

**Paperwork Reduction Act Hearing
Business Paperwork Burden
April 11, 2002**

**Testimony of
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**Before the
Committee on Government Reform
Subcommittee on Energy Policy, Natural Resources
and Regulatory Affairs
U.S. House of Representatives**

**The Honorable Doug Ose
Chairman**

Thank you, Chairman Ose, for holding this important hearing on the federal paperwork burden. I appreciate the opportunity to testify regarding the costs and challenges required to comply with federal paperwork requirements, and I thank all members of the subcommittee for looking at ways to reduce and streamline such burdens, particularly for our nation's small businesses. My name is Joanne Peterson, and I am President and CEO of Abator -- a small women-owned and operated supplier of contingent information technology professional services. Today marks the 20th anniversary of Abator.

The challenges and priorities facing today's small businesses are complex and diverse. One such challenge is the significant costs encountered in preparing and filing routine paperwork to both federal and state agencies. In addition, those of us who want to take advantage of additional opportunities in government contracting -- and Abator does -- face expensive and quite burdensome requirements in our efforts to conduct business with state and federal government agencies.

Federal Barriers for Small Business Participation in Government Procurement

Abator is pleased to support several state governments, including the state of Ohio. We provide information technology support for Medicaid Management Information Systems in Columbus. Recently, the state informed Abator that the only way to expand our potential business is to get on their State Term contract list. At first we thought this would be "no problem", then we discovered that the only way to achieve this goal is to successfully complete federal GSA SOLICITATION FCIS-JB-980001B - REFRESH #10-9 (issued 10/1/2002). The full text of Federal Acquisition Regulation (FAR) and General Services Administration Regulation (GSAR) clauses affecting this particular solicitation run 56 pages. Parts 1 and 2 of the solicitation document run another 84 pages and the attachment document another 68 pages.

In February 2001, I testified during the State of Ohio Predicate Study about how Ohio's request for proposal procedures essentially eliminated participation by most small businesses, regardless of minority, women or HUB ownership status/certification. I am not sure, but I suspect the state of Ohio has decided to use federal procurement paperwork procedures for state contracting processes to address increased participation by small business. Of one thing I am certain, the process itself will be very time-consuming and costly.

For example, the costs and time *to date*, include:

- 8 hours spent reviewing the documents (about \$560 in direct labor)
- 4 hours preparing the past performance report application (\$280 + \$125 processing fee) to satisfy federal government requirements on Abator's credit rating and past customer satisfaction.

Now, I must determine whether we wish to incur the costs of the attorneys (at \$175 per hour) to review the contract language and/or absorb the undetermined costs of a consultant (anecdotal evidence indicate prices running between \$8,000 and \$25,000 for this consulting fee) to aid in completing the solicitation documents. Then too, there will be the direct labor costs of our internal staff in preparing all of the attachments required. The issue of whether to contract with an outside consultant, or complete this internally without such expertise was a tough decision. I've opted to complete the application without an outside consultant – as a small business, Abator simply cannot commit the extra financial resources to an application process given our current financial position, but I am compelled to look for any opportunities to grow revenues and the company.

It is interesting to note that the federal government will collect service charge revenues from any business Abator acquires under this solicitation. The solicitation requires that: (a) The Contractor must pay the Federal Supply Service, GSA, an industrial funding fee (IFF). The Contractor must remit the IFF in U.S. dollars within 30 days after the end of each quarterly reporting period as established in clause 552.238-74, Contractor's Report of Sales [SEE C.22]. The IFF equals 1% (one percent) of total quarterly sales reported. The IFF reimburses the GSA Federal Supply Service for the costs of operating the Federal Supply Schedules Program and recoups its operating costs from ordering activities. Offerors must include the IFF in their prices. The fee is included in the award price(s) and reflected in the total amount charged to ordering activities. While I applaud the GSA's efforts to recoup part of its operating costs through this mechanism, I hope that the organization will explore ways to reduce the paperwork burden on the small businesses striving to support them.

As Abator has no direct experience in completing an RFP response for a federal agency, I thought it might prove illuminating to detail one state issued RFP. The project required 17 technical staff. A complete bid package was required for each position – each candidate was to be submitted for each of the 17 positions; in other words 289 complete bid packages in triplicate – 867 copies. Abator's bid package ran approximately 51 pages or 44,217 pages total – which was hand delivered to avoid shipping costs. Abator's cost in producing the RFP response ran roughly \$12,232 in direct labor (about 640 man hours) and supplies.

Adding the federal GSA Solicitation requirement on top of an already complicated and burdensome state process puts small firms like Abator at a competitive disadvantage to large corporations that compete for this government work.

That is why I was particularly grateful for the Administration's unbundling initiative announced last year. Abator, as a member of Women Impacting Public Policy (WIPP) and the Women Business Entrepreneur National Council (WBENC), supports the unbundling of federal contracts in an effort to increase participation by small, minority

and historically underutilized businesses. Many times, over the last several years, Abator has completed the Women Business Enterprise (WBE) paperwork necessary to be considered by the prime vendors on various federal contracts, followed up by months of personal contacts. Efforts that to date go unrewarded. Abator remains undeterred and will continue to seek ways to grow its business with prime contractors to various federal agencies. We will also complete the GSA Solicitation process, despite the intimidating amount of paperwork.

Examples of other federal paperwork burdens

Like every other business, Abator has paperwork burdens associated with complying with federal tax law and other agencies' requirements. While we dutifully comply with such requirements and new changes to the law, costs of complying do add up to considerable amounts for a small firm like Abator. These are resources that could be spent investing in new equipment, hiring new employees or coping with increases in health insurance costs and other fixed expenditures.

Annual tax-related paperwork burden

Abator, of course, has the standard federal tax reporting functions required of any business, including:

- Preparing the year-end data for the CPA's use in completing Corporate Income Tax Returns; an activity that consumed at least 40 hours in direct labor (about \$1716) and \$1550 in CPA fees for FY2002.
- Preparing and filing 941 deposits bi-weekly, filed electronically via our relationship with Dollar Bank – perhaps 20 minutes per two weeks in direct labor (roughly \$386.10 annually), plus an hour per quarter (~\$171.60) completing and filing the quarterly 941 form for an estimated total of \$557.70.
- Preparing and filing FUTA deposits quarterly consumes another 15 minutes each (about \$42.90 annually), again filed electronically with an annual report consuming another hour of direct labor (\$42.90) for a total of approximately \$85.80.
- Preparing and filing quarterly 1120 deposits/reports – no cost data available as Abator has a credit balance running with the Internal Revenue Service (IRS) on this line item.
- Modifying the corporate accounting applications to adjust the withholding rates and FICA changes for W-2 employees requires approximately 5 hours of systems analysis, programming and compilation efforts at about \$35 per hour or another \$175 per year.
- Preparing and filing 1099 reports approximately 160 hours plus software and materials, \$3664.00.
- Indirect costs are diffuse and spread over the entire year in maintaining accurate corporate accounting records and run roughly 72 cents per minute.

These costs totaled approximately \$7748.50 for FY2002 – that's still a lot of money in Pittsburgh. Streamlining the processes for small business – say less frequent reporting or combined statements -- would be one way to reduce the annual costs.

GUST (GATT, USERRA, SBJPA, TRA '97 and IRRA '98) Pension Requirements.

During 2002, Abator also incurred a \$1400 fee from W&W Actuarial in a re-organization or re-writing of our nine year old profit-sharing/pension plan to comply with new GUST federal regulations. This activity incurred an additional direct labor cost of about \$175.

***Note:** Abator's pension plan did not change one iota – only the documenting paperwork changed and cost us \$1575 – monies that could have gone into larger pension contributions.*

Section 1706 of the Tax Reform Act of 1986. Independent consultant status has long been an issue in my industry. Section 1706, introduced in December 1986, in my view discriminates against programmers, systems analysts and engineers -- potentially preventing them from obtaining the entrepreneurial independent status enjoyed by doctors, lawyers, accountants, realtors, etc.. Abator invested a great deal of time and money in completing and filing its SS-8 forms (the 20 question test pertaining to employment status, which actually ran some 50 pages with attachments) on December 29th, 1986. We incurred costs on re-designing and implementing a revised automated payments application to temporarily withhold taxes from our independents until the IRS ruled on our petition. When they hadn't ruled by early April 1987, we refunded the monies to the independents so they could meet their federally required April 15th tax deposits. Abator repeatedly contacted the IRS for a final ruling. It was not until 1997 – 11 years later, that the IRS investigated. Abator again incurred the costs of preparing and submitting another SS-8 for an IRS audit. The audit itself took about four hours on-site (with the attendant direct and indirect labor costs of another \$5000), in which our contracts and business practices were painstakingly evaluated. At the end of the process, Abator was sent a computer-generated letter (not even on IRS letterhead), advising us that Abator "appeared" to be complying with the law. The relief was palpable – had the ruling determined that the consultants were "casual employees", my company would likely have folded under the weight of back taxes and penalties. Occasionally, we relive the nightmare – after all, the tests contain many gray areas and the IRS ruling could conceivably change.

As a direct result of 1706, Abator has lost contracts. Customers fear that they may be liable for tax-related fines, benefits, etc. should Abator's consultants be deemed casual employees of their organizations. In point of fact, our contract with Abbott Laboratories was cancelled in December 2002 because of their insistence that Abator consultants be W-2 employees. The consultants declined.

This scenario has been repeated several times over the last 17 years.

Immigration and Naturalization Service (INS): H-1b and Permanent Residency Applications. Abator has had occasion to represent five consultants from other countries since 1994. The H-1b processes were fairly straightforward and awarded within six to eight weeks of application. The three applications filed for permanent green cards, however, were a nightmare. On two occasions, the Immigration and Naturalization Service (INS) lost complete application packages. The second set of originals was filed in April 2000. These three consultants, which included one married couple and a single gentleman, have been supporting the Illinois Medicaid Medical Information Systems since 1994. By September 2001 no progress had been made.

One consultant's paperwork had been split between Omaha and Chicago, while the Vermont Service Center who was purportedly processing the application had no record of the documents. After September 11th, I wrote letters to the distinguished Senators from Illinois and Pennsylvania seeking their assistance. Only Senator Rick Santorum's office responded. It was through his staff that we were finally able to learn the status of the three applications and facilitate the subsequent approval and award process. Beyond the time and material costs of preparing the applications and attachments, there was a substantial emotional cost incurred by the consultants throughout this four year process, simply from not knowing – and having no way to learn – their immigration status. One gentleman's final H-1b was due to expire when his father became ill in Australia and there was a great deal of concern over his ability to return to this country and his job if he chose to travel before the INS responded. He chose to stay here, and fortunately his father recovered.

Conclusion

Small business is the backbone of the United States economy, and the high technology industry is a major slice of our economic future. But many small business owners find ourselves expending limited resources on excessive and often redundant paperwork to satisfy state and federal government agencies. Any assistance this committee can offer in freeing our resources to be used productively would be very much appreciated.

Thank you for your time and consideration.