ALASKA NATIVE CORPORATIONS

Increased Use of Special 8(a) Provisions Calls for Tailored Oversight

Statement of Katherine V. Schinasi, Managing Director Acquisition and Sourcing Management
ALASKA NATIVE CORPORATIONS
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What GAO Found

While representing a small amount of total federal procurement spending, obligations for 8(a) contracts to ANC firms increased from $265 million in fiscal year 2000 to $1.1 billion in 2004. Over the 5-year period, agencies obligated $4.6 billion to ANC firms, of which $2.9 billion, or 63 percent, went through the 8(a) program. During this period, six federal agencies—the departments of Defense, Energy, the Interior, State, and Transportation and the National Aeronautics and Space Administration—accounted for over 85 percent of 8(a) contracting activity. Obligations for 8(a) sole source contracts by these agencies to ANC firms increased from about $180 million in fiscal year 2000 to about $876 million in fiscal year 2004.

ANCs use the 8(a) program as one of many tools to generate revenue with the goal of providing benefits to their shareholders. Some ANCs are heavily reliant on the 8(a) program for revenues, while others approach the program as one of many revenue-generating opportunities. GAO found that some ANCs have increasingly made use of the congressionally authorized advantages afforded to them. One of the key practices is the creation of multiple 8(a) subsidiaries, sometimes in highly diversified lines of business. From fiscal year 1988 to 2005, ANC 8(a) subsidiaries increased from one subsidiary owned by one ANC to 154 subsidiaries owned by 49 ANCs.

In general, acquisition officials at the agencies reviewed told GAO that the option of using ANC firms under the 8(a) program allows them to quickly, easily, and legally award contracts for any value. They also noted that these contracts help them meet small business goals. In reviewing selected large sole-source 8(a) contracts awarded to ANC firms, GAO found that contracting officials had not always complied with certain requirements, such as notifying SBA of contract modifications and monitoring the percentage of work that is subcontracted.

SBA, which is primarily responsible for implementing the 8(a) program, had not tailored its policies and practices to account for ANCs’ unique status and growth in the 8(a) program, even though SBA officials recognized that ANCs enter into more complex business relationships than other 8(a) participants. Areas where SBA’s oversight fell short included determining whether more than one subsidiary of the same ANC was generating a majority of its revenue in the same primary industry, consistently determining whether awards to 8(a) ANC firms had resulted in other small businesses losing contract opportunities, and ensuring that the partnerships between 8(a) ANC firms and large firms were functioning in the way they were intended.
Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss our April 2006 report on Alaska Native Corporation (ANC) 8(a) firms. In December 1971, Congress enacted the Alaska Native Claims Settlement Act to resolve long-standing aboriginal land claims and to foster economic development for Alaska Natives. This legislation created ANCs, which would become the vehicle for distributing land and monetary benefits to Alaska Natives in lieu of a reservation system. As of December 2005, there were 13 regional ANCs and 182 village, urban, and group corporations.

In 1986, legislation was enacted that allowed ANC-owned firms to participate in the Small Business Administration’s (SBA) 8(a) program—one of the federal government’s primary means for developing small businesses owned by socially and economically disadvantaged individuals. Since then, Congress has extended special procurement advantages to ANC firms. For example, ANC firms are permitted to receive noncompetitive contracts for any amount, whereas other 8(a) companies are subject to competitive thresholds of $5 million for manufacturing contracts or $3 million for all other contracts. ANCs can also own multiple subsidiaries participating in the 8(a) program, unlike other 8(a) firms that may own only one in a lifetime and no more than 20 percent of another 8(a) firm.

Our 2006 report on 8(a) ANC contracting identified (1) trends in contracting with ANC firms, (2) the reasons agencies have awarded 8(a) sole-source contracts to ANC firms and the facts and circumstances behind some of these contracts, and (3) how ANCs are using the 8(a) program. We also evaluated SBA’s oversight of 8(a) ANC firms. We made a number of recommendations to SBA and also recommended that the agencies in our review work with SBA to develop training for their contracting personnel.

Today I will discuss the highlights of our report and provide an update on actions SBA and the other agencies have taken to address our recommendations.


2Each 8(a) ANC firm must be in a different primary industry.
To address the objectives of our 2006 report, we obtained data on federal 8(a) contracting with ANCs. It is important to note that there is no readily available central source of information on ANC 8(a) contracting activity. We obtained each ANC firm’s Data Universal Numbering System (DUNS) number and used this information to obtain data from the Federal Procurement Data System (FPDS) and agencies. To assess the reliability of the procurement data, we (1) compared FPDS and agency data to verify its accuracy, (2) reviewed related documentation, including contract files, and (3) worked closely with agency officials to identify and resolve any data problems. When we found discrepancies, we brought them to the agency’s attention and worked with them to correct the discrepancies before conducting our analyses. We also analyzed 16 large, sole-source 8(a) contracts awarded to ANC firms from the departments of Defense, Energy, the Interior, State, Transportation, and Homeland Security and the National Aeronautics and Space Administration (NASA). We selected the contracts based on high ultimate award values and high dollar obligations that represented a variety of contractors and services. We traveled to Alaska and met with executives of 13 regional ANCs and 17 village or urban corporations. The report on which this testimony is based was prepared in accordance with generally accepted government auditing standards.

Our work did not include within its scope an objective or analyses that either support or challenge special ANC advantages within the 8(a) program. The program has been established in law and any changes are up to the Congress.

ANC Trends in and Use of 8(a) Contracting

8(a) ANC contracting represents a small amount of total federal procurement spending. However, dollars obligated to ANC firms through the 8(a) program grew from $265 million in fiscal year 2000 to $1.1 billion in 2004. Overall, during the 5-year period, the government obligated $4.6 billion to ANC firms, of which $2.9 billion, or 63 percent, went through the 8(a) program.

During this period, six federal agencies—the departments of Defense, Energy, the Interior, State, and Transportation and NASA—accounted for almost 85 percent of total 8(a) ANC obligations. Obligations for 8(a) sole-source contracts by these agencies to ANC firms increased from about $180 million in fiscal year 2000 to about $876 million in fiscal year 2004.

ANCs use the 8(a) program as one of many tools to generate revenue with the goal of benefiting their shareholders. Some ANCs are heavily reliant on the 8(a) program for revenues, while others approach the program as one...
of many revenue-generating opportunities, such as investments in stocks or real estate. ANCs are using the congressionally authorized advantages afforded to them, such as ownership of multiple 8(a) subsidiaries, sometimes in diversified lines of business. From fiscal year 1988 to 2005, numbers increased from one 8(a) subsidiary owned by one ANC to 154 subsidiaries owned by 49 ANCs. Figure 1 shows the recent growth in ANCs’ 8(a) subsidiaries.

Figure 1: Number of ANC Parent Corporations and Subsidiaries Active in the 8(a) Program, 1988 to 2005

ANCs use their ability to own multiple businesses in the 8(a) program, as allowed by law, in different ways. For example, some ANCs

- create a second subsidiary in anticipation of winning follow-on work from one of their graduating subsidiaries;\(^4\)

\(^3\)In this testimony, “ANC” refers to the parent corporation. The term “ANC firm” denotes a business owned by an ANC. We use the term “ANC firm” and “subsidiary” interchangeably.

\(^4\)There is a 9-year limit to participation in the 8(a) program; firms could graduate earlier if they outgrow their primary industry size standards.
• wholly own their 8(a) subsidiaries, while others invest in partially-owned subsidiaries; and
• diversify their subsidiaries’ capabilities to increase opportunities to win government contracts in various industries.

Contract Execution Shortfalls

Our review of 16 large sole-source contracts awarded by 7 agencies found that agency officials view contracting with 8(a) ANC firms as a quick, easy, and legal way to award contracts while at the same time helping their agencies meet small business goals. 5

Memoranda of Understanding (partnership agreements) between SBA and agencies delegate the contract execution function to federal agencies, although SBA remains responsible for implementing the 8(a) program. We found that contracting officials had not always complied with requirements to notify SBA when modifying contracts, such as increasing the scope of work or the dollar value, and to monitor the percentage of the work performed by the 8(a) firms versus their subcontractors. For example:

• Federal regulation requires that when 8(a) firms subcontract under an 8(a) service contract, they incur at least 50 percent of the personnel costs with their own employees. 6 The purpose of this provision, which limits the amount of work that can be performed by the subcontractor, is to ensure that small businesses do not pass along the benefits of their contracts to their subcontractors. For the 16 files we reviewed, we found almost no evidence that the agencies are effectively monitoring compliance with this requirement. In general, the contracting officers we spoke with were confused about whose responsibility it is.

• Agencies are also required to notify SBA of all 8(a) contract awards, modifications, and exercised options where the contract execution function has been delegated to the agencies in the partnership agreements. We found that not all contracting officers were doing so. In one case, the Department of Energy contracting officer had broadened the scope of a contract a year after award, adding 10 additional lines of business that almost tripled the value of the

5ANC firms in the 8(a) program are deemed by law as socially and economically disadvantaged. Awards to these firms are credited to agencies’ small business goals.

6For general construction, the 8(a) firm is required to incur at least 15 percent of the personnel costs.
contract. These changes were not coordinated with SBA.

SBA Lacks Oversight of 8(a) ANC Activity

We reported in 2006 that SBA had not tailored its policies and practices to account for ANCs’ unique status and growth in the 8(a) program, even though officials recognize that ANC firms enter into more complex business relationships than other 8(a) participants. SBA officials told us that they have faced a challenge in overseeing the activity of the 8(a) ANC firms because ANCs’ charter under the Alaska Native Claims Settlement Act is not always consistent with the business development intent of the 8(a) program. The officials noted that the goal of ANCs—economic development for Alaska Natives from a community standpoint—can be in conflict with the primary purpose of the 8(a) program, which is business development for individual small, disadvantaged businesses.

SBA’s oversight fell short in that it did not:

- track the primary business industries in which ANC subsidiaries had 8(a) contracts to ensure that more than one subsidiary of the same ANC was not generating the majority of its revenue under the same primary industry code;
- consistently determine whether other small businesses were losing contracting opportunities when large sole-source contracts were awarded to 8(a) ANC firms;
- adhere to a statutory and regulatory requirement to ascertain whether 8(a) ANC firms, when entering the 8(a) program or for each contract award, had, or were likely to obtain, a substantial unfair competitive advantage within an industry; 7
- ensure that partnerships between 8(a) ANC firms and large firms were functioning in the way they were intended under the 8(a) program; and
- maintain information on ANC 8(a) activity.

SBA officials from the Alaska district office had reported to headquarters that the makeup of their 8(a) portfolio was challenging and required more contracting knowledge and business savvy than usual because the majority of the firms they oversee are owned by ANCs and tribal entities. The officials commented that these firms tend to pursue complex business relationships and tend to be awarded large and often complex contracts. We found that the district office officials were having difficulty managing their large volume and the unique type of work in their 8(a) portfolio.

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7 This requirement is set forth in the Small Business Act (15 U.S.C. § 636(j)(10)(J)(ii)(II)).
When we began our review, SBA headquarters officials responsible for overseeing the 8(a) program did not seem aware of the growth in the ANC 8(a) portfolio and had not taken steps to address the increased volume of work in their Alaska office.

### Previous Conclusions, Recommendations, and Agency Responses

In 2006, we reported that ANCs were increasingly using the contracting advantages Congress has provided them. Our work showed that procuring agencies’ contracting officers are in need of guidance on how to use these contracts while exercising diligence to ensure that taxpayer dollars are spent effectively. Equally important, we stated, significant improvements were needed in SBA’s oversight of the program. Without stronger oversight, we noted the potential for abuse and unintended consequences.

In our April 2006 report, we made 10 recommendations to SBA on actions that can be taken to revise its regulations and policies and to improve practices pertaining to its oversight of ANC 8(a) procurements. Our recommendations and SBA’s June 2007 response are as follows.

We recommended that the Administrator of SBA:

1. Ascertain and then clearly articulate in regulation how SBA will comply with existing law to determine whether and when one or more ANC firms are obtaining, or are likely to obtain, a substantial unfair competitive advantage in an industry.

   SBA response: SBA is exploring possible regulatory changes that would address the issue of better controlling the award of sole-source 8(a) contracts over the competitive threshold dollar limitation to joint ventures between tribally and ANC-owned 8(a) firms and other business concerns.

2. In regulation, specifically address SBA’s role in monitoring ownership of ANC holding companies that manage 8(a) operations to ensure that the companies are wholly owned by the ANC and that any changes in ownership are reported to SBA.

   SBA response: SBA is building a Business Development Management Information System to electronically manage all aspects of the 8(a) program. According to SBA, this system, scheduled to be completed in fiscal year 2008, will monitor program participants’ continuing eligibility in the 8(a) program and could include an ANC element in the electronic annual review that would monitor the ownership of ANC holding companies that
manage 8(a) operations and ensure that any changes in ownership are reported to SBA.

3. Collect information on ANCs’ 8(a) participation as part of required overall 8(a) monitoring, to include tracking the primary revenue generators for 8(a) ANC firms to ensure that multiple subsidiaries under one ANC are not generating their revenue in the same primary industry.

SBA response: The planned electronic annual review can collect information on ANCs’ multiple subsidiaries to ensure that they are not generating the majority of their revenues from the same primary industry. Further, to ensure that an ANC-owned firm does not enter the 8(a) program with the same North American Industry Classification System (NAICS) code as another current or former 8(a) firm owned by that ANC, the ANC-owned applicant must certify that it operates in a distinct primary industry and must demonstrate that fact through revenues generated. SBA notes that the planned annual electronic reviews can validate this information.

4. Revisit regulation that requires agencies to notify SBA of all contract modifications and consider establishing thresholds for notification, such as when new NAICS codes are added to the contract or there is a certain percentage increase in the dollar value of the contract. Once notification criteria are determined, provide guidance to the agencies on when to notify SBA of contract modifications and scope changes.

SBA response: SBA stated that its revisions to its partnership agreements with federal agencies address this recommendation. However, we note that the revised agreement does not establish thresholds or include new criteria for when agencies should send SBA contract modifications or award documentation. The agreement states that agencies “shall provide a copy of any

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SBA has designated a small business size standard for every NAICS code. 8(a) applicants must qualify as small under their primary NAICS code at the time of application and SBA’s certification date. SBA regulation requires that at least 2 years lapse after an ANC firm exits the 8(a) program before another firm owned by the same parent ANC can enter the program with the prior firm’s primary NAICS code. However, once accepted into the program, 8(a) firms may pursue contracts in any line of work, called secondary NAICS codes.
contract…including basic contracts, orders, modifications, and purchase orders” to SBA.

5. Consistently determine whether other small businesses are losing contracting opportunities when awarding contracts through the 8(a) program to ANC firms.

SBA response: SBA stated that it plans to require the contracting agencies to include impact statements in their contract offer letters to SBA.

6. Standardize approval letters for each 8(a) procurement to clearly assign accountability for monitoring of subcontracting and for notifying SBA of contract modifications.

SBA response: SBA agreed with the recommendation but did not indicate an action taken or planned.

7. Tailor wording in approval letters to explain the basis for adverse impact determinations.

SBA response: SBA agreed with the recommendation but did not indicate an action taken or planned.

8. Clarify memorandums of understanding (known as partnership agreements) with procuring agencies to state that it is the agency contracting officer’s responsibility to monitor compliance with the limitation on subcontracting clause.

SBA response: SBA has implemented this recommendation by revising the partnership agreements with the procuring agencies. It added several provisions that delineate the agencies’ responsibilities for oversight, monitoring, and compliance with procurement laws and regulations governing 8(a) contracts, including the limitation on subcontracting clause.

9. Evaluate staffing levels and training needed to effectively oversee ANC participation in the 8(a) program and take steps to allocate appropriate resources to the Alaska district office.

SBA response: SBA stated that the planned Business Development Management Information System should help the Alaska district office more effectively oversee ANC participation in the 8(a) program. It stated that it is providing training to the Alaska district
office. However, no plans were in place to evaluate staffing levels at the office.

10. Provide more training to agencies on the 8(a) program, specifically including a component on ANC 8(a) participation.

SBA response: SBA has provided training to agencies on the revised 8(a) partnership agreements; however, our review of the slides SBA used for the training found no reference to ANC 8(a) firms specifically. According to an SBA official, SBA will include a component on ANC 8(a) participants in future training sessions.

We also recommended that procuring agencies provide guidance to contracting officers to ensure proper oversight of ANC contracts. The procuring agencies generally agreed with the recommendation. Some agencies are waiting for SBA to implement our recommendations before they take their own actions, but others have taken steps to tighten their oversight of contracts with 8(a) ANC firms. The Department of Homeland Security, for example, recently issued an “acquisition alert” requiring that its heads of contracting activities provide guidance and training on the use of 8(a) firms owned by ANCs. The alert provides that use of the authority to award sole-source 8(a) contracts to ANCs must be judicious with appropriate safeguards to ensure that the cost/price is fair and reasonable, that the ANC has the technical ability to perform the work, that the ANC will be performing the required percentage of the work and that the award is in the best interests of the government. The Department of Energy revised its acquisition guidance regarding small business programs to remind contracting officers to use care in awarding and administering ANC contracts, to include notifying SBA of contract modifications and monitoring the limits on subcontracting. The Department also provided training on the 8(a) program, to include contracting with ANC firms. By providing contracting officers with appropriate training on these issues, the government is taking steps to ensure that the ANC firms are operating in the program as intended, thereby mitigating the risk of unintended consequences or abuse of some of the privileges provided to these firms.

This concludes my testimony. I would be happy to answer any questions you may have.
For further information regarding this testimony, please contact Katherine V. Schinasi at (202) 512-4841 or schinasik@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Key contributors were Michele Mackin, Sylvia Schatz, and Tatiana Winger.

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Appendix I: Scope and Methodology

We conducted our work at the Small Business Administration (SBA), including its national headquarters and district office in Anchorage, Alaska; the Departments of Defense, Energy, Homeland Security, the Interior, State, and Transportation, and the National Aeronautics and Space Administration (NASA). We traveled to Alaska and met with representatives of 30 Alaska Native corporations (ANC). We also met with representatives of the Native American Contractors Association in Washington, D.C. and interviewed officials from a number of small businesses as well as representatives from an 8(a) association. We reviewed relevant legislation, including the Alaska Native Claims Settlement Act (ANSCA) for background on the ANC corporate structure and the Small Business Act and other relevant legislation to understand the pertinent procurement advantages that ANC firms receive in the 8(a) program.

To identify overall trends in the government’s contracting with ANCs, we obtained data from the Federal Data Procurement System (FPDS) for fiscal years 2000 through 2004. To gather data on federal 8(a) contracting with ANCs, we identified each ANC firm’s Data Universal Numbering System (DUNS) number and used this information to obtain data from FPDS and agencies. To assess the reliability of the procurement data used in our 5-year trend analysis, we (1) compared FPDS and agency data to verify the accuracy of the data; (2) reviewed related documentation, including contract files; and (3) worked closely with agency officials to identify and resolve any data problems. When we found discrepancies, we brought them to the agency’s attention and worked with them to correct the discrepancies before conducting our analyses. We determined that the data were sufficiently reliable for the purposes of our report. We had planned to include Homeland Security in our trend analysis, but did not do so for two reasons. First, since FPDS only includes Homeland Security contract data for part of fiscal year 2003 and beyond, we were unable to confirm the reliability of the data for the purposes of our 5-year trend analysis. Second, we found that the data from Homeland Security were inconsistent and therefore questioned the reliability of the data overall. For example, the data provided did not include contracts awarded by Immigration and Customs Enforcement and contained other data errors, such as contracts recorded with either an incorrect dollar value or as sole source when awarded competitively.

To assess the trends in government 8(a) sole-source contracting with ANCs from fiscal years 2000 to 2004, we reviewed data from the six federal agencies that, according to FPDS, comprise about 85 percent of total federal dollars obligated to ANCs via the 8(a) program. These agencies
were the departments of Defense, Energy, the Interior, State, and Transportation and NASA, which obligated about $2.5 billion in sole-source contracts to ANCs for fiscal years 2000 through 2004. To understand the facts and circumstances surrounding specific contract awards, we reviewed contract files, interviewed agency contracting officers, and reviewed any relevant bid protests for 16 large dollar value, sole-source 8(a) contracts at seven agencies. Whereas we included six agencies in our 8(a) sole source trend analysis, we added the Department of Homeland Security to our contract file review. To identify two sole-source contracts awarded by Homeland Security, we began reviewing the contracts with the largest dollar awards from the data provided, but had to exclude a number of the largest contracts from our file review due to errors in the data. We brought significant data errors to the attention of Homeland Security officials and the department stated that it has initiated corrective action. For the seven agencies, we selected contracts based on high ultimate award values and high dollars obligated to date that represented a variety of contractors and services. We made the initial contract selections based on the available data at that time.

To assess how ANCs use the 8(a) program, we reviewed documentation and spoke with representatives from 30 Alaska Native corporations—all 13 regional and 17 selected village or urban corporations—and some of their 8(a) subsidiaries. In selecting corporations to interview, we considered diversity in geography, financial strategy and profitability, and participation in the 8(a) program. Tables 5 and 6 show the corporations included in our review.
### Appendix I: Scope and Methodology

Table 5: ANCs with Subsidiaries Participating in the 8(a) Program (26)

#### Regional corporations (12)

<table>
<thead>
<tr>
<th>Corporation</th>
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<tbody>
<tr>
<td>Ahtna, Incorporated</td>
</tr>
<tr>
<td>Arctic Slope Regional Corporation</td>
</tr>
<tr>
<td>Bering Straits Native Corporation</td>
</tr>
<tr>
<td>Bristol Bay Native Corporation</td>
</tr>
<tr>
<td>Calista Corporation</td>
</tr>
<tr>
<td>Chugach Alaska Corporation</td>
</tr>
<tr>
<td>Doyon, Limited</td>
</tr>
<tr>
<td>Koniag, Incorporated</td>
</tr>
<tr>
<td>NANA Regional Corporation</td>
</tr>
<tr>
<td>Sealaska Corporation</td>
</tr>
<tr>
<td>The Aieut Corporation</td>
</tr>
<tr>
<td>The 13th Regional Corporation</td>
</tr>
</tbody>
</table>

#### Village and urban corporations (14)

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Village(s) or urban area</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Afognak Native Corporation</td>
<td>Afognak, Port Lions</td>
<td>Koniag</td>
</tr>
<tr>
<td>Baan o yeel kon Corporation</td>
<td>Rampart</td>
<td>Doyon</td>
</tr>
<tr>
<td>Bethel Native Corporation</td>
<td>Bethel</td>
<td>Calista</td>
</tr>
<tr>
<td>Chenega Corporation</td>
<td>Chenega</td>
<td>Chugach</td>
</tr>
<tr>
<td>Choggiung, Limited</td>
<td>Dillingham</td>
<td>Bristol Bay</td>
</tr>
<tr>
<td>Goldbelt, Incorporated</td>
<td>Juneau</td>
<td>Sealaska</td>
</tr>
<tr>
<td>Kikiktagruk Inupiat Corporation</td>
<td>Kotzebue</td>
<td>NANA</td>
</tr>
<tr>
<td>K’oyit’ots’ina, Limited</td>
<td>Aliakaket, Alatna, Hughes, Huslia</td>
<td>Doyon</td>
</tr>
<tr>
<td>MTNT, Limited</td>
<td>McGrath, Telida, Nikolai, Takotna</td>
<td>Doyon</td>
</tr>
<tr>
<td>Olgoonik Corporation</td>
<td>Wainwright</td>
<td>Arctic Slope</td>
</tr>
<tr>
<td>Tanadgusix Corporation</td>
<td>Saint Paul</td>
<td>Aleut</td>
</tr>
<tr>
<td>The Eyak Corporation</td>
<td>Cordova, Eyak</td>
<td>Chugach</td>
</tr>
<tr>
<td>Tyonek Native Corporation</td>
<td>Tyonek</td>
<td>Cook Inlet</td>
</tr>
<tr>
<td>Ukpeagvik Inupiat Corporation</td>
<td>Barrow</td>
<td>Arctic Slope</td>
</tr>
</tbody>
</table>

Source: Documentation provided by the ANCs.
Table 6: ANCs That Do Not Have Subsidiaries Participating in the 8(a) Program (4)

<table>
<thead>
<tr>
<th>Corporation</th>
<th>Village(s) or urban area</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Huna Totem Corporation</td>
<td>Hoonah</td>
<td>Sealaska</td>
</tr>
<tr>
<td>Kuukpik Corporation</td>
<td>Nuisqut</td>
<td>Arctic Slope</td>
</tr>
<tr>
<td>Yak-Tat Kwaan, Incorporated</td>
<td>Yakutat</td>
<td>Sealaska</td>
</tr>
</tbody>
</table>

Source: Documentation provided by the ANCs.

Additionally, we visited seven villages with populations that had a high percentage of Alaska Natives to understand the lifestyle and livelihood of the Alaska Native people. We selected these villages based on diversity in geography, population, average per capita income, and shareholder culture and history. We also attended a shareholders’ annual meeting at one of these villages to observe communication and relations between shareholders and corporate management. Table 7 shows the villages we visited.

Table 7: Villages Visited

<table>
<thead>
<tr>
<th>Village</th>
<th>Associated village corporation</th>
<th>Corporation participating in 8(a) program?</th>
<th>Region</th>
<th>Estimated population (2004)</th>
<th>Average per capita income</th>
<th>Percentage Alaska Native*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bethel</td>
<td>Bethel Native Corporation</td>
<td>Yes</td>
<td>Calista</td>
<td>5,888</td>
<td>$20,267</td>
<td>68%</td>
</tr>
<tr>
<td>Chenega Bay</td>
<td>Chenega Corporation</td>
<td>Yes</td>
<td>Chugach</td>
<td>81</td>
<td>$13,381</td>
<td>78%</td>
</tr>
<tr>
<td>Dillingham</td>
<td>Choggiung, Limited</td>
<td>Yes</td>
<td>Bristol Bay</td>
<td>2,422</td>
<td>$21,537</td>
<td>61%</td>
</tr>
<tr>
<td>McGrath</td>
<td>MTNT, Limited</td>
<td>Yes</td>
<td>Doyon</td>
<td>367</td>
<td>$21,553</td>
<td>55%</td>
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<tr>
<td>Napaskiak</td>
<td>Napaskiak, Incorporated</td>
<td>No</td>
<td>Calista</td>
<td>436</td>
<td>$8,162</td>
<td>98%</td>
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<tr>
<td>Nikolai</td>
<td>MTNT, Limited</td>
<td>Yes</td>
<td>Doyon</td>
<td>121</td>
<td>$11,029</td>
<td>81%</td>
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<tr>
<td>Yakutat</td>
<td>Yak-Tat Kwaan, Incorporated</td>
<td>No</td>
<td>Sealaska</td>
<td>680</td>
<td>$22,579</td>
<td>47%</td>
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</table>

Source: State of Alaska, Department of Commerce.

* Defined as percent of population reporting race as Alaska Native alone or in combination with one or more races.

To understand the structure, shareholder population, and involvement in the 8(a) program of each corporation, we examined annual reports and other documentation from our selected 30 corporations and spoke with Alaska Native shareholders. We also interviewed ANC executives on
corporate governance, strategies for participation in the 8(a) program, and benefits provided to shareholders. Additionally, we met with executives at selected subsidiaries participating in the 8(a) program to understand their structure, business strategies, and relationship to their parent corporations.

To establish whether SBA’s oversight over ANCs in the 8(a) program is adequate, we reviewed relevant regulations and operating procedures to understand the requirements for oversight of the 8(a) program and of ANC 8(a) activity. We interviewed SBA officials at the Alaska district office and reviewed relevant files to understand that staff’s oversight role and workload priorities. Finally, we analyzed documents from and spoke with SBA headquarters officials in the Washington, D.C. office to understand their oversight of district offices and the 8(a) program and whether the officials have assessed and addressed the impact of increased ANC activity on the 8(a) program.
Appendix X: Benefits That Alaska Native Corporations Provide to Their Shareholders

Through our review of documentation provided by the 13 regional and 17 village or urban Alaska Native corporations (ANC) included in our review, as well as interviews with corporation representatives and shareholders, we gained an understanding of how the corporations communicate with and obtain input from their shareholders and of the benefits they provide.

The ANCs communicated with their shareholders through surveys, Web sites, newsletters, annual reports, local media, shareholder committees, and annual and other periodic meetings. Some had “open door” policies, which gave shareholders the opportunity to voice their opinions to management at any time. Additionally, corporations took steps to reach out to shareholders both out of state and in the villages. For example, one corporation’s officials conducted the annual meeting via Web cast and noted that Internet attendance was beginning to outpace in-person attendance. Another corporation rotated its annual meeting among Anchorage, Seattle, and its regional hub. Additionally, several of the regional corporations regularly traveled to their villages to seek input. Steps taken by one to facilitate village outreach included moving the location of its annual meeting from the regional hub to the villages; holding the meeting in the native language; and investing in a boat to facilitate transport to the region’s villages.

Shareholder preferences for benefits differed among corporations. For example, one corporation stated that its shareholders prioritized protection of their land and the subsistence lifestyle. Shareholders of other corporations placed a greater value on dividends, scholarships, training, and job opportunities.

Corporations reported targeting benefits towards the needs of their shareholders. Such projects included:

- investing in low-cost Internet service as a tool to reduce the isolation of a particularly remote village;
- issuing death benefits in the form of food vouchers because the cultural tradition among its shareholders is to host and feed visitors from the time of death through burial services;

1 The subsistence lifestyle depends on wild resources for basic needs such as food, clothing, and fuel as well as for trade, arts, and ceremony.
Appendix X: Benefits That Alaska Native Corporations Provide to Their Shareholders

• investing in an insurance company when other insurance companies were reluctant to insure shareholders’ homes; and
• subsidizing heating oil for residents of a small, remote community north of the Arctic Circle, absorbing a loss of $2.75-$3.00 per gallon.

Some regional corporations stated that they required sizable revenues to provide benefits to a large shareholder base. Of the corporations we reviewed, the 13 regional corporations had approximately 102,000 shareholders, and the 17 village and urban corporations had about 17,000 shareholders. Overall, the corporations we reviewed saw a 31 percent increase in their number of shareholders since incorporation.

The number of shareholders at two regional corporations more than doubled since incorporation.

The 30 ANCs included in our review reported providing three categories of benefits

• dividends,
• other direct benefits, and
• indirect benefits

Dividends: In 2004, the 30 corporations paid a total of $121.6 million in dividends. Eleven corporations issued no dividends. Of the corporations that issued dividends, payments ranged from $1.71 per share to $171.00 per share. In a given year, a shareholder may have received a dividend from his or her village corporation and an additional dividend from his or her regional corporation.

Corporate officials noted that dividend payments, no matter how small, meant much to their shareholders in many rural villages where basic necessities were expensive—for example, milk cost $12 per gallon and fuel cost $5 per gallon.

Original shareholders received 100 shares upon incorporation. One village corporation’s 137 shareholders owned as few as one and up to 200 shares, with an average of about 50 shares.

2 Each eligible Alaska Native is generally entitled to membership both in the corporation established for his or her village and in the regional corporation in which the village is located.

3 One corporation was unable to provide us with its original enrollment data.
A third of the ANCs created permanent funds to build up a reserve for future dividends. Two corporations told us that these funds allowed them to issue dividends even in years when they were unprofitable.

Half of the ANCs established policies specifying an amount or percentage of net income to be distributed as shareholder dividends. For example, one corporation's board required an increase in its annual dividend amount by 10 percent over the previous year. Another corporation annually distributed 66 percent of its average net income for the prior 5 years to shareholders. The result of this policy coupled with some unprofitable years was that in 2004, this ANC paid 100 percent of its income in dividends to shareholders.

Other Direct Benefits:

- **Shareholder hiring preference and job opportunities.** All of the corporations we interviewed reported a hiring preference for shareholders. Some corporations extended this preference to shareholders' families, other Alaska Natives, and/or other Native Americans.

- **Other employment assistance programs.** In addition to offering a shareholder hire preference, corporations made efforts to encourage other shareholder employment. Nine of the 30 corporations offered a management training program. Some corporations had agreements with partner companies encouraging shareholder hire. One corporation had a preference to conduct business with shareholder-owned businesses. Another corporation's employment assistance programs included mentoring; one-on-one counseling; business and career fairs; survey of shareholders over 18 seeking employment; and tracking shareholder employment status and interests in a database.

- **Benefits for elder shareholders.** Twelve of the 30 corporations we interviewed reported issuing benefits for elder shareholders. Some corporations paid additional regular dividends to elders, while others made one-time financial payments. Two corporations made in-kind benefits for elders, such as a lunch program or a bus service.

- **Scholarships.** Almost all corporations offered scholarships for shareholders.

- **Internships and other youth programs.** Many corporations provided internships or other youth programs for shareholders at parent and subsidiary companies. Two Washington, D.C.-based subsidiaries provided housing and other relocation assistance to their interns. Additionally, one corporation instituted the Young Adult Advisory
Appendix X: Benefits That Alaska Native Corporations Provide to Their Shareholders

Mentor program, which allows its youth to participate in the corporation. Corporate officials told us that they instituted mentoring and internship programs to lead to future involvement of shareholders in management and leadership roles.

- **Burial assistance.** Twenty-two of the 30 corporations reported providing some kind of assistance to the family of a deceased shareholder. Forms of burial assistance include cash, life insurance payments, or in-kind donations.

- **Land leasing, gifting or other use.** Most of the village and urban corporations we interviewed leased, gifted, or made other use of the land given to the village corporation in the Alaska Native Claims Settlement Act\(^4\) settlement for shareholders. For example, one corporation gifted five acres to any shareholder who requested it.

- **Community infrastructure.** Several corporations invested in the infrastructure of their villages. For example, after the Department of the Interior’s Bureau of Indian Affairs ceased barge service to its remote village, one corporation established a transportation company that became the only mechanism to bring goods to the community. Other projects included remodeling the community washateria\(^5\) and administering and subsidizing a village’s cable and Internet utilities.

**Indirect Benefits:**

- **Support of the subsistence lifestyle.** Corporations took steps to protect and maintain the subsistence lifestyle of their shareholders. One corporation built in subsistence leave into its personnel policy. Another corporation leased its land for “fish camps,” or plots along a river for shareholders to catch and smoke fish in the summertime.

- **Cultural preservation.** Twenty-four of the 30 corporations we interviewed invested in cultural and heritage programs, which included museums, culture camps, or native language preservation.

- **Establishment and support of affiliated foundations or nonprofit organizations.** Twenty-one of the 30 corporations established affiliated foundations or nonprofit organizations.

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\(^5\) A washateria is a community laundry and shower facility found in villages without running water.
Appendix X: Benefits That Alaska Native Corporations Provide to Their Shareholders

- **Donations to other nonprofit organizations.** Almost all of the corporations donated to various nonprofit organizations. For example, one corporation donated to organizations that advocate for Alaska Natives, such as the Alaska Federation of Natives, Alaska Native Arts Foundation, Alaska Native Justice Center, and Get Out the Native Vote.

- **Support to other corporations.** Some regional corporations provided various kinds of assistance to the village corporations in their regions. For example, one regional corporation is trying to develop 8(a) partnerships with its village corporations to help them enter the 8(a) program with lower start-up and administrative costs. Other regional corporations provided recordkeeping, natural resources, and regulatory and community planning services for their village corporations.