchasing could result in lower eVA fee collections, and it is difficult to identify whether State spending of federal stimulus funding may offset such reductions. Furthermore, DPS has identified $7.6 million in improvements to eVA for FY 2010 and FY 2011 when changes that have been budgeted but not committed are included (Appendix L). It was beyond the scope of this review to assess the necessity of these improvements or the accuracy of the cost estimates. Depending on the magnitude of future enhancements, the State could spend down the available cash balance and, in the longer term, may have to increase fees to cover expenses.

Another concern suggested by DPS staff was that reducing the transactions fee's value could potentially create a larger problem if the fee had to be reinstated or increased in the future. However, there is some precedent for eliminating business transaction fees. In FY 2003, business fees were waived and AMS contract fees were instead paid by the Commonwealth. According to earlier reports by APA and JLARC, this change resulted from businesses approaching their legislators "with concerns over using eVA" and "complaints about the funding model." In 2004, DPS resumed charging businesses fees and since then has not reduced them. One approach DPS could take would be suspending fees, or issuing a fee holiday, for businesses until (and if) they again become necessary.

Furthermore, if DPS were to eliminate the business portion of the transaction fee, State agencies would still be required to pay the one percent fee. This could be accomplished by operating eVA as part of an internal service fund. Under an internal services fund, if future revenues collected from State agency fees are deemed insufficient, DPS could request an increase in the fund's rate.

Finally, by reducing or eliminating the transaction fee, the State may realize increased participation in the Governor's SWAM program and eVA, resulting in greater competition – and lower prices

– for the goods and services it purchases. For example, of the 321 small business survey respondents who indicated that they became certified in order to increase procurement opportunities with the State by qualifying for the set-aside program, 29 (nine percent) did not end up registering with eVA. Among those businesses, the primary reason they did not register was because of the transaction fee. Therefore, it seems possible that there are other businesses that, upon learning about the eVA fees, would also decide not to certify. Increasing the number of DMBE-certified and eVA-registered small businesses is important if the State decides to keep the current small business definition and set-aside program. Without additional DMBE-certified and eVA-registered small businesses, the State may not realize the full costs savings that are available.

Recommendation (9). The General Assembly may wish to direct the Division of Purchases and Supply to conduct a financial analysis of the revenues, expenses, and the cash balance associated with eVA, and report the findings of its analysis by July 1, 2010. The analysis should examine the financial impact to the State and eVA-registered businesses of options that would reduce eVA fee revenues to better balance revenues and expenses. The division should report its findings to the Department of Planning and Budget, the House Appropriations Committee, and the Senate Finance Committee.

List of Recommendations:

Impact of eVA on Small Virginia Businesses

1. The General Assembly may wish to consider a definition for certification eligibility that is more limited, or more clearly identifies a group of businesses facing a disparity in their utilization, than is currently in place in §2.2-1401 of the *Code of Virginia*.
2. The Department of Minority Business Enterprise should increase its outreach efforts to substantially increase the proportion of eligible businesses that become certified.
3. The Division of Purchases and Supply should require businesses obtaining premium registration to register at least one commodity code with eVA or to formally acknowledge their awareness that failing to register a commodity code may negatively impact their ability to receive electronic solicitation notifications from eVA.
4. The Division of Purchases and Supply (DPS) should increase its efforts to inform small businesses about eVA's potential to increase their State procurement opportunities. These outreach efforts should take place in each DPS service area at least biennially.
5. The Division of Purchases and Supply (DPS) should improve its training tools to address the adequacy issues identified by businesses in this report, including the need for additional training and changes to the online training tools to better reflect the perspective of businesses. DPS should update its training tools by December 31, 2009.
6. The Division of Purchases and Supply should identify other State agencies providing eVA outreach and training by December 31, 2009, and regularly coordinate their efforts to reflect current training information.
7. The Division of Purchases and Supply (DPS) should convene a permanent technical users group of businesses, including small businesses, to elicit feedback about eVA usability. DPS should use the users group to identify how businesses interact with the system, including the identification of opportunities, submission of electronic bids or proposals, use of system reports, and online training, among other business uses. DPS should collect this information and incorporate it into eVA-related policies and functions where possible. Meetings of the users

group should include alternatives to face-to-face meetings, including use of the Internet and teleconferencing.

8. The Division of Purchases and Supply should regularly solicit feedback about the strengths and potential system improvements businesses have identified with eVA. The division should consider using surveys, focus groups, and/or other means to collect this business feedback and incorporate such feedback into eVA-related policies and functions where possible.

9. The General Assembly may wish to direct the Division of Purchases and Supply to conduct a financial analysis of the revenues, expenses, and the cash balance associated with eVA, and report the findings of its analysis by July 1, 2010. The analysis should examine the financial impact to the State and eVA-registered businesses of options that would reduce eVA fee revenues to better balance revenues and expenses. The division should report its findings to the Department of Planning and Budget, the House Appropriations Committee, and the Senate Finance Committee.

Appendix A Study Mandate

HOUSE JOINT RESOLUTION NO. 119
Agreed to by the House of Delegates, March 5, 2008
Agreed to by the Senate, March 4, 2008

Directing the Joint Legislative Audit and Review Commission to study the impact of eVirginia (eVA) on small businesses in the Commonwealth. Report.

WHEREAS, state agencies, colleges, universities, and many local governments use eVirginia (eVA) to announce bid opportunities, invite bidders, receive quotes, and place orders for goods and services; and
WHEREAS, eVA represents a single collective source of more than 12,000 buyers; and
WHEREAS, it has been the policy of the Commonwealth to support small businesses; and
WHEREAS, procurement opportunities should be equally available to all types and forms of businesses in the Commonwealth; now, therefore, be it
RESOLVED by the House of Delegates, the Senate concurring, That the Joint Legislative Audit and Review Commission be directed to study the impact of eVirginia (eVA) on small businesses in the Commonwealth.

In conducting its study, the Joint Legislative Audit and Review Commission shall (i) identify the total number of contracts and the total dollar amount awarded to small businesses in the Commonwealth, annually, since the implementation of the eVA procurement system and (ii) examine the impact of the fee structure and the mandatory use of eVA on the procurement opportunities of small businesses in the Commonwealth.

Technical assistance shall be provided to the Joint Legislative Audit and Review Commission by the Department of General Services. The Department of General Services shall provide available eVA data identified and deemed pertinent to the study as requested by the Commission. All agencies of the Commonwealth shall provide assistance to the Joint Legislative Audit and Review Commission for this study, upon request.

The Joint Legislative Audit and Review Commission shall complete its meetings for the first year by November 30, 2008, and for the second year by November 30, 2009, and the Chairman shall submit to the Division of Legislative Automated Systems an executive summary of its findings and recommendations no later than the first day of the next Regular Session of the General Assembly for each year. Each executive summary shall state whether the Joint Legislative Audit and Review Commission intends to submit to the General Assembly and the Governor a report of its findings and recommendations for publication as a House or Senate document. The executive summaries and reports shall be submitted as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents and reports and shall be posted on the General Assembly's website.

Appendix B Research Activities and Methods

Key research activities and methods for this study included:

- data collection and analysis,
- online survey of Virginia businesses,
- phone survey of State certified small businesses that are not eVA registered,
- survey of State agencies, colleges, and universities about eVA and certified small businesses,
- structured interviews with State procurement officers,
- review of other states' electronic procurement `systems,
- attendance at conferences and meetings, and
- document and literature reviews.

DATA COLLECTION AND ANALYSIS

JLARC staff collected and analyzed data from DPS, DMBE, and VEC to address the study mandate. The data reflects purchase orders, DMBE certification, number of employees, and fee revenue.

Types of Data

JLARC staff collected five types of data to address the study mandate (Table B-1). eVA purchase order, State certification, and employment data were collected to identify the total number and dollar amount of State procurement awards made through eVA and the number of small Virginia businesses and the awards they have

Table B-1: Types of Data Used to Address Study Mandate

Type of Data	Data Source (State Entity)	Type of Virginia Businesses (Small and Large)
eVA Purchase Order Data	DGS, Division of Purchases and Supply	All businesses registered with eVA
Certification Data	Department of Minority Business Enterprise	All businesses certified by DMBE
Employee Data	Virginia Employment Commission	All businesses operating in Virginia
eVA Billing Data	DGS, Division of Purchases and Supply	All businesses that sold to State
eVA Revenue and Expense Data	DGS, Division of Purchases and Supply	All businesses that sold to State

received. The data elements collected for these three data types are identified in Table B-2. Billing data and data on eVA operating expenses were collected to assess the impact of eVA fees on businesses.

Table B-2: Data Elements Received from DPS, DMBE, and VEC

Variables in the eVA Purchase Order Datasets (FY 2001 – 09)	Variables in the DMBE Certification Dataset (as of February 2009)	Variables in the VEC Quarterly Datasets (2003 – 2008)
Tax ID number	Tax ID number	Tax ID number
Business name	Business name	Business name
Business address (Street, City, State, Zip)	Business address (Street, City, State, Zip)	Business address (Street, City, State, Zip)
Order date	Business phone number, fax number, e-mail address	Business phone number
Purchase order category	Name of contact person	FIPS code
SWAM variables (small, women-, or minority-owned flags)	SWAM type (small, women-, or minority-owned)	VEC account number
Duns and Bradstreet number	Duns and Bradstreet number	VEC year and quarter
eVA registered flag (Yes/No)	eVA registered flag (Yes/No)	Industry (NAICS) code
Purchase order number	Number of employees	Number of employees
Dollar amount awarded	Certification status (approved vs. pending)	
eVA client name code (State agency code)	Certification dates (approval and expiration)	
eVA client name description (State agency name)	Ownership type (e.g. Corporation, Limited Liability)	
Commodity (NIGP) codes and descriptions	Business type (e.g. construction, food services)	
Quantity ordered	Year established	
	Year incorporated	
	Commodity (NIGP) codes and descriptions	
	Industry (NAICS) codes and descriptions	
	Market area (e.g. Central Virginia, Tidewater)	
	Gross revenue from the three most recent years	
	Initial certification (true/false)	
	Initial certification date	

eVA Purchase Order Data. The study mandate requires JLARC staff to identify the total number and dollar amount of State procurement purchases made to small businesses in Virginia since the implementation of eVA in March 2001. In order to calculate these totals, JLARC staff consulted DPS regarding the procurement data collected in eVA. JLARC staff received raw data of all purchase orders processed through eVA or reported to the eVA data warehouse for fiscal years 2001 (beginning on March 5) through the first half of fiscal year 2009 (ending on December 31, 2008).

JLARC staff identified issues with the purchase order data that needed to be addressed before analyzing the data, the most significant of which involved the federal tax ID numbers needed for matching these data with other datasets. Specifically, there were instances, primarily in the earlier fiscal years, where the tax ID numbers were either missing or improperly formatted (for example, extra spaces, too many or too few numbers, or other erroneous characters). This issue was a result of how State buyers entered the tax ID numbers into eVA. JLARC staff adjusted as many of the improperly formatted tax IDs as possible, but some observations, such as those with a missing tax ID number, remained "unidentified". As described in more detail below, JLARC staff included these observations in the "unknown" size of business category. Overall, 98 percent of eVA purchase order observations and 99 percent of associated award amounts were used in the JLARC staff analysis. Table B-3 includes the overall total number of purchase orders and corresponding award amounts, as well as totals for the observations with an unidentified tax ID number.

Table B-3: Total Number of Purchase Orders and Dollar Amounts Awarded, Overall and for Observations with Unidentified Tax IDs

	Overall		Unidentified Tax IDs (Improperly Formatted or Missing)	
Fiscal Year	Total Number of Purchase Orders	Total Award Amount	Total Number of Purchase Orders	Total Award Amount
2001	128	$ 327,072	1	$ 275
2002	26,880	$ 141,469,898	4,489	$ 12,354,494
2003	147,479	$ 1,123,751,656	13,621	$ 58,342,246
2004	233,609	$ 2,442,005,799	2,632	$ 7,621,301
2005	366,205	$ 3,620,636,476	3,799	$ 6,472,944
2006	390,076	$ 3,992,522,835	4,340	$ 7,812,902
2007	448,447	$ 3,712,309,621	5,386	$ 16,122,503
2008	582,729	$ 4,633,018,535	5,928	$ 7,750,830
2009	283,528	$ 2,126,463,629	2,897	$ 5,350,452
TOTAL	**2,479,081**	**$ 21,792,505,522**	**43,093**	**$ 121,827,947**

DMBE Small Business Certification Data. JLARC staff also received a dataset from DMBE identifying all State-certified small businesses as of February 2, 2009. This dataset included businesses both registered and unregistered in eVA. JLARC staff used this dataset primarily to identify the certified small businesses for survey purposes, which is described in more detail later in this appendix.

VEC Employment Data. In order to analyze the eVA purchase order data by size of business, JLARC staff requested employment data

from the VEC. These datasets include information on the number of employees reported by businesses on a quarterly basis. JLARC staff received employment data for the second quarter of each year from 2003 through 2008. These datasets also had many observations with missing or improperly formatted federal tax ID numbers, which were deleted from the VEC datasets prior to merging with the eVA purchase order datasets. Once merged with the eVA and DMBE datasets, the VEC data allowed JLARC staff to determine the percentage of businesses in Virginia (that report employment data to the VEC) that sold to the State or were DMBE-certified. In addition, JLARC staff used the VEC data to classify businesses as small or large based on the number of employee criterion in the State's small business definition. Further, JLARC staff categorized all businesses in the Commonwealth by various size ranges using the number of employees reported in the VEC data. JLARC staff performed these analyses for each fiscal year of data received. However, as noted above, all observations in the eVA datasets with an unidentified federal tax ID number were included in the "unknown" size category. Moreover, many businesses in the eVA purchase order data did not have a corresponding number of employees in the VEC data. As a result, the size of these businesses was also coded as "unknown" for analysis purposes.

eVA Billing Data. DPS also provided data identifying fees invoiced to businesses and State agencies from July 1, 2006 to December 31, 2008. This data was used to help determine the financial impact of the registration and transaction fees on businesses. Because tax identification numbers are not stored in the eVA billing data, this data could not be merged with purchase order data, DMBE data, or VEC data. It should be noted that a number of purchase transactions made by State agencies are excluded from the billing data because the agency and/or business is exempted from paying a fee. DPS staff provided a list of specific billing rules and exceptions.

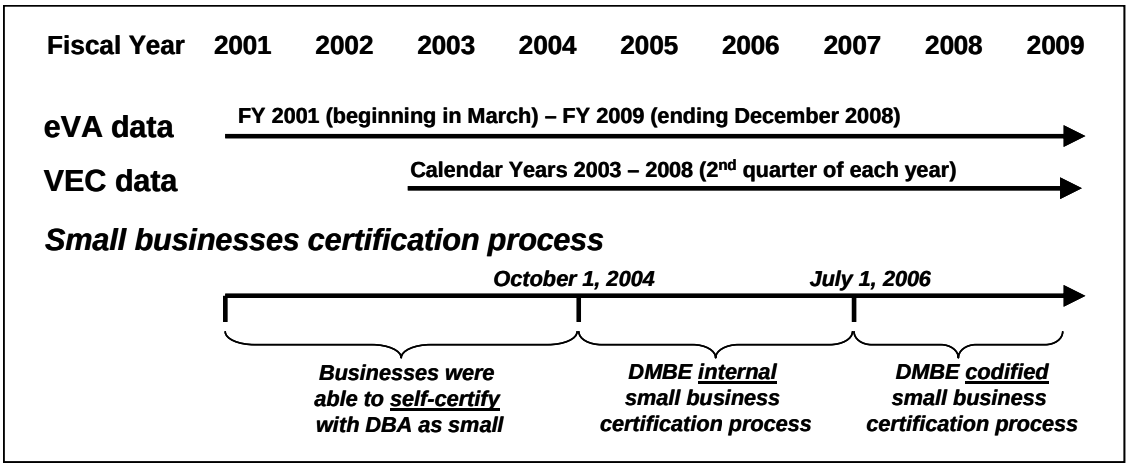
eVA Revenue and Expenditure Data. An extensive financial audit of eVA's operating costs and revenue was not conducted as part of this review. Nonetheless, in order to broadly assess the impact of the registration and transaction fees on businesses, JLARC staff requested data about eVA's fee revenue and operating costs by category of expense. Appendix L illustrates the data provided by DPS by fiscal year from 2007 to December of 2009 (some of the categories provided were combined for this table). This data was used in Chapter 5 to discuss the growing gap between revenue and expense, and the growing available cash balance. It was also used to assess the potential impact of eliminating or reducing business transaction and registration fees.

Analyzing Purchase Order and Billing Data

JLARC staff merged DPS and VEC datasets to analyze total State purchase orders by size of business. Staff analyzed data for the period of March 5, 2001 to December 31, 2008. This data was also analyzed based on purchase orders awarded by State entities to small businesses. In addition, JLARC staff examined data by geographic regions in the State. Staff analyzed DPS billing data to determine the impact of eVA fees on businesses. Finally, purchase order data was also used to estimate the impact of the transaction fee on businesses by number of employees.

Years of Available Data. Figure B-1 illustrates the years of available data from DPS, VEC, and DMBE. As mentioned above, DPS provided JLARC staff with eVA purchase order data for fiscal years 2001 (beginning in March) through the first half of fiscal year 2009 (ending in December 2008). VEC provided employment data since fiscal year 2003 as reported for the second quarter ending June 30 for each year.

Figure B-1: Years of Available Data from DPS, VEC, and DMBE



Sources: DPS, VEC, and DMBE.

The small business certification process has varied since eVA's inception. Beginning July 1, 2006, the *Code of Virginia* required DMBE to certify small businesses throughout the Commonwealth based on the State's small business definition. Prior to this date, businesses may have been certified as a small business by DMBE, but this was done so under a different certification process. As mentioned above, JLARC staff received a dataset from DMBE containing a list of all State-certified small businesses as of February 2009. This list was used in determining the certification status of businesses for the JLARC survey effort. Although JLARC staff was

not able to obtain historical DMBE certification data, DPS provided JLARC staff with data identifying certified small businesses for each fiscal year since the implementation of eVA in March 2001.

Calculating the Total Number and Dollar Amount of State Purchase Orders By Size of Business. For each year of data received, JLARC staff calculated the total number and dollar amount of State purchase orders awarded by size of business. Each observation within each fiscal year of the eVA purchase order data represents a State purchase order award. Likewise, each purchase order has a corresponding total cost or purchase order amount. Accordingly, JLARC staff used statistical analysis software (SAS) to merge data for the same business across datasets. By matching federal tax ID numbers, JLARC staff were able to merge employment level data maintained in the VEC dataset with purchase order data maintained in the eVA dataset.

JLARC staff then calculated the total dollar amount awarded by size of business. The size categories were determined based on (1) the distribution of the total number of employees in each business reported in the VEC employment data, and (2) the number of employees criterion in the State's small business definition. Staff used the following size categories for analysis purposes: zero to five employees, six to 50 employees, 51 to 250 employees, and more than 250 employees. Many businesses in the eVA purchase order data did not have a corresponding number of employees in the VEC data. As a result, the size of these businesses was coded as "unknown."

Of those identified as a small business, the proportion of small businesses that sold goods or services to the State was calculated. Also, the proportion of small businesses that sold to the State but are not DMBE-certified or eVA-registered was calculated. By determining the number of unique businesses for each category, JLARC staff could calculate the average number and dollar amount of purchase orders awarded to each business. Finally, changes since the implementation of eVA were examined, in terms of how the percentage of out-of-State small businesses selling goods and services to the State has changed since the implementation of eVA.

In addition to aggregating the purchase order awards by size of business, JLARC staff also examined the similarities and differences between DMBE-certified small businesses and those that are not certified. This analysis was performed using small, women, and minority certification categorical variables in the eVA purchase order datasets.

Aggregating State Purchase Orders Awarded By State Entity to Small Businesses By Type of Good or Service. In addition to calculating the total number and dollar amount of State procurement purchases by size of business and certification status, JLARC staff also aggregated the total number and dollar amount of purchase orders issued by State entity to small businesses by type of good or service. Examining these totals for each year since eVA implementation allowed JLARC staff to evaluate:

- The extent to which State entities have increased their volume of purchase orders awarded to small businesses,
- Whether the State procures a larger quantity of certain goods or services from small businesses, and
- The extent to which there are regional differences in the total number and dollar amount of State procurement purchases made to small businesses.

To perform these analyses, JLARC staff used the State entity name and agency code variables in the eVA purchase order data, as well as the five-digit National Institute of Governmental Purchases (NIGP) commodity code and commodity description variables, which correspond to the specific good or service purchased.

State Purchase Orders Awarded to Small Businesses by DPS Service Area. A variable for DPS service areas was merged into the dataset, to analyze the purchase order data by geographic region. The areas that comprise these regions are listed in Table B-5.

Analyzing Billing Data to Assess Impact of eVA Fees on Businesses. JLARC staff used billing data to calculate the median and mean fee amounts invoiced to businesses each year. Staff also used billing data to determine the total registration and transaction fees invoiced to businesses by fiscal year. Billing data includes fees paid by businesses as a result of obtaining purchase orders from State entities and Virginia localities (such as local school boards, departments of social services, and regional jails). According to DPS staff, localities that use eVA do not have to pay the agency portion of the transaction fee, but businesses still pay their portion. Purchase orders awarded by State entities accounted for 97 percent of transaction fees in FY 2008 (including agencies, universities, community colleges, and correctional facilities). Fee data used throughout the report reflects fees paid by businesses for transactions to State entities and localities because this provides a more complete picture of the impact of eVA fees on small businesses.

Table B-5: Virginia Localities Included in DPS Service Areas

DPS Service Area	Group Name	Cities and Counties Included in DPS Service Area
97	Tidewater Area	Chesapeake, Franklin, Hampton, Newport News, Norfolk, Poquoson, Portsmouth, Suffolk, Virginia Beach, Williamsburg, Gloucester, Isle of Wight, James City, Mathews, Middlesex, Southampton, Surry, Sussex, York
98	Richmond Metro	Colonial Heights, Hopewell, Petersburg, City of Richmond, Charles City, Chesterfield, Dinwiddie, Goochland, Hanover, Henrico, King William, New Kent, Powhatan, Prince George
99	Northern Neck and Culpeper Area	Fredericksburg, Caroline, Culpeper, Essex, King and Queen, King George, Lancaster, Madison, Northumberland, Orange, Richmond County, Spotsylvania, Stafford, Westmoreland
100	Northern Virginia	Alexandria, Fairfax, Falls Church, Manassas, Manassas Park, Winchester, Arlington, Clarke, Fairfax, Fauquier, Frederick, Loudoun, Page, Prince William, Rappahannock, Shenandoah, Warren
101	Northern Valley to Louisa	Charlottesville, Harrisonburg, Staunton, Waynesboro, Albemarle, Augusta, Fluvanna, Green, Highland, Louisa, Nelson, Rockingham
102	Southside	Emporia, Amelia, Brunswick, Buckingham, Charlotte, Cumberland, Greensville, Halifax, Lunenburg, Mecklenburg, Nottoway, Prince Edward
103	Southern Valley to Pittsylvania	City of Bedford, Buena Vista, Clifton Forge, Covington, Danville, Lexington, Lynchburg, Alleghany, Amherst, Appomattox, Bath, Bedford County, Boteourt, Campbell, Pittsylvania, Rockbridge
104	Roanoke to Carroll	Galax, Martinsville, Radford, City of Roanoke, Salem, Carroll, Craig, Floyd, Franklin, Giles, Henry, Montgomery, Patrick, Pulaski, Roanoke
105	Far Southwest	Bristol, Norton, Bland, Buchanan, Dickenson, Grayson, Lee, Russell, Scott, Smyth, Tazewell, Washington, Wise, Wythe
106	Eastern Shore	Accomack, Northampton

Source: DPS and JLARC staff analysis of DPS service areas.

JLARC staff were able to determine how many businesses were invoiced a registration and transaction fee during FY 2007 and FY 2008. This analysis was used to estimate how many registered businesses paid a transaction fee in a given year. DPS staff indicated that registered businesses are invoiced a renewal registration fee which is then adjusted if the business notifies DPS that they do not wish to renew their registration. Therefore, all manual adjustment amounts were subtracted from renewal fees when determining whether a business was invoiced a registration fee. A similar process was used to determine the portion of business with original or renewal registrations in FY 2007 that renewed their registrations in FY 2008.

In addition, the eVA billing data was used to determine the portion of sales each business was invoiced as fees in FY 2008. DPS maintains a list of billing rules describing the circumstances under which a business is assessed a fee. For these transactions, JLARC staff totaled the transaction fees by business. From this analysis, JLARC staff found 21,191 businesses for which their total transaction fee amount was not missing (the amount would have been missing if the business was not invoiced a transaction fee). Staff then divided a business' total transaction fee amount by their total

purchase order amount to determine the portion of total sales each business was invoiced in fees. The fee portion could not be calculated for 1,608 businesses because:

- the total fee amount was positive and the total purchase order amount was negative;
- the total fee amount was negative;
- the fee and purchase order amounts were zero,
- the fee amount was zero and the purchase order amount was negative, or
- the purchase order amounts were missing.

Some of these results were likely due to a purchase order being originally invoiced in one fiscal year and then adjusted the following year.

JLARC staff also used billing data to calculate the portion of sales invoiced as fees to DMBE-certified small businesses compared to other businesses. Because DMBE-certification status is determined at the time of the transaction and may change over the course of a fiscal year, the certification status of a business could not be determined. The analysis was conducted based on certification status at the time the transaction was made. Therefore, businesses may have received an award as an uncertified business and as a certified business during the same year. Finally, billing data was used to determine the fee revenue collected from the University of Virginia and Virginia Tech as a percentage of total fee revenue from agencies. This analysis illustrates the potential impact on eVA revenue if these two universities were to no longer process their purchases through eVA.

Using Purchase Order Data to Assess Impact of Transaction Fees on Businesses by Size. Because VEC data could not be merged with billing data, purchase order data had to be used to estimate the impact of transaction fees on businesses based on their number of employees. This analysis was conducted for purchase orders issued since August 16, 2007, when the current fee schedule was first implemented.

To conduct this analysis, the number and value of purchase orders were totaled for certain purchase order ranges based on the dollar thresholds for the fee caps discussed in Chapter 5. These thresholds were $50,000 or less, $50,000 to $150,000, and more than $150,000. The estimated fees were then calculated based on a business' registration and certification status. For DMBE-certified, eVA registered small businesses, JLARC staff multiplied the total value of purchase orders of $50,000 or less by one percent, and

multiplied the total number of purchase orders over $50,000 by $500 (the per order cap). For all other businesses, staff multiplied the total value of purchases of $150,000 or less by one percent, and the number of purchase orders over $150,000 by $1,500 (the per order cap).

Based on merged VEC employment data and purchase order data, it was possible to estimate the total fee amount paid by size of business for the following ranges of employees: five and fewer, six to 50, 51 to 250 and greater than 250. Because of the data limitations described earlier, there was also a category of businesses with missing size data. Additionally, this analysis could not be completed for the first half of FY 2009 because of a lack of VEC employment data for that year.

Average purchase order amounts based on purchase order data were used for two other calculations in Chapter 5. First, the average purchase order amount for all businesses for FY 2008, $8,015, was used to estimate the potential impact of each 0.01 percent difference in fees that the smallest businesses were estimated to pay ($0.80 per 0.01 percent). For instance, in FY 2008, businesses with five or fewer employees were estimated to pay 0.49 percent in fees, compared to 0.36 percent for businesses with more than 250 employees. The 0.13 percent difference could be thought of as $10.40 per purchase order. Likewise, the average and median purchase order amounts for small businesses were used to estimate the per purchase order fee that small businesses were estimated to pay in FY 2008. Based on an average purchase order amount of $7,530 and a median purchase order amount of $263.70, small businesses were estimated to pay an average fee of $75 and a median fee of $6.64 per purchase order (one percent of the total).

SURVEY OF VIRGINIA BUSINESSES

As directed by HJR 119, JLARC staff were responsible for assessing the impact of eVA on small businesses in the Commonwealth. The primary method for evaluating the impact of eVA on small businesses was through an online survey. The survey targeted five key groups of businesses based on their number of employees, DMBE-certification status, and eVA registration status.

A sample of businesses within each group was asked to provide feedback on their eVA experience (or lack thereof). The survey gathered information in the following areas:

- eVA-registered, certified small businesses: Impact of eVA (including its fees and mandatory nature) on the procurement opportunities of certified small businesses which qual-

ify for State set-asides, as well as reasons for certifying and registering;

- eVA-registered, small businesses that are not certified: Impact of eVA on small businesses that are excluded from small business set-asides, potential barriers to certification, and other reasons for not certifying;
- eVA-registered, large businesses: Impact of eVA on large businesses compared to small businesses;
- Non-eVA-registered, certified small businesses: Barriers preventing interested small businesses from registering with eVA and other reasons for not registering;
- Non-eVA-registered small businesses that are not certified: Barriers preventing interested small businesses from registering with eVA and becoming certified and other reasons for not registering or certifying.

Survey Content

The survey included questions for both eVA-registered and non-eVA-registered businesses. eVA-registered businesses were asked to assess their experiences using eVA, including potential benefits of the system and areas for improvement. Non-registered or non-certified businesses were asked to provide reasons for not registering or certifying, including any barriers to doing so.

Due to significant overlap in the content of the questions for the five targeted survey groups, JLARC staff created a single survey with various skip patterns that directed each group of businesses to answer the appropriate questions. The majority of questions were designed to offer respondents scalar choices, or choices about their level of agreement or disagreement with certain statements. An open-ended question for general comments was included at the end of the survey.

The survey subject areas for registered businesses (certified and non-certified small and large businesses) included:

- general descriptive information,
- usefulness and effectiveness of eVA,
- impact of fees and mandatory use,
- State-provided training, potential barriers (including technology), DMBE certification (if applicable), and
- potential improvements to eVA or the certification process.

The survey also included questions to identify whether there are some barriers that impact small businesses' access to State procurement opportunities to a greater extent than large businesses.

The survey content for non-eVA-registered businesses (certified and non-certified small businesses) focused on obtaining the reasons that these businesses are not registered with eVA and, when applicable, are not certified as a small business. In addition, because HJR 119 expressed concerns about the impact of the transaction fee and mandatory use of eVA on small businesses, JLARC staff surveyed this group to determine the extent to which the fees and required use discouraged them from registering, and whether other potential obstacles to registration exist.

Survey Administration

JLARC staff administered the online survey to a subset of each of the five business groups described above. JLARC staff notified four of the five groups about the survey using email addresses obtained from DPS and DMBE. Email addresses were not available for small businesses that were neither registered nor certified. For this group, JLARC staff mailed letters to the businesses with instructions for accessing the online survey. The mailing addresses for those businesses were obtained from the Virginia Employment Commission (VEC).

A link to the online survey was emailed or mailed to the headquarters of each selected businesses, and the survey was conducted in three waves—the first wave was administered between March 16 and 20, 2009, the second wave was administered between March 23 and 27, and the third wave was administered April 16 through 23. The mail survey was sent at the time of the first wave of online surveys.

Use of an online survey excluded small businesses that have little or no access to the internet or a computer, which was an important consideration because this group of businesses also have limited or no access to State procurement opportunities through eVA. Although these businesses were not able to participate directly in the online survey, JLARC staff reviewed information from the Office of Telework Promotion and Broadband Assistance to identify areas of the State where internet access may be a barrier for businesses.

Survey Contacts and Responses Received

A subset of businesses were contacted by e-mail or mail and were asked to complete the survey. The number of businesses contacted in each of the five key groups of businesses (and within regions of the State) was determined with the objective of receiving a sub-

stantial number of responses from each group. The particular businesses to be contacted within each group were randomly selected. However, given the large number of businesses in some of the key groups, as well as the limited survey response rates, survey statistics are reported as statistics for the subset of responding businesses, and not as estimates for the population of businesses.

Table B-6 indicates the number of businesses contacted, the number of delivered surveys, and response rates for the five business groups that were surveyed. Overall, JLARC staff sent surveys to 6,643 businesses and received 781 responses from Virginia businesses, 14 responses from out-of-state businesses (which were excluded from the analysis), and 724 surveys (including mail and email) that were returned as undeliverable. This represents a 13.1 percent overall response rate.

Table B-6: Survey Sample Sizes and Estimated Response Rates By Group

	Surveys				Responses			
Survey Group	**Population Size**	**Sample Size**	**Non-Delivered Surveys**	**Total Delivered Surveys**	**Low Range**	**High Range**	**Low Response Rate**	**High Response Rate**
eVA registered, certified small	8,380	1,336	100	1,236	331	466	26.8%	37.7%
eVA registered small, non-certified	13,751	1,370	206	1,164	72	164	6.2%	14.1%
eVA registered large	268	171	27	144	19	26	13.1%	17.9%
Non-registered, certified small	3,750	3,166	358	2,808	139	207	5.0%	7.4%
Non-registered, non-certified, small	120,957	600	23	577	55	81	9.5%	14.0%
TOTAL	**147,106[a]**	**6,643**	**731[b]**	**5,966[c]**				

[a] Excludes 727 large unregistered businesses that were not targeted for this survey.
[b] Includes three additional undeliverable online surveys for which the surveyed group could not be determined and 14 out-of-state responses which were not included in the analysis.
[c] Includes 54 pre-test surveys that were not administered by survey group.

Source: JLARC business survey.

The exact response rate for businesses in each surveyed group could not be calculated due to the large number of respondents that reported not knowing their eVA-registration or DMBE-certification status. The table also includes response rate ranges estimated by JLARC staff. It was considered important to understand the perspective of businesses that were certified with the State as small businesses, yet were not registered with eVA. Because this group was of particular interest, but had a low response rate to the e-mail survey (estimated at 5.0 to 7.4 percent), an additional survey was conducted by phone for a subset of this group.

Table B-7 shows the number of survey respondents by region of the State and by employee size range. JLARC staff used DPS established service areas to sample small eVA-registered businesses by region. JLARC staff combined ten DPS service areas into six broader regions. Service areas 103, 104, and 105 constituted the Western Virginia region. The "other" category included service areas 99, 101, and 102. Sampling by service area ensured representation from businesses throughout the Commonwealth.

JLARC staff also sampled small eVA-registered businesses by size to ensure adequate representation of businesses with 250 or fewer employees, as well as to survey some large businesses for their perspective. VEC employment data for each business was merged with DPS and DMBE data to categorize each business by size. Three primary employee size ranges were used to survey the small businesses: 0 to 5 employees, 6 to 50 employees, and 51 to 250 employees.

Table B-7: Survey Responses by Region and Business Size

Region	Responses	Business Size	Responses
Northern Virginia	161	0 to 5	339
Richmond	149	6 to 50	276
Tidewater	139	51 to 250	132
Western Virginia	122	More than 250	28
Eastern Shore	19	Unknown	6
Other [a]	118		
Not Provided (Virginia)	73		
Total	**781**	**Total**	**781**

Note: 14 out-of-State responses were excluded from the analysis.
[a] Other included Northern Neck, Northern Valley to Louisa, and Southside Virginia regions.

Source: JLARC staff analysis.

PHONE SURVEY OF NON-eVA-REGISTERED, DMBE-CERTIFIED SMALL BUSINESSES

Relative to the study mandate, it appeared to be important to understand the situation of businesses that have been certified with the State as small businesses, yet have not registered with eVA. However, the response rate to the online survey from this group of businesses was low. Therefore, JLARC staff conducted a supplemental survey, by phone, to obtain more information about the perspective of such businesses. JLARC staff set a goal of collecting at least 40 responses from this group. Contacts to 188 businesses yielded 45 responses from businesses that identified themselves as DMBE-certified but not eVA-registered. These surveys were used to solicit feedback regarding why businesses would seek State certification but choose not to register with eVA in order to conduct business with the State.

SURVEY OF STATE AGENCIES, COLLEGES, AND UNIVERSITIES ABOUT EVA AND CERTIFIED SMALL BUSINESSES

Between March 23, and April 3, 2009, JLARC staff conducted an online survey of 164 State agencies, colleges, and universities to obtain their perspectives regarding how eVA was affecting their ability to work with DMBE-certified small businesses. Ninety-five responses were received. Table B-8 identifies the number of survey responses by type of State entity. Each agency head or designee was contacted by mail and asked to select the most appropriate person to provide the agency's survey response. Individual DOC and DMHMRSAS facilities were given the opportunity to participate in the survey.

Because State entity procurement personnel should be thoroughly involved with eVA and the set-asides for certified small businesses, they are well-positioned to report differences between DMBE-certified small businesses and other businesses on factors including price, quality, and associated administrative work. In addition, businesses may often share eVA-related concerns with State buyers.

Table B-8: Number of Responses to the JLARC Staff Survey of State Agencies and Institutions of Higher Education, 2009

State Entity	Number of Surveys	Number of Responses
State executive branch agencies	68	46
DOC correctional facilities	40	28
DMHMRSAS facilities	17	10
Universities	16	11
Community Colleges	23	0
Total	**164**	**95**

Source: JLARC staff survey, March 2009.

STRUCTURED INTERVIEWS

JLARC staff conducted interviews with staff at State entities and businesses regarding eVA, procurement, and small business certification. For example, JLARC staff conducted several interviews with DPS staff regarding eVA's operations, billing procedures, revenues and costs, outreach and training, how small businesses interact with eVA, potential challenges such businesses face, and ways to improve small businesses' use of the system, among other areas. JLARC staff also conducted interviews with staff at the following entities to better understand their perspectives and roles regarding eVA and interacting with small businesses:

- Auditor of Public Accounts,

- Department of Business Assistance,
- College of William and Mary,
- Department of Environmental Quality,
- James Madison University,
- Department of Minority Business,
- Department of Taxation,
- Department of Transportation,
- University of Virginia,
- Virginia Employment Commission, and
- Virginia Tech.

JLARC staff also conducted interviews with small businesses regarding specific eVA issues. Staff also interviewed the chairman of the Virginia Chamber of Commerce's small business committee about eVA's impact.

JLARC staff contacted certain other states' electronic procurement systems in order to determine whether small businesses face certain challenges when using e-procurement systems, regardless of the type of system being used. Because the functionality of procurement systems can be vastly different, JLARC staff interviewed procurement staff in states that DPS indicated operate systems with somewhat similar functionality to eVA. These states included: Florida, Georgia, Maryland, North Carolina, and Washington. (JLARC staff also contacted procurement staff in West Virginia and were told that the state does not operate an e-procurement system.) Interview questions generally addressed procurement practices, how the states' fund their systems and what fees, if any, are collected; whether use is mandated when selling to the state; and what goals, if any, have been established to promote small business opportunities to obtain state procurement awards.

ATTENDANCE AT CONFERENCES AND MEETING

JLARC staff attended various conferences and meetings across Virginia related to eVA. Staff attended the 2008 Procurement Forum hosted by DPS. This two day conference focused on government buyers and included sessions such as an eVA roundtable discussion and using the eVA data warehouse. As part of the forum, JLARC staff attended a vendor expo and spoke with some small businesses about their experiences with eVA.

JLARC staff also attended eVA training sessions hosted by DBA in Martinsville and Williamsburg. These training sessions focused on

informing businesses about the eVA registration and DMBE-certification processes, and the benefits of both. The sessions also provided opportunities for JLARC staff to speak with small business owners and representatives about their eVA experiences.

DOCUMENT AND LITERATURE REVIEW

JLARC staff conducted literature reviews to supplement findings regarding electronic procurement systems in general, and eVA in particular. Such documents included previous legislative studies of State procurement activities and eVA. Executive Orders, chief of staff memorandums, and other documents addressing procurement policy and eVA operations were reviewed in addition to reports prepared by gubernatorial commissions concerning electronic procurement systems and State procurement patterns from women-owned and minority-owned businesses. In addition, a variety of State statutes and polices were reviewed, such as the Virginia Public Procurement Act, and DPS' Agency Procurement and Surplus Property Manual and vendor's manual for conducting business with the State.

Appendix C Non-Compliant Purchase Orders Since FY 2005

On the first of each month, data from the eVA warehouse is reported identifying the amount of purchase orders and dollars issued by each agency for the previous month. In addition, each agency is required to supplement this information by providing the amount of non-compliant purchase orders and dollars issued. Non-compliant orders are those orders that are not processed through eVA and not transmitted to eVA via the eVA import interface. Agencies may also issue non-compliant purchase orders that are not reported to eVA. Because these orders are not reported, DPS could not provide an associated number of purchase orders or dollar value.

The following table reports the total number and dollar value of non-compliant purchase orders issued since FY 2005. The figures have not been adjusted for purchase order changes and cancellations that were processed in a month other than the month in which the original order was created. They also do not include technology orders processed through VITA and recorded in eVA as "zero-dollar purchase orders," or orders exempt from processing through eVA.

Table C-1: Total Number of Non-Compliant Purchase Orders and Dollar Amounts Since FY 2005

Fiscal Year	Purchase Orders	Total Award Amount ($ in millions)
2005	70,769	$34.4
2006	272,505	160.9
2007	323,350	84.7
2008	124,562	44.4
2009[a]	49,678	16.7
Total	**840,864**	**$341.2**

[a] July 1, 2008 through December 31, 2008 data.

Source: DPS.

Appendix D

Timeline of Major eVA Events

Year	Month	Description
1998	September	Governor Gilmore created a Task Force to identify best procurement practices in the private sector and long-range procurement goals for the State. Task Force was extended in March 1999.
	November	DGS initiated Commonwealth's eVA Project with a team of representatives from agencies, higher education, and local government
1999	August	DGS implements an electronic mall (e-Mall) to facilitate the ordering of goods and services by agencies and institutions. The goal of the e-Mall is to "leverage the Commonwealth's buying power."
2000	February	Task Force recommended creating a centralized procurement system to improve competition, targeting July 2002 for full implementation of the central website.
	May	Governor Gilmore issued Executive Order 65 mandating DGS to implement electronic procurement system by March 2001.
	June	DGS issued RFP with specific requirements for eVA.
	July	Acts of Assembly (1073) allowed DOA to provide DGS a $3 million treasury loan to develop and implement eVA, which would be repaid by fees paid by agencies and institutions of higher education. Also directed DGS to explore other financing strategies.
	October	DGS awarded a contract to private firm, American Management System (AMS), to develop and operate eVA. AMS (whose name was later changed to CGI) agreed to self-funded model.
2001	March	eVA was launched with limited functionality
	July	eVA regulations promulgated (Chapter 14 of *Agency Procurement and Surplus Property Manual*)
2002	July	Acts of Assembly (899) increased the treasury loan to $8 million. Also authorized DGS to collect $7.1 million in fees from agencies and institutions during FY 2003. Vendor fees were suspended.
2004	July	Procurement policy requires State agencies to process all purchase orders through eVA to eVA-registered businesses.
2006	May	Vendor registration fees changed from $200 for premium and $25 for basic registration to $25 for either.
	July	DGS renewed its contract with CGI. Under the new contract CGI continues to support upgrades or infrastructure changes and maintains the data warehouse.
	August	Transaction fees increased from one to two percent, with registered vendors and agencies each paying one percent.
2008	July	Treasury loan of $6.6 million retired.
		DPS determined rebates were needed to be provided to State agencies. Rebates were provided in the form of credits for purchases made through eVA in FY 2009.
2009		DPS negotiating five-year contract extension with CGI. New contract would be in effect through 2016.

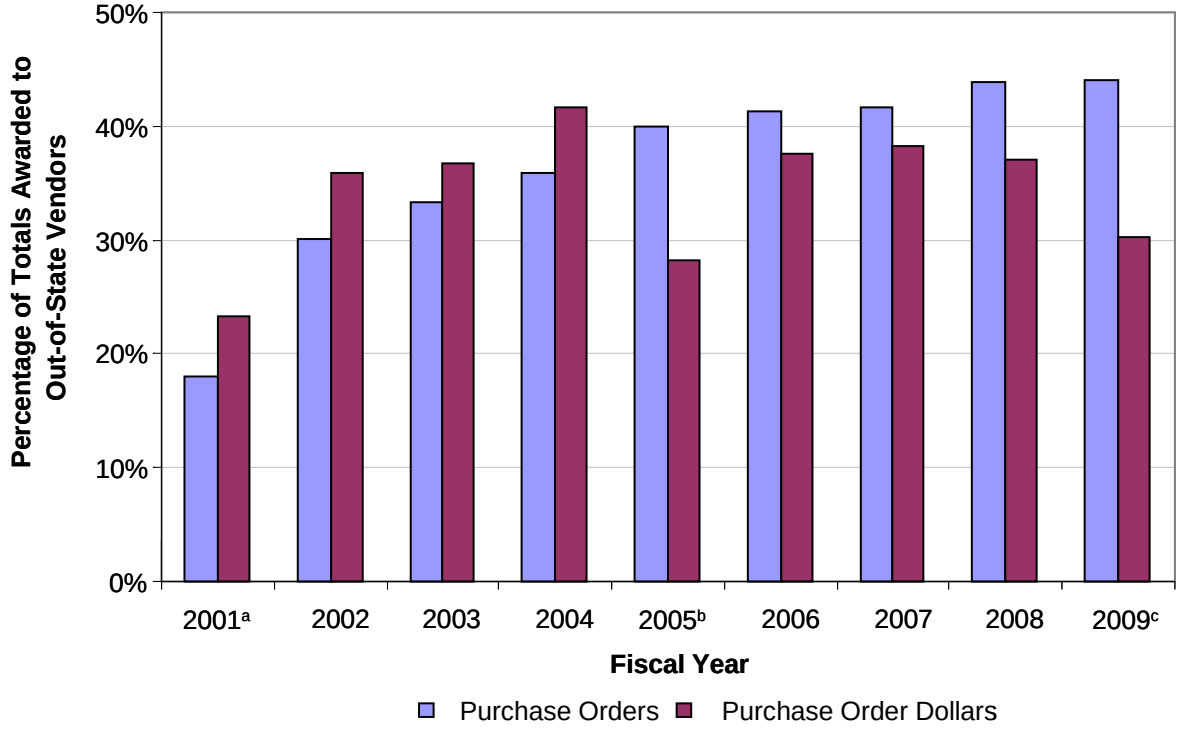
Source: DGS staff, Auditor of Public Accounts reports, and DPS' *Agency Procurement and Surplus Property Manual*.

Appendix E

Procurement from Out-of-State Businesses Since FY 2001

TOTAL

	2001[a]	2002	2003	2004	2005[b]	2006	2007	2008	2009[c]
Number	128	26,880	147,479	233,609	366,205	390,076	448,447	582,729	283,528
Value($ in Millions)	$0.3	$141	$1,124	$2,442	$3,621	$3,993	$3,712	$4,633	$2,126



[a] March 5, 2001 through June 30, 2001 data.
[b] Use of eVA required beginning July 16, 2004.
[c] July 1, 2008 through December 31, 2008 data.

Source: JLARC staff analysis of data provided by DPS.

Appendix F

Mandatory Sources

All agencies and institutions are required to use mandatory sources of supply, as outlined in Chapter 2 of the Agency Procurement and Surplus Property Manual (APSPM), when available.

1. Term contract. DPS and other agencies and institutions within their delegated authority may establish mandatory use term contracts for goods or services to obtain favorable prices and reduce administrative cost. Agencies and institutions shall place all orders through eVA on mandatory use contracts, optional use contracts, and pricing agreements to the fullest extent possible, unless an exemption is granted. The Commonwealth of Virginia has negotiated term contracts for goods such as school buses, air conditioners, and ammunition.

2. Virginia Correctional Enterprises (VCE). Goods and services produced or manufactured by state correctional facilities shall be purchased by all departments, institutions, and agencies of the Commonwealth. The following goods and services are available through VCE:

- VCE Digital Works (Corprint)
- Wood and metal case goods
- Seating
- Office systems
- Shoes
- Clothing and textiles
- Embroidery
- Silk screening
- Vinyl binders, pad holders and sign products
- Microfilming and data storage
- Optical
- License Tags
- Dentures
- Laundry services
- Pallets manufacture and repair

- Warehousing
- Plastic bags
- Janitorial products

3. Department for the Blind and Vision Impaired (DBVI). All such services, articles, and commodities are required for purchase from the DBVI at a fair market price without competitive procurement. Virginia Industries for the Blind (VIB), an enterprise of DBVI, provides employment opportunities for individuals who are blind or visually impaired. VIB provides the following goods and services:

- Contract office services
- Mailing services
- Pillows
- Mattresses
- Writing instruments
- Mop heads and handles
- Spices, tea
- Gloves, exam non-sterile medical grade

4. Virginia Distribution Center (VDC). The VDC purchases, stores, and distributes staple goods, canned foods, frozen foods, janitorial supplies, paper products, and other selected items for state agencies and institutions and political sub-divisions. An agency may not use its local purchasing authority to purchase an item from another source that is available from the VDC without a written waiver from the VDC Director or designee.

5. DGS/DPS Office of Graphic Communication (OGC). OGC is a full service creative group that offers: concepts and marketing strategies, creative writing and design, desktop publishing, photography direction, illustration, project management, and printing management. Typical projects produced consist of promotional, informational and public educational campaigns, college recruitment packages, press kits, logos and identity systems, annual reports, economic development and travel publications, magazines, calendars and posters, and museum catalogs and brochures. All agencies planning to procure graphic design services desktop publishing, or preparation of camera ready artwork in excess of $750 must first contact OGC to determine if their requirements can be provided by that office and, if not, receive authority to procure from another source.

6. Virginia Information Technology Agency (VITA). Telecommunications services must be procured through VITA.

7. DGS/Office of Fleet Management. For the purchase or lease of motor vehicles, agencies must submit an application to the DGS Office of Fleet Management for approval to initiate the purchase process for all vehicles.

Appendix G Number of Small Businesses Based on Gross Receipts

Section 2.2-1401 of the *Code of Virginia* states that businesses small business certification may be obtained if a business has "average annual gross receipts of $10 million or less averaged over the previous three years." Businesses list their gross receipt information as part of their certification application to the Department of Minority Business Enterprise. According to Department of Taxation (Tax) staff, businesses provide gross receipts information on their federal tax returns, but not their Virginia tax returns. Analysis of federal gross receipts data conducted by Tax staff identified more than 936,373 businesses in 2007 that had reported gross receipts data for at least some of the years 2005, 2006, and 2007. (This figure excludes farm operations.) Of these 936,373 businesses, 936,281 (99.9 percent) had average annual gross receipts from 2005 to 2007 of less than $10 million. These figures are much greater than the approximately 169,000 total businesses reported by the Virginia Employment Commission (VEC) for 2007, and the almost 168,000 small businesses reported for that same year.

Limitations in the available data raised concerns about the accuracy of the outcomes produced when analyzing average gross receipts. Tax staff stated that some of the differences between the number of small businesses identified using gross receipts and number of employees data may be the result of who is filing tax returns versus reporting their number of employees to VEC and the available tax return data. For example, the difference may be due to the significant number of businesses with zero employees that submit tax returns but are not required to report employment data to VEC. In addition, some information in the federal tax filings the analysis used to identify Virginia businesses may not accurately reflect whether a business was operating in Virginia. For instance, the analysis included filings by Virginia residents for businesses identified as sole proprietorship. However, such filings may have been for businesses operating in other states and, thus, should have been excluded from the analysis.

Appendix H

Total Purchase Orders and Award Amounts Issued by Ten State Entities, FY 2005-08

Table H-1: Total Purchase Orders and Award Amounts Issued by Ten State Entities, FY 2005

State Agency	Total Purchase Order Amount Awarded to Small Businesses ($ in millions)	Total Purchase Order Amount Awarded ($ in millions)	% of Total Dollar Awarded to Small Businesses
Department of Transportation	$752.5	$1,154.0	65.2%
Department of State Police	349.8	357.5	97.8%
Virginia Employment Commission	235.3	239.6	98.2%
University of Virginia	84.5	116.5	72.5%
Department of Corrections	80.7	178.3	45.3%
Virginia Commonwealth University	79.8	120.3	66.3%
James Madison University	51.5	77.1	66.7%
Virginia Tech	47.1	81.9	57.5%
Department of General Services	42.5	101.1	42.1%
Virginia Information Technology Agency	39.7	70.7	56.1%
Total for Ten State Agencies Listed	**$1,763.4**	**$2,497.4**	**70.6%**
Total Amount Awarded	**$2,283.6**	**$3,620.6**	**63.1%**
	Total Number of Purchase Orders Awarded to Small Businesses	**Total Number of Purchase Orders Awarded**	**% of Total Number Awarded to Small Businesses**
Department of Transportation	39,912	69,005	57.8%
Corrections	24,281	48,485	50.1%
Virginia Commonwealth University	16,853	29,691	56.8%
Mental Health, Mental Retardation, and Substance Abuse Services	12,751	27,290	46.7%
James Madison University	11,462	16,784	68.3%
Department of Health	10,685	20,003	53.4%
The College of William and Mary	8,894	16,089	55.3%
Virginia Tech	7,602	12,669	60.0%
George Mason University	5,678	8,750	64.9%
General Services	5,107	8,195	62.3%
Total for Ten State Agencies Listed	**143,225**	**256,951**	**55.7%**
Total Number Awarded	**215,873**	**395,883**	**54.5%**

Source: JLARC staff analysis of DPS purchase order data and VEC employment data.

Table H-2: Total Purchase Orders and Award Amounts Issued by Ten State Entities, FY 2006

	Total Purchase Order Amount Awarded to Small Businesses ($ in millions)	Total Purchase Order Amount Awarded ($ in millions)	% of Total Dollar Awarded to Small Businesses
Department of Transportation	$796.7	$1,207.0	66.0%
Virginia Commonwealth University	195.3	233.9	83.5%
University of Virginia - Academic	153.1	226.9	67.5%
Virginia Tech	111.2	152.0	73.2%
General Services	108.4	163.8	66.2%
Corrections	92.2	204.2	45.2%
The College of William and Mary	91.4	153.9	59.4%
Norfolk State University	89.8	96.8	92.8%
Virginia Museum of Fine Arts	88.3	95.2	92.7%
Virginia Employment Commission	70.6	74.9	94.3%
Total for Ten State Agencies Listed	**$1,797.1**	**$2,609.3**	**68.9%**
Total Amount Awarded	**$2,502.1**	**$3,992.5**	**62.7%**
	Total Number of Purchase Orders Awarded to Small Businesses	**Total Number of Purchase Orders Awarded**	**% of Total Number Awarded to Small Businesses**
Department of Transportation	29,941	50,099	59.8%
Corrections	24,318	47,433	51.3%
Virginia Commonwealth University	20,500	35,944	57.0%
James Madison University	18,622	28,728	64.8%
Mental Health, Mental Retardation, and Substance Abuse Services	13,905	28,089	49.5%
Department of Health	12,574	21,990	57.2%
George Mason University	12,097	18,721	64.6%
The College of William and Mary	11,643	21,434	54.3%
General Services	5,542	8,804	62.9%
Juvenile Justice	5,224	9,363	55.8%
Total for Ten State Agencies Listed	**154,366**	**270,605**	**57.0%**
Total Number Awarded	**236,678**	**420,550**	**56.3%**

Source: JLARC staff analysis of DPS purchase order data and VEC employment data.

Table H-3: Total Purchase Orders and Award Amounts Issued by Ten State Entities, FY 2007

	Total Purchase Order Amount Awarded to Small Businesses ($ in millions)	Total Purchase Order Amount Awarded ($ in millions)	% of Total Dollar Awarded to Small Businesses
Department of Transportation	$768.0	$1,187.0	64.7%
University of Virginia - Academic	188.4	313.9	60.0%
Virginia Commonwealth University	156.2	280.6	55.7%
Mental Health, Mental Retardation, and Substance Abuse Services	123.8	160.8	77.0%
Corrections	91.9	224.2	41.0%
James Madison University	83.3	116.3	71.6%
Old Dominion University	75.6	105.7	71.5%
Virginia Tech	69.9	118.8	58.9%
Virginia Military Institute	59.7	66.9	89.2%
General Services	56.1	99.9	56.1%
Total for Ten State Agencies Listed	**$1,673.0**	**$2,673.5**	**62.6%**
Total Amount Awarded	**$2,193.2**	**$3,712.3**	**59.1%**
	Total Number of Purchase Orders Awarded to Small Businesses	**Total Number of Purchase Orders Awarded**	**% of Total Number Awarded to Small Businesses**
University of Virginia - Academic	48,420	70,227	68.9%
Corrections	25,198	48,204	52.3%
Virginia Commonwealth University	20,119	41,145	48.9%
Department of Transportation	20,104	32,607	61.7%
James Madison University	14,847	25,257	58.8%
Mental Health, Mental Retardation, and Substance Abuse Services	13,267	26,329	50.4%
George Mason University	12,377	20,756	59.6%
Department of Health	11,825	19,432	60.9%
The College of William and Mary	11,758	21,968	53.5%
Virginia Tech	6,733	11,457	58.8%
Total for Ten State Agencies Listed	**184,648**	**317,382**	**58.2%**
Total Number Awarded	**281,433**	**484,121**	**58.1%**

Source: JLARC staff analysis of DPS purchase order data and VEC employment data.

Table H-4: Total Purchase Orders and Award Amounts Issued by Ten State Entities, FY 2008

	Total Purchase Order Amount Awarded to Small Businesses ($ in millions)	Total Purchase Order Amount Awarded ($ in millions)	% of Total Dollar Awarded to Small Businesses
Department of Transportation	$798.3	$1,590.1	50.2%
University of Virginia - Academic	282.1	395.6	71.3%
George Mason University	210.1	409.5	51.3%
James Madison University	152.7	178.4	85.6%
Virginia Community College System - System Office	132.3	153.5	86.2%
Virginia Commonwealth University	123.4	226.7	54.5%
Virginia Tech	102.3	158.9	64.4%
Mental Health, Mental Retardation, and Substance Abuse Services	100.2	174.4	57.5%
Corrections	98.9	200.6	49.3%
Old Dominion University	97.1	130.2	74.6%
Total for Ten State Agencies Listed	**$2,097.3**	**$3,618.0**	**58.0%**
Total Amount Awarded	**$2,650.5**	**$4,633.0**	**57.2%**
	Total Number of Purchase Orders Awarded to Small Businesses	**Total Number of Purchase Orders Awarded**	**% of Total Number Awarded to Small Businesses**
University of Virginia - Academic	89,376	126,596	70.6%
Virginia Tech	51,841	87,650	59.1%
Corrections	24,016	46,804	51.3%
Virginia Commonwealth University	23,472	50,338	46.6%
Department of Transportation	18,715	30,308	61.7%
James Madison University	15,098	25,178	60.0%
Mental Health, Mental Retardation, and Substance Abuse Services	13,820	26,501	52.1%
George Mason University	13,538	23,114	58.6%
College of William & Mary	11,159	22,027	50.7%
Department of Health	10,935	18,708	58.5%
Total for Ten State Agencies Listed	**271,970**	**457,224**	**59.5%**
Total Number Awarded	**336,462**	**621,255**	**54.2%**

Source: JLARC staff analysis of DPS purchase order data and VEC employment data.

Appendix

Ten Most Purchased Goods and Services From Small Businesses By Agency, FY 2008

This appendix includes a listing of the ten most purchased goods and services from small businesses for each of the ten State agencies listed in Table 9 (Chapter 3). In FY 2008, the most purchased good from small businesses was chemical laboratory equipment and supplies, and the most purchased service was building construction.

Department of Transportation (VDOT)

Good or Service	Total Dollar Amount to Small Businesses ($ in Millions)
Maintenance and Repair, Highway and Road	$415.4
Asphaltic Concrete	33.1
Fuel Oil, Diesel	23.4
Professional Engineering Services	21.7
Truck and Van Rental or Lease	19.5
Computer Software Consulting	16.5
Crushed Stone	15.0
Tree Trimming and Pruning Services	14.4
Earth Moving Equipment (Graders, Dozers, Loaders)	13.6
Personnel Services (Not Employment)	12.8
Total for Ten Goods and Services	**$585.4**
Total Awarded to Small Businesses	**$798.3**

University of Virginia

Good or Service	Total Dollar Amount to Small Businesses ($ in Millions)
Construction Services	$169.4
Professional Architectural Services	19.1
Laboratory and Field Equipment (Biology, Botany, Geology, Microbiology, Zoology)	9.8
Telephone Services, Long Distance and Local	8.3
Laboratory Equipment and Accessories (Biochemistry, Chemistry, Environmental Science)	6.5
Building Maintenance Services	6.4
Miscellaneous Services	5.7
Builders Supplies	4.7
Chemical Laboratory Equipment and Supplies	3.2
Printing and Related Services	2.9
Total for Ten Goods and Services	**$236.0**
Total Awarded to Small Businesses	**$282.1**

George Mason University

Good or Service	Total Dollar Amount to Small Businesses ($ in Millions)
Building Maintenance Services	$112.6
Civil Engineering	24.8
Building Construction, Non-Residential	22.3
Structural Engineering	16.3
Janitorial Equipment Maintenance and Repair	3.4
Software Maintenance/Support	1.9
Hardware and Related Items	1.8
Computer Hardware and Peripherals for Microcomputers	1.5
Business Management Services	1.5
Building Maintenance and Repair Services	1.5
Total for Ten Goods and Services	**$187.5**
Total Awarded to Small Businesses	**$210.1**

James Madison University

Good or Service	Total Dollar Amount to Small Businesses ($ in Millions)
Building Construction, Non-Residential	$124.5
Civil Engineering	2.1
Sports Professionals Services	1.9
Books, Magazines, Pamphlets, Publications, Reprints	1.3
Library Services	1.1
Network Components (Adapter Cards, Connectors, etc.)	1.1
Building Maintenance and Repair Services	1.0
Roofing, Gutters, & Downspouts Maintenance & Repair	0.8
Software Maintenance/Support	0.7
Audio Cassettes, Tapes and Compact Disks	0.6
Total for Ten Goods and Services	**$135.0**
Total Awarded to Small Businesses	**$152.7**

Virginia Community College System (System Office)

Good or Service	Total Dollar Amount to Small Businesses ($ in Millions)
Building Construction, Non-Residential	$117.9
Building Maintenance Services	4.9
Structural Engineering	3.6
Roofing, Gutters, & Downspouts Maintenance & Repair	1.3
Software Maintenance/Support	0.9
Security, Fire, Safety, and Emergency Services	0.5
Computer Aided Design and Vectorization Software	0.4
Civil Engineering	0.4
Quality Control Testing Services for Construction	0.2
Computer Network Consulting	0.2
Total for Ten Goods and Services	**$130.3**
Total Awarded to Small Businesses	**$132.3**

Virginia Commonwealth University

Good or Service	Total Dollar Amount to Small Businesses ($ in Millions)
Excavation Services	$28.6
Building Maintenance Services	16.8
Chemical Laboratory Equipment and Supplies	10.9
Special Education	3.7
Warehouse Rental or Lease	3.0
Books, Reference: Dictionaries, Encyclopedias, etc.	2.7
Laboratory and Field Equipment (Biology, Botany, Geology, Microbiology, Zoology)	2.3
Dental Equipment and Supplies	2.1
Medical and Laboratory Services (Non-Physician)	2.0
Structural Engineering	2.0
Total for Ten Goods and Services	**$74.0**
Total Awarded to Small Businesses	**$123.4**

Virginia Tech

Good or Service	Total Dollar Amount to Small Businesses ($ in Millions)
Building Construction, Non-Residential	$39.6
Chemical Laboratory Equipment and Supplies	5.8
Building Construction, Industrial (Warehouse, etc.)	2.8
Laboratory Equipment and Accessories (General Analytical and Research Use): Nuclear, Optical, Physical	2.7
General Construction Services	2.3
Network Components (Adapter Cards, Connectors, etc.)	2.1
Laboratory Furniture	1.7
Clothing Accessories	1.5
Office Supplies	1.4
Mechanical Engineering	1.3
Total for Ten Goods and Services	**$61.2**
Total Awarded to Small Businesses	**$102.3**

Department of Mental Health, Mental Retardation and Substance Abuse Services

Good or Service	Total Dollar Amount to Small Businesses ($ in Millions)
Building Maintenance and Repair Services	$70.2
Roadside, Grounds, Recreational & Park Area Services	4.6
Structural Engineering	4.5
Nursing Services	3.3
Paper Goods: Diapers, Medication Blister Cards, Pillow Cases, Sheets, Wiping Tissues, etc.	1.0
Hospital, Surgical, and Related Medical Accessories & Sundry Items	0.5
Computer Programming Services	0.5
Printer Accessories and Supplies: Chemicals, Forms Tractors, Inks and Cartridges, Label Sheets, Sheet Feeders, Toner Cartridges, Wheels, etc.	0.4
Guard and Security Services	0.4
Food	0.4
Total for Ten Goods and Services	**$86.0**
Total Awarded to Small Businesses	**$100.2**

Department of Corrections

Good or Service	Total Dollar Amount to Small Businesses ($ in Millions)
Building Construction, Non-Residential.)	$11.0
Food Management Services	8.3
Office Furniture	7.0
Professional Medical Services (Including Physicians and All Specialties)	5.8
Butane and Propane	5.2
Alcohol and Drug Detoxification	4.7
Administrative Services, All Kinds	2.2
Fresh Vegetables	1.7
Structural Engineering	1.6
Metals: Bars, Plates, Rods, Sheets, Strips, Structural Shapes, Tubing, And Fabricated Items	1.5
Total for Ten Goods and Services	**$49.2**
Total Awarded to Small Businesses	**$98.9**

Old Dominion University

Good or Service	Total Dollar Amount to Small Businesses ($ in Millions)
Building Construction, Non-Residential	$50.6
Excavation Services	18.8
Radio Communication, Telephone, and Telecommunication Equipment, Accessories, and Supplies	2.1
Software Maintenance/Support	1.8
Sprinkler Heads and Systems	1.4
Office Furniture	1.2
Energy Conservation Services (Including Audits)	1.0
Books, Magazines, Pamphlets, Publications, Reprints	0.9
Special Education	0.8
Microcomputers (Desktop or Tower-based)	0.7
Total for Ten Goods and Services	**$79.3**
Total Awarded to Small Businesses	**$97.1**

Appendix J Purchase Orders to All and DMBE-Certified Small Businesses, FY 2005-08

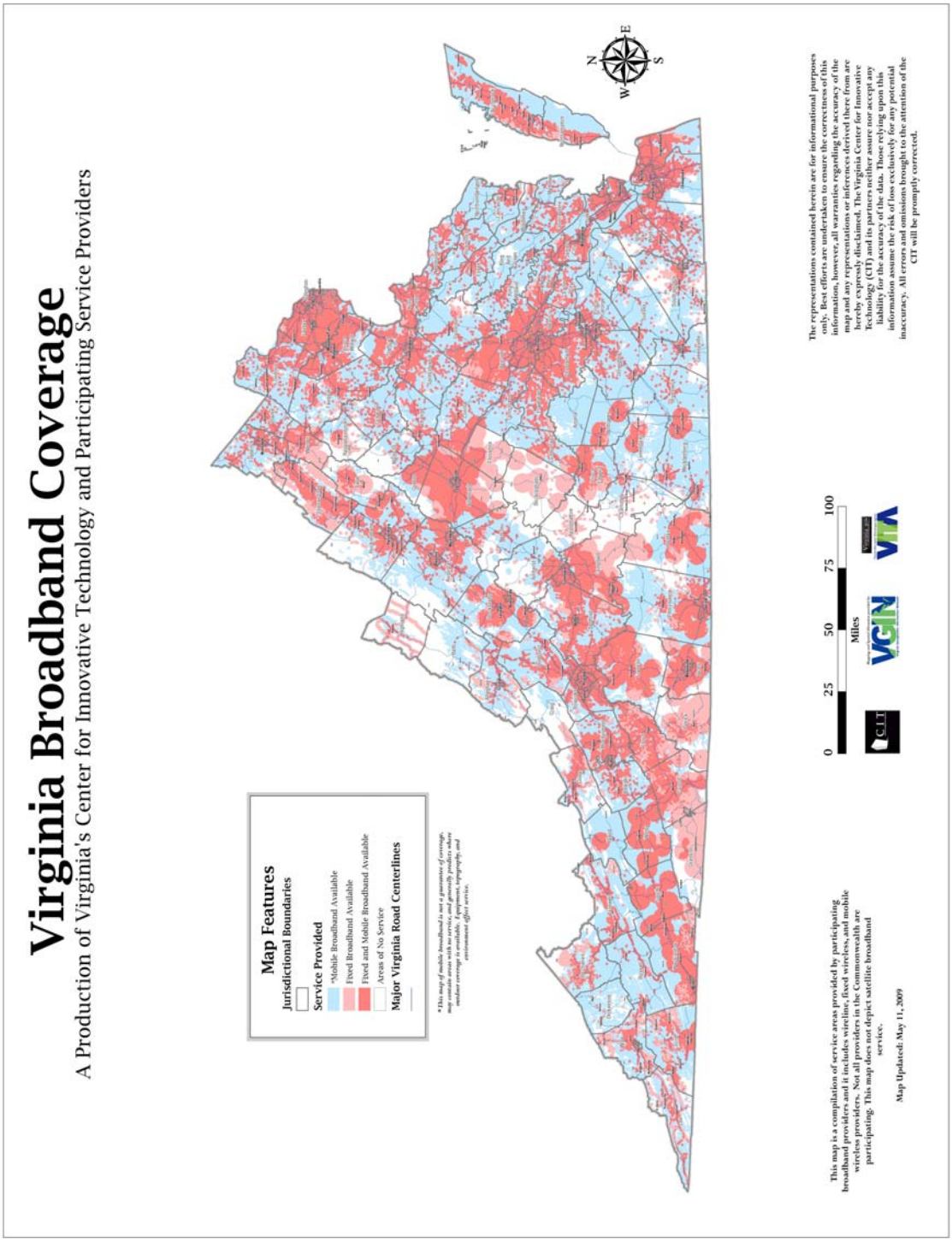
Employee Range	Number of Businesses	Number of Purchase Orders	Dollar Value of Purchase Orders	Number of DMBE-Certified Businesses	Number of Purchase Orders	Dollar Value of Purchase Orders
2005						
<6	3,539	40,825	$439 M	253	3,061	$12 M
6 – 50	5,222	87,126	597 M	575	14,101	64 M
51 – 250	1,338	69,347	1,248 M	86	13,673	56 M
>250	464	40,799	617 M	2	740	8 M
Unknown	18,329	124,309	713 M	385	3,699	17 M
Small Total	**10,099**	**197,298**	**$2,284 M**	**914**	**30,835**	**$133 M**
Grand Total	**28,892**	**362,406**	**$3,614 M**	**1,301**	**35,274**	**$157 M**
2006						
<6	3,592	46,327	$354 M	343	5,503	$18 M
6 – 50	5,129	85,290	913 M	815	21,065	159 M
51 – 250	1,408	84,113	1,235 M	150	33,599	106 M
>250	487	37,120	616 M	2	1,073	11 M
Unknown	19,120	132,886	867 M	500	6,796	29 M
Small Total	**10,129**	**215,730**	**$2,502 M**	**1308**	**60,167**	**$283 M**
Grand Total	**29,736**	**385,736**	**$3,985 M**	**1,810**	**68,036**	**$324 M**
2007						
<6	3,671	48,702	$303 M	1,014	15,953	$47 M
6 – 50	5,288	106,645	770 M	1,972	52,238	329 M
51 – 250	1,438	97,985	1,120 M	390	46,619	372 M
>250	514	37,708	567 M	18	1,378	15 M
Unknown	24,156	152,021	936 M	2,474	21,843	94 M
Small Total	**10,397**	**253,332**	**$2,193 M**	**3,376**	**114,810**	**$748 M**
Grand Total	**35,067**	**443,061**	**$3,696 M**	**5,868**	**138,031**	**$857 M**
2008						
<6	4,058	66,529	$275 M	1,229	24,658	$82 M
6 – 50	5,424	143,624	935 M	2,203	79,739	444 M
51 – 250	1,445	124,676	1,441 M	408	55,365	541 M
>250	498	52,154	611 M	23	3,371	50 M
Unknown	26,426	189,818	1,363 M	2,990	36,918	172 M
Small Total	**10,927**	**334,829**	**$2,651 M**	**3,840**	**159,762**	**$1,067 M**
Grand Total	**37,851**	**576,801**	**$4,625 M**	**6,853**	**200,051**	**$1,289 M**

Note: DMBE-certified small businesses with more than 250 employees likely meet the average gross receipts criteria. These businesses received the highest average purchase order amount - $1.7 million.

Source: JLARC staff analysis of VEC and eVA purchase order data

Appendix K

Broadband Availability Map



Note: Unshaded areas on map are "areas of no service."
Source: Office of Telework Promotion and Broadband Assistance, http://otpba.vi.virginia.gov/, accessed June 5, 2009.

Appendix L

eVA Revenue Receipts and Expenses Data, FY 2007 to December 31, 2008

eVA Revenue Receipts and Expenses

eVA Revenue Receipts and Expenses	FY 2007	FY 2008	July 1, 2008-December 31, 2008
Beginning Cash Balance	***$5,648,935.85***	***$8,914,992.52***	***$15,337,292.89***
Revenue Receipts			
Vendor Fees (Transaction & Registration)[a]	$10,642,728.60[b]	$12,659,103.59	$7,852,181.86
Agency Fees (Transaction and Dashboard)	$9,610,861.94[b]	$15,650,823.11	$4,871,099.10
From eVA Dashboard[c]	$1,322,149.21	$38,610.63	$0.00
From DMBE (DMBE Dashboard)[d]	$0.00	$19,500.00	$18,000.00
Other	$116,930.13[e]	0.00	$18,955.84
Total Revenue Receipts	**$21,692,669.88**	**$28,368,037.33**	**$12,760,236.80**
Operating Expenses			
Personal Services	$1,532,447.70	$1,731,127.71	$987,962.87
Contractual Services from CGI	$12,910,278.78	$12,419,036.79	$6,315,580.27[f]
Other Contractual Services[g]	$2,139,115.53	$387,827.55	$109,327.27
Supplies and Materials	$5,630.31	$9,791.78	$6,318.10
Continuous Charges	$646,645.67	$723,290.67	$485,358.16
Other[h]	$6,598.44	$274.30	$27,825.19
eVA Loan Principal and Interest Payments	$1,185,896.78	$6,674,388.16	$0.00[i]
Total Operating Expenses	**$18,426,613.21**	**$21,945,736.96**	**$7,932,371.86**[f]
Ending Cash Balance	***$8,914,992.52***	***$15,337,292.89***	***$20,165,157.83***[f]
Agency Rebates (Given in the Form of Credit Adjustments on Agency eVA Accounts the Following Year)			
Higher Education Sole Source Fee Rebates	$225,982.75	$187,569.04	Unknown
Agency Excess Fee Rebates	$0.00	$4,973,335.99	Unknown
Total Rebates	$225,982.75	$5,160,905.03	Unknown

[a] Includes UPS contract fees (separate agreement with DPS).
[b] Includes fees remitted by CGI to DPS under the initial contract before DPS began billing and collecting fees.
[c] Agency fees for non-compliant purchases made outside of eVA (two percent of purchases).
[d] DPS receives revenue from DMBE for managing the contractor that posts expenditure data information on DMBE's website.
[e] Includes fees invoiced by CGI during the initial contract and collected by DPS.
[f] DPS provided data to JLARC staff indicating another $440,475 in improvements and enhancements were invoiced or paid as of December 31, 2008. DPS staff indicate that as of June 26, 2009, the cash balance was $17.8 million.
[g] Example includes contracted assistance in 2009 to develop purchasing data standards to comply with Virginia statutes.
[h] Other expenses include transfer payments, continuous charges (rent and internal staff charges for fiscal and human resources work), and fixed asset expenditures.
[i] Loan paid off entirely in FY 2008 – no remaining balance.

Source: DPS.

Cost of Future eVA Improvements and Enhancements Budgeted by DPS

Type of Commitment	FY 2010	FY 2011
Committed but not Invoiced	$1,200,000.00	$1,200,000.00
Budgeted but not Committed	$3,550,000.00	$1,610,000.00
TOTAL	**$4,750,000.00**	**$2,810,000.00**

Note: Cost of future improvements and enhancements not included in contract costs in above table through December 31, 2008.

Source: DPS.

Appendix M

Agency Responses

As a part of the extensive validation process, State agencies and other entities involved in a JLARC assessment are given the opportunity to comment on an exposure draft of the report. Appropriate technical corrections resulting from comments provided by these entities have been made in this version of the report. This appendix includes written responses from the Departments of General Services and Minority Business Enterprise and the Virginia Employment Commission.

COMMONWEALTH of VIRGINIA

Department of General Services

Richard F. Sliwoski, P.E.
Director

Joseph F. Damico
Deputy Director

Bobby Myers
Deputy Director

1100 Bank Street
Suite 420
Richmond, Virginia 23219
Voice (804) 786-3311
FAX (804) 371-8305

July 6, 2009

Mr. Philip A. Leone, Director
Joint Legislative Audit and Review Commission
General Assembly Building, Suite 1100
Richmond, Virginia 23219

Dear Mr. Leone,

As you are aware, we have been working with JLARC staff for the past several months on a review of the impact of eVA fees on small businesses in Virginia. Last week DGS was afforded the opportunity to review and discuss an exposure draft of the report with you and JLARC staff and provide our written comments by July 6, 2009. Thank you for this opportunity. My understanding is that you will publish this letter with your report.

Based on the review and discussion, I believe both DGS Management and JLARC staff feel the report accurately describes the impact of eVA fees on small businesses and are in agreement with the recommendations; however, DGS has some exceptions or comments regarding recommendations and statements in the report that need to be noted.

- *JLARC Key Finding, "An annual $25 registration fee and a capped one percent transaction fee appear to discourage some small businesses from registering in eVA. In addition, businesses' views on the reasonableness of the transaction fee are mixed, with some viewing the fee as a tax or a cost upon them to pay for a system which is designed, in part, to lower prices for the State."*

  DGS believes that this key finding is to be expected but needs to be placed in context. Some small businesses would take issue with the fees, especially if they have not received business from the Commonwealth or the localities that use the system. This appears to be supported by the following analysis details that are documented in the JLARC report:

  - "Nearly three-quarters of registered businesses feel the registration fee is a reasonable cost for using eVA tools to identify and respond to State procurement opportunities."

- "Some small businesses report fee as reasonable because only paid when award is received and because of increased procurement opportunities."

The funding model has been approved by the Governor and the General Assembly. Its purpose was from its inception to have the vendor community participate in the funding because of the benefits that accrue to them. The Commonwealth agencies also directly participate in the funding of the system. Agencies routinely see lower prices and have gained efficiencies in their procurement processes through use of the system.

- *JLARC statement, "UVA and Virginia Tech Operate Separate eProcurement Systems. eVA contract costs (which exclude DGS costs, loan payments, and some other operating expenses) are over $12 million a year. The University of Virginia and Virginia Tech pay annual licensing fees of about $317,000 and $240,000, respectively, to operate their own systems. Although university staff expressed satisfaction with their systems' functionality, DPS staff indicated that the universities' e-procurement technologies do not have all the capabilities of eVA."*

  DGS does not agree with JLARC's inference that the e-procurement systems used by UVA and VA Tech are functionally comparable to and less expensive than eVA.

  UVA and VT do not have full procurement systems. Unlike eVA, the implemented systems only support requisitions and orders against existing requirement type contracts. There are no components for:

  - On-line unsealed bidding or sealed bidding
  - Solicitation public posting and notification
  - Publicly assessable reporting for transparency and accountability in Government
  - Vendor Self-Registration
  - Purchasing Data Warehouse
  - Spend analytics
  - Small, woman-owned or minority-owned vendor identification
  - Small Business Set-Aside purchases

  UVA and VT costs cited in the report are misleading because:

  - Costs reflect only "licensing fees"
  - Costs do not include operating and support expenses
  - Costs do not include expenses for integration to their individual financial systems
  - If applied to the 171 agencies/institutions using eVA, total cost using JLARC numbers for UVA and VT is estimated to be in excess of $30 million/year versus $12 million/year for eVA. This does not include the costs for the 575 local government entities using eVA.

Additional costs that would be required to make the system an enterprise system for the Commonwealth are:

- To add full procurement functionalities
- To change system to comply with VPPA
- To change system to support SWaM initiatives
- For agency/institution training, system administration and support
- To interface/integrate to the 40 different finance systems used by Commonwealth agencies/institutions

- *JLARC statement, "These fees (eVA) are additional costs that businesses likely would not pay to do business with the State in the absence of eVA."*

  In the interest of completeness, DGS adds that prior to eVA, businesses incurred the following additional expenses in order to participate in state procurement opportunities:

  - Unknown expenses to travel to individual agencies to register for business opportunities, to inspect public posting of solicitations and award announcements (bid boards), to obtain copies of bid tabulations, and to market their products
  - $75 per year to receive weekly Virginia Business Opportunities paper publication used by all state agencies to advertise solicitations greater than $30,000
  - Unknown expenses to mail or deliver paper bids and proposals
  - Unknown expenses to print and distribute paper catalogs and catalog updates.

I want to commend JLARC and the JLARC Study Team for the professional, respectful, and collaborative manner in which the Study was conducted and documented and for their willingness to listen to and consult with DGS staff. I believe the recommendations made in the report will help us improve the overall operation of the eVA Program.

If you or your staff has any additional questions or need additional information, please do not hesitate to call me at 804.786.3311.

Sincerely,

Richard F. Sliwoski

Richard F. Sliwoski, P.E.

Timothy M. Kaine
Governor

Viola O. Baskerville
Secretary of Administration

COMMONWEALTH of VIRGINIA

Samuel Hayes, III, PE
Director

Department of Minority Business Enterprise
1111 East Main Street, Suite 300
Richmond, Virginia 23219

July 7, 2009

Philip A. Leone, Director
Joint Legislative Audit and Review Commission
Suite 1100, General Assembly Building, Capitol Square
Richmond, Virginia 23219

Dear Mr. Leone,

The Virginia Department of Minority Business Enterprise ("DMBE" or the "Agency") appreciates the opportunity to comment on June 25, 2009 exposure draft report, *Impact of eVA on Small Virginia Businesses* (the "Study"). A copy of the DMBE's formal written response to the exposure draft report is included for your consideration.

The Joint Legislative Audit and Review Commission ("JLARC") makes two recommendations. The DMBE agrees with the first recommendation, that the General Assembly consider more limited, narrow criteria for small business eligibility.

The DMBE agrees in part, with the second JLARC recommendation that the number of certified businesses should be increased using greater outreach. The DMBE disagrees, however, with the suggestion that the best way to increase the number of certified vendors is through an "audited self-certification". Because we disagree in part with the corrective method suggested in recommendation 2, we offer what we view as a better way that accurately reflects the theory of the Small, Women- and Minority-owned Business Program ("SWaM Program"). We welcome the opportunity to review with you our alternatives prior to the release of this report on July 13, 2009 to the Commission. DMBE will attend JLARC's presentation and requests the opportunity to address the Commission.

The Department of Minority Business Enterprise is committed to increasing the availability and utilization of small businesses in the Commonwealth. We appreciate the work of the JLARC with this important Study. We look forward to your response.

Sincerely,

Samuel Hayes III

Samuel Hayes III, Director

(804) 786-5560 • Fax (804) 786-9736 • TDD (804) 371-8929 • VA Toll Free (800) 223-0671
www.DMBE.Virginia.gov

Department of Minority Business Enterprise Formal Written Response to JLARC's Exposure Draft Report:

Impact of eVA on Small Virginia Businesses

July 7, 2009

I. Recommendation 1

The General Assembly may wish to consider a definition for certification eligibility that is more limited, or more clearly identifies a group of businesses facing a disparity in their utilization, than is currently in place in § 2.2-1401 of the Code of Virginia.

The DMBE agrees with the recommendation that a more limited, narrow definition of a small business should be adopted by the Commonwealth of Virginia because the current definition is "overly broad" and includes businesses that satisfy the 250 or less employee-threshold, but exceed the gross receipts by millions (and in some cases billions of dollars).[1]

The intent of the Small, Women- and Minority-owned ("SWaM") Procurement Initiative is to grow small businesses for competition in state procurement. The economic playing field, however, is not level when very successful businesses are competing with smaller businesses that may not be as financially profitable. The DMBE supports the adoption of a limited, narrow definition of a small business to that of businesses that are not dominant in their industry and do not exceed industry-specific business size standards as established by the U.S. Small Business Administration. Adopting these size standards would make the Commonwealth's program consistent with the approach taken in the federal small business programs[2] and will promote the competition small businesses that truly need the assistance, and would allow for more focused competition between businesses that are not dominant or exercising a controlling influence in certain kinds of business activity in Virginia.

One additional consideration proposed by the DMBE is to establish a second tier of small businesses (e.g., micro business) with lower employee and gross revenue requirements to allow for competition among smaller businesses seeking to compete for state opportunities. These second tier business opportunities can be implemented through an alternative set-aside option for firms with fifty (50) or fewer employees and are not dominant in their industry. The General

---

[1] The highest average in gross receipts for a DMBE-certified small business is over $129 billion with less than 250 employees.

[2] The U.S. Small Business Administration (SBA) administers the stringent 8(a) Business Development Certification Program for small businesses seeking to obtain federal contracts. The SBA size standards for small business can be access at http://www.sba.gov/contractingopportunities/officials/size/index.html. The SBA also administers the Small Disadvantaged Business Program which requires a certification for prime contractors but allows sub contractors to "self-represent" their status. "Contractors acting in good faith may *rely on written representations* by their subcontractors regarding their status as * * * a small business concern owned and controlled by socially and economically disadvantaged individuals * * *" (Emphasis added). Section 8(d) (3) (F) of the Small Business Act, 15 U.S.C. 637(d) (3) (F). The stringent application of the certification of sub contractors under the SDB Program was relaxed in October 2008. *See* Interim Final Rule, Federal Register, Vol. 73, No. 193, Friday, October 3, 2008.

Assembly may also consider narrowing the definition of a small business by simply changing the word "or" to "and" in the current definition, which would require a business to have 250 or less employees and less than $10 million in gross receipts averaged over the previous three years.

Increasing the number of contract opportunities and contract awards to small disadvantaged businesses is the goal of the Commonwealth. Leveling the economic playing field can only occur when competition is defined by reasonable and fair criteria. Limiting and narrowing the definition of a small business using any of the above suggestions will help the Commonwealth achieve this goal.

The DMBE also submits that JLARC should ensure that its analysis includes businesses that are small businesses, as well as the small/women-owned business and small/minority-owned business categories. The latter two are the historically underutilized business groups deserving attention and focus of the SWaM Procurement Initiative.

II. Recommendation 2

The Department of Minority Business Enterprise should substantially increase the proportion of eligible businesses that become certified by using methods such as audited self-certification and greater outreach.

The DMBE agrees with the premise that a larger number of eligible businesses should become certified through increased outreach activities, but disagrees that the proper method to do so is through "audited self-certification." DMBE believes that this proposal is ineffective for two reasons: (1) an increase in the number of certified businesses will not result in an increase in contracts or awards to small businesses if the business opportunities are not proportionate to the availability of vendors; and (2) "self-certification", whether audited or not, has historically proven to be detrimental to the credibility and effectiveness of the SWaM Procurement Initiative.

Before addressing these issues, the DMBE provides the following information for your consideration:

A. At the end of Fiscal Year 2008, the total number of DMBE certified small businesses was 18,791 (10,079 small, non-women and non-minority businesses; 3,550 small, women-owned businesses; and 5,162 small, minority-owned businesses),[3] not 16,675 (as referenced in the JLARC Study).

B. Please note that the number of small, non-women and non-minority businesses decreased between 06/30/08 and 07/01/09 by 6% as a result of the increased number of challenges to small business certifications and the implementation of the reciprocal certification

[3] Virginia Department of Minority Business Enterprise Certification Database.

program.[4] This group (of white, male businesses) decreased from 10,079 to 9,517 (a difference of 562 or 6%) compared to the increased number of small, women-owned businesses (which increased by 3% from 3,550 to 3,861) and small, minority-owned businesses (which increased by 9% from 5,162 to 5,302).

C. Please note that a follow-up (i.e., update) disparity study on the procurement practices of the Commonwealth of Virginia is tentatively scheduled for an early 2010 completion.

The JLARC Study also suggests that DMBE should focus on increasing the number of certified small businesses because "increased outreach to non-participating businesses could expand access to business opportunities and also result in greater competition and lower prices for the state."[5] DMBE agrees that increasing the number of certified vendors is an important agency goal and as a result, has made this effort a key agency performance measure since 2007.[6] DMBE disagrees however, that increased outreach could expand access to business opportunities, result in greater competition, and lower prices for the state. DMBE submits that JLARC should consider the following:

- The goal of the SWaM Procurement Initiative is to improve the record of the Commonwealth of Virginia's record of buying goods and services from small, women- and minority-owned businesses and not necessarily to lower prices for the state.[7]

- Lower prices for goods and services should result from increased competition among suppliers to the Commonwealth—large and small. Virginia's procurement statute requires that "all procurement procedures be conducted in a fair and impartial manner with avoidance of any impropriety or appearance of impropriety, that all qualified vendors have access to public business and that no offeror be arbitrarily or capriciously excluded."[8]

- Fair competition for state contracts focuses on leveling the economic playing field between large and small businesses, not among and between small businesses.

- An increased pool of certified small businesses would not necessarily result in increased contracts or awards to small businesses, because a corresponding, proportionate number of state procurement opportunities may not exist. The Commonwealth must reverse and

---

[4] Effective 08/01/08, the DMBE implemented the Reciprocal Certification Program as required under Section 2.2-1403 (8) of the *Code of Virginia*, which (in pertinent part) provides that DMBE certification programs "[S]hall deny certification to vendors from states that deny like certifications to Virginia-based small, women or minority-owned businesses or that provide a preference for small, women- or minority-owned businesses based in that state that is not available to Virginia-based businesses." This program has eliminated the participation of vendors from 16 different states immediately or after their 3-year certification period.

[5] JLARC Exposure Draft Report, Impact of eVA on Small Virginia Businesses, Page 37.

[6] VA Performs, Department of Minority Business Enterprise Key Performance Measure No. 7. Found at www.vaperforms.virgina.gov.

[7] See Executive Order No. 33 (August 10, 2006).

[8] Virginia Public Procurement Act, Section 2.2-4300(C), *Code of Virginia*.

eliminate the institutional barriers and entrenched procedural obstacles that exist so that fair competition and equal access to opportunities can materialize.

- The inclusion of small, non-women and non-minority businesses (i.e., white, male-owned businesses) in the SWaM Procurement Initiative has demonstrated a sharper picture of disparity that exists with this group and women- and minority-owned businesses. As of the end of Fiscal Year 2008, small, non-women and non-minority businesses benefited from the SWaM Program with 29.18% of discretionary expenditures (a total of $1.4 billion), while women-owned businesses received only 4.13% or $200 million, and minority-owned businesses received only 5.49% or $266 million. Note that non-small, non-minority, and non-women owned businesses received $2 billion in discretionary spend dollars or 61.20% of Commonwealth business.

- Until set asides based on the presumed disadvantaged status of minorities and women are established, there will continue to be a disparity of utilization and the number of contract opportunities will remain relatively low (compared to white, male-owned businesses).

- Increasing the pool of certified vendors increases competition among small businesses but does not address the capacity and "ability to perform" issues of these small businesses. Not being able to perform on a contract or obtain proper bonding capabilities contribute to the lack of interest by small businesses in government contracts.

The JLARC Study suggests that DMBE pursue a "self-certification" avenue for small businesses, with audit or compliance checks of the vendor's eligibility (i.e., "after the fact"). The DMBE disagrees with this suggestion as a way to increase outreach to non-participating businesses and ultimately increase the pool of available certified vendors. This mechanism has historically been proven to be detrimental to the credibility and effectiveness of the SWaM Procurement Initiative (as described below). Furthermore, the process of "self-certification" would reduce the process to a mere "registration" system, without validation of participants.

Prior to the codification of the women-owned business and small business certification process, women-owned businesses were able to "self-certify" or "register" with the Virginia Department of Business Assistance. When the program was transferred to the Virginia Department of Minority Business Enterprise in 2004, approximately 50% of the vendors were subsequently denied women-owned certification under DMBE's process because many of them were "sham" or false outfits, and were simply not women-owned.

Although the "audit" or compliance efforts may appear to be burdensome in the early stages of the certification process, without question this process minimizes the number sham companies or non-eligible firms applying for SWaM certification, and serves as deterrence in general. Implementing an "after-the-fact" approach to compliance on eligibility subjects the Agency, the SWaM Procurement Initiative, and the Commonwealth to:

- greater exposure for potential contract fraud;
- increased contract award challenges;
- chaos for buyers and procurement officials trying to comply with procurement rules and regulations (because there is no "validation" of a business' status);
- implementing a less ineffective certification program (which is technically reverts to an open registration program), with diminished credibility amongst other state supplier diversity programs; and
- collecting questionable expenditure/data and reporting because the "audits" would not ensure valid data from all registered business, which in turn would result in an unreliable statistical basis for any potential disparity study or activity.

The current certification process has endured many streamlining iterations—such as reducing the number of required supporting documents from 31 items to less than 5, to providing a 30-day provisional or temporary certification. Very shortly, the DMBE will implement a Virginia Business First! Program, wherein Virginia-based businesses seeking certification will receive "enhanced" services over non-Virginia based businesses. In all, the efforts to improve the certification processes will continue and the Agency intends to exhaust all available options for validating eligibility while maintaining the credibility of its data and practices.

Finally, any "after-the-fact" approaches to eligibility compliance will materially modify the role and functions of the DMBE. If JLARC's suggested approach to certification is implemented, businesses would no longer be "certified" or validated by the Agency; rather, businesses would automatically be registered as small, women-owned, or minority-owned, and any verification of this fact would be initiated on an infrequent basis or triggered by a challenge by another business. Verifications would more likely than not occur on a "spot-check" or sample basis, ensuring that only some businesses may be validated. Staffing and operational impacts will also be felt by the Agency because the nature of the DMBE mandate to certify and advocate for small, women- and minority-owned businesses would substantially and materially change. The DMBE strongly suggest that the current certification system be maintained and that an audited self certification system not be encouraged or adopted.

JUL 06 2009

COMMONWEALTH of VIRGINIA

Virginia Employment Commission

Dolores A. Esser
Commissioner

703 East Main Street

Post Office Box 1358
Richmond, Virginia 23218-1358

June 29, 2009

Mr. Philip A. Leone, Director
Joint Legislative Audit and
Review Commission
General Assembly Building
Suite 1100, Capitol Square
Richmond, Virginia 23219

Dear Mr. Leone:

The Virginia Employment Commission (VEC) appreciates the opportunity to review the draft report: *Impact of eVA on Small Virginia Businesses*. The agency recommended a few editorial changes. However, we have no substantial changes to recommend in this draft report.

Sincerely,

Dolores A. Esser

Dolores A. Esser

(804) 786-1485

VRC/TDD 1 (800) 828-1120
Equal Opportunity Employer/Program

E-Mail vec@vaworkforce.com

Joint Legislative Audit and Review Commission
Suite 1100
General Assembly Building
Capitol Square
Richmond, Virginia 23219
804-786-1258 Fax 804-371-0101
http://jlarc.virginia.gov