

**GAO**

Report to the Chairwoman, Committee  
on Small Business, House of  
Representatives

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June 2010

# SMALL BUSINESS ADMINISTRATION

## Undercover Tests Show HUBZone Program Remains Vulnerable to Fraud and Abuse



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# Highlights

Highlights of [GAO-10-759](#), a report to the Chairwoman, Committee on Small Business, House of Representatives

## Why GAO Did This Study

The Small Business Administration's (SBA) Historically Underutilized Business Zone (HUBZone) program provides federal contracting assistance to small firms located in economically distressed areas, with the intent of stimulating economic development. In July 2008 and March 2009, GAO reported on substantial vulnerabilities to fraud and abuse in the HUBZone application and monitoring process. GAO also found 10 HUBZone firms in the Washington, D.C., area and 19 firms in four other metropolitan areas in Alabama, California, and Texas that made fraudulent or inaccurate representations to get into or remain in the HUBZone program.

Given the Committee's continued concern over fraud and abuse in the HUBZone program, GAO (1) performed additional proactive testing of SBA's HUBZone certification process, and (2) determined whether SBA has taken any actions against the 29 case study firms GAO identified in its prior work. Using publicly available resources to fabricate documents, GAO proactively tested SBA's application process by applying for HUBZone certification for four bogus businesses with fictitious owners and employees. GAO also interviewed SBA officials and reviewed SBA data about the 29 case study firms. GAO did not attempt to project the extent of fraud and abuse in the program nor systematically assess HUBZone program controls.

GAO makes no recommendations in this report.

View [GAO-10-759](#) or [key components](#). For more information, contact Gregory Kutz at (202) 512-6722 or [kutzg@gao.gov](mailto:kutzg@gao.gov).

## SMALL BUSINESS ADMINISTRATION

### Undercover Tests Show HUBZone Program Remains Vulnerable to Fraud and Abuse

#### What GAO Found

The HUBZone program remains vulnerable to fraud and abuse. Using falsified documents and employee information, GAO obtained HUBZone certification for three bogus firms using the addresses of the Alamo in Texas, a public storage facility in Florida, and a city hall in Texas as principal office locations. A simple Internet search by SBA could have revealed these as phony applications. While the agency has required more documentation in its application process since GAO's July 2008 report, GAO's testing shows that SBA does not adequately authenticate self-reported information and, for these cases, did not perform site visits to validate the addresses. Further, the changes have significantly increased the time it takes SBA to process applications. Specifically, SBA took 7 or more months to process each of the bogus applications—at least 6 months longer than for GAO's previous investigations. SBA continually lost documentation for GAO's fourth application, and eventually withdrew it after GAO failed to resubmit the same materials for the fourth time. On its Web site, SBA reported that applicants are experiencing delays during the application process.

**National Historic Landmark Address (The Alamo) Used by GAO as Principal Office Location for a Bogus HUBZone Firm**



Source: GAO.

SBA has taken some action on most of the 29 firms that GAO previously reported did not meet HUBZone program requirements. The SBA decertified 16 firms from the HUBZone program, and another 8 firms voluntarily withdrew. While GAO maintains all 29 firms did not meet requirements at the time of its review, SBA stated that the other 5 firms were in compliance at the time of its own review and so remain certified. Since GAO's March 2009 report, 17 of the 29 companies have received more than \$66 million in federal obligations for new contracts. GAO recently reported that one firm has also defrauded the SBA 8(a) program. Because the SBA did not promptly debar the firm from federal contracts, it was able to fraudulently receive an additional \$600,000 in noncompetitive 8(a) federal contracts since GAO's last report. SBA recently proposed debarring this firm.

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## Abbreviations

DOJ	Department of Justice
HUBZone	Historically Underutilized Business Zone
ISDC	Interagency Suspension and Debarment Committee
ORCA	Online Representations and Certifications Application
SBA	Small Business Administration
SDO	SBA's Suspension and Debarment Official

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United States Government Accountability Office  
Washington, DC 20548

June 25, 2010

The Honorable Nydia M. Velázquez  
Chairwoman  
Committee on Small Business  
House of Representatives

Dear Madam Chairwoman:

In fiscal year 2009, federal agencies obligated nearly \$3 billion in sole source or set-aside contracts to firms participating in the Historically Underutilized Business Zone (HUBZone) program, which we have shown to be vulnerable to fraud and abuse.<sup>1</sup> Administered by the Small Business Administration (SBA), this program is meant to spur economic growth in underdeveloped areas by helping qualified small businesses secure federal contracts. Qualified businesses located in HUBZones—economically distressed areas with low income levels or high unemployment rates—are eligible to bid on federal prime contracts and subcontracts available exclusively to program participants, in addition to benefiting from other contracting preferences. The SBA must certify that a small business meets the following criteria to qualify for the program: the firm must be owned and controlled by one or more U.S. citizens; at least 35 percent of full-time (or full-time equivalent) employees live in a HUBZone; and the principal office, where most qualifying employees work, must be in a HUBZone. According to the SBA's Dynamic Small Business Web site, as of March 2010, 9,300 firms were participating in the program.

In July 2008, we testified that the SBA's lack of an effective fraud prevention program meant its application process could not provide reasonable assurance that only eligible firms were being certified to

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<sup>1</sup>GAO, *Small Business Administration: Additional Actions Are Needed to Certify and Monitor HUBZone Businesses and Assess Program Results*, [GAO-08-975T](#) (Washington, D.C.: July 17, 2008); GAO, *Small Business Administration: Additional Actions Are Needed to Certify and Monitor HUBZone Businesses and Assess Program Results*, [GAO-08-643](#) (Washington, D.C.: June 17, 2008); GAO, *HUBZone Program: SBA's Control Weaknesses Exposed the Government to Fraud and Abuse*, [GAO-08-964T](#) (Washington, D.C.: July 17, 2008); GAO, *HUBZone Program: Fraud and Abuse Identified in Four Metropolitan Areas*, [GAO-09-440](#) (Washington, D.C.: Mar. 25, 2009); and GAO, *HUBZone Program: Fraud and Abuse Identified in Four Metropolitan Areas*, [GAO-09-519T](#) (Washington, D.C.: Mar. 25, 2009).

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participate in the program. Using fictitious employee and owner information and fabricated documentation, we easily obtained HUBZone certification for four bogus firms. We also identified 10 firms from the Washington, D.C., metro area that participated in the program even though they did not meet eligibility criteria. In March 2009, we reported on 19 additional HUBZone firms from Alabama, California, and Texas that were not eligible for the program.

Because you expressed concerns about continued fraud and abuse in the program, we (1) performed additional proactive testing of the SBA's HUBZone certification process and (2) determined what actions, if any, the SBA has taken against the 29 case study firms we identified in our prior work.

To proactively test the SBA's HUBZone certification process, we created four new bogus firms and applied for HUBZone certification using false information and fabricated documents to meet the SBA's certification requirements. Our applications contained fictitious employee information and bogus principal office addresses. We used publicly available guidance provided by the SBA to create the applications. When necessary, we fabricated documents to support our applications using commercially available hardware, software, and materials. To determine what actions, if any, the SBA has taken against the 29 firms that we found misrepresented their HUBZone status, we made inquiries on our referrals with SBA officials from the HUBZone Program Office, and the SBA's Suspension and Debarment Official (SDO). To identify federal obligations received by the firms subsequent to our referral to SBA, we analyzed data from the Federal Procurement Data System-Next Generation. We also reviewed the SBA's Dynamic Small Business Web site to determine the current HUBZone status of the 29 firms. To identify firms that represented themselves as HUBZone certified, where they may possibly receive benefits from improperly being associated with the program, even after they were decertified by the SBA, we reviewed the Web sites of all 29 firms. We did not review SBA records to confirm actions on the 29 firms or the firms' actions to comply with HUBZone requirements.

Our work was not designed to systematically assess HUBZone program controls or to determine the legal sufficiency of any actions SBA took against the selected firms we referred for investigation. We conducted our investigation from October 2008 through June 2010 in accordance with quality standards for investigations as set forth by the Council of the Inspectors General on Integrity and Efficiency.

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## Background

The HUBZone program was established by the HUBZone Act of 1997 to stimulate economic development by providing federal contracting preferences to small businesses operating in economically distressed communities known as HUBZones. The SBA is responsible for administering the program and certifying applicant firms that meet HUBZone program requirements. To be certified, in general, firms must meet the following criteria: 1) the company must be small by SBA size standards;<sup>2</sup> 2) the company's principal office—where the greatest number of employees perform their work—must be located in a HUBZone; 3) the company must be at least 51 percent owned and controlled by U.S. citizens; and 4) at least 35 percent of the company's full-time (or full-time equivalent) employees must reside in a HUBZone.<sup>3</sup> As of March 2010, approximately 9,300 firms were listed in the SBA's Dynamic Small Business database as participating in the HUBZone program.

A certified HUBZone firm is eligible for a variety of federal contracting benefits, such as sole source contracts and set-aside contracts.<sup>4</sup> Contracting officers may award a sole source contract to a HUBZone firm if, among other things, the officer does not have a reasonable expectation that two or more qualified HUBZone firms will submit offers and the anticipated award price of the proposed contract, including options, will not exceed \$5.5 million for manufacturing contracts or \$3.5 million for all other contracts. Once a qualified firm receives a HUBZone contract, the firm is required to spend at least 50 percent of the personnel costs of the contract on its own employees.<sup>5</sup> The company must also represent, as provided in the application, that it will "attempt to maintain" having 35

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<sup>2</sup>The Small Business Act, as amended, defines a small business generally as one that is "independently owned and operated and that is not dominant in its field of operation."

<sup>3</sup>For service and construction firms, determination of principal office excludes employees who perform the majority of their work at job site locations to fulfill specific contract commitments.

<sup>4</sup>Sole source contracts involve a noncompetitive purchase or procurement process accomplished after soliciting and negotiating with only one source, thus limiting full and open competition. Set-aside contracts reserve an acquisition exclusively for participation by small business concerns.

<sup>5</sup>There are exceptions to the 50 percent requirement, depending on the type of contract; for example, qualified HUBZone firms may meet the 50% labor requirement by using employees of other qualified HUBZone firms. 13 C.F.R. § 126.700.

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percent of its employees reside in a HUBZone during the performance of any HUBZone contract it receives.<sup>6</sup>

The SBA must ensure that both applicant and participant firms meet and maintain eligibility criteria at the time of application and, if they are granted certification, throughout their tenure in the program. During the application process, firms attest to the authenticity of the information that they submit to the SBA regarding their eligibility. Subsequent to certification, SBA regulations require firms to immediately notify the agency if any material changes occur that affect their eligibility, such as changes to the number of employees residing in a HUBZone or the location of the firm's principal office.<sup>7</sup> Moreover, certified HUBZone firms competing for government contracts must verify in the government's Online Representations and Certifications Application (ORCA)<sup>8</sup> that there have been "no material changes in ownership and control, principal office, or the percentage of employee's living in a HUBZone since it was certified by the SBA." Firms and individuals who misrepresent their eligibility during the application process or while participating in the program are subject to civil and criminal penalties; decertification from the HUBZone program; or debarment from all federal contracts.<sup>9</sup>

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## SBA's HUBZone Certification Process Remains Vulnerable to Fraud and Abuse

The SBA continues to struggle with reducing fraud risks in its HUBZone certification process despite reportedly taking steps to bolster its controls. The agency certified three of our four bogus firms based on fraudulent information, including fabricated explanations and supporting documentation. The SBA lost documentation for our fourth application on multiple occasions, forcing us to abandon our application. Our testing revealed that the SBA does not adequately authenticate self-reported

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<sup>6</sup>15 U.S.C. § 632(p)(5)(A).

<sup>7</sup>13 C.F.R. §126.501.

<sup>8</sup>ORCA was established as part of the Business Partner Network, an element of the Integrated Acquisition Environment, which is implemented under the auspices of White House Office of Management and Budget, Office of Federal Procurement Policy, and the Chief Acquisition Officers Council. ORCA is "the primary government repository for contractor submitted representations and certifications required for the conduct of business with the government."

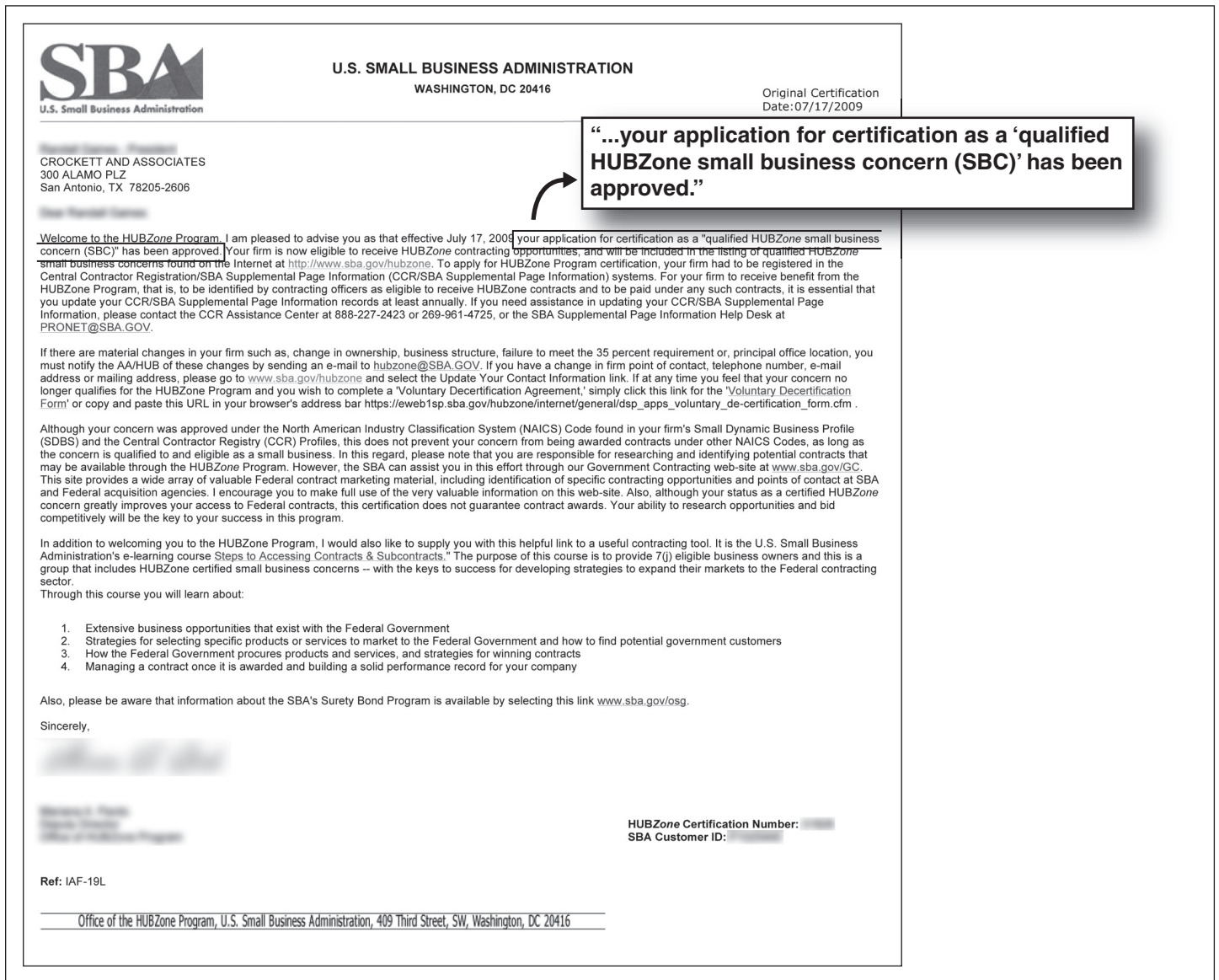
<sup>9</sup>If SBA determines at any time that a HUBZone Small Business Concern (SBC) is not qualified, SBA may de-certify the HUBZone SBC, remove the concern from the list, and/or seek imposition of penalties pursuant to §126.900. 13 C.F.R. §126.504.

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information—especially as it pertains to information regarding whether a firm’s principal office location meets program requirements. For example, for our successful firms, we used the addresses of the Alamo, a public storage facility in Florida, and a city hall in Texas as our principal office locations—locations that a simple Internet search could have revealed as ineligible for the program. While ensuring that a HUBZone applicant’s principal office is legitimately located in a HUBZone is a complicated process, the SBA’s failure to verify principal office locations leaves the program vulnerable to firms misrepresenting the locations of their principal offices and thus, benefits of the program not going to areas that are economically disadvantaged. Figure 1 below shows one of the acceptance letters we received.



Figure 1: HUBZone Certification Letter from SBA for Our Bogus Firm



Source: SBA.

In contrast to our last test of the HUBZone certification process, the SBA considerably increased the amount of documentation it requested to support each application and its attempts to contact and communicate

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with the owners we represented in our applications.<sup>10</sup> However, the SBA also increased the amount of time it takes to certify firms and, by all indications, suspended the use of agency processing time guidelines as indicated by an e-mail that we received from an SBA official and information that the agency posted on its Web site.<sup>11</sup> The SBA took at least 7 months to process each of the three applications from our bogus companies that it certified. In our previous test, the SBA certified our firms in as little as 2 weeks, with minimal requests for documentary evidence. SBA's increased processing times failed to prevent our fraudulent firms from being certified.

As we indicated in our March 2009 report, the SBA initiated a process of reengineering the HUBZone program in response to our findings and recommendations. Though we did not assess the effectiveness of the actions that the SBA undertook to strengthen its internal controls, we were still able to exploit those weaknesses in order to obtain program certification for our bogus firms.

Specific details about each of our fraudulent applications are reported below.

**Fictitious Application 1:** We received HUBZone certification about 7 months after submitting this application to the SBA. For the principal office location, we used the address of the Alamo, a National Historic Landmark in Texas. We claimed that both the firm's employees were HUBZone residents. Nearly 3 months after submission, we received an e-mail from the SBA requesting a copy of the HUBZone maps that we used to verify the residency of our employees, birth certificates, copies of tax returns for the last 3 years, corporate documents, and a copy of our firm's rental agreement and a recent utility bill. We fabricated these documents using publicly available materials and software and submitted them to the

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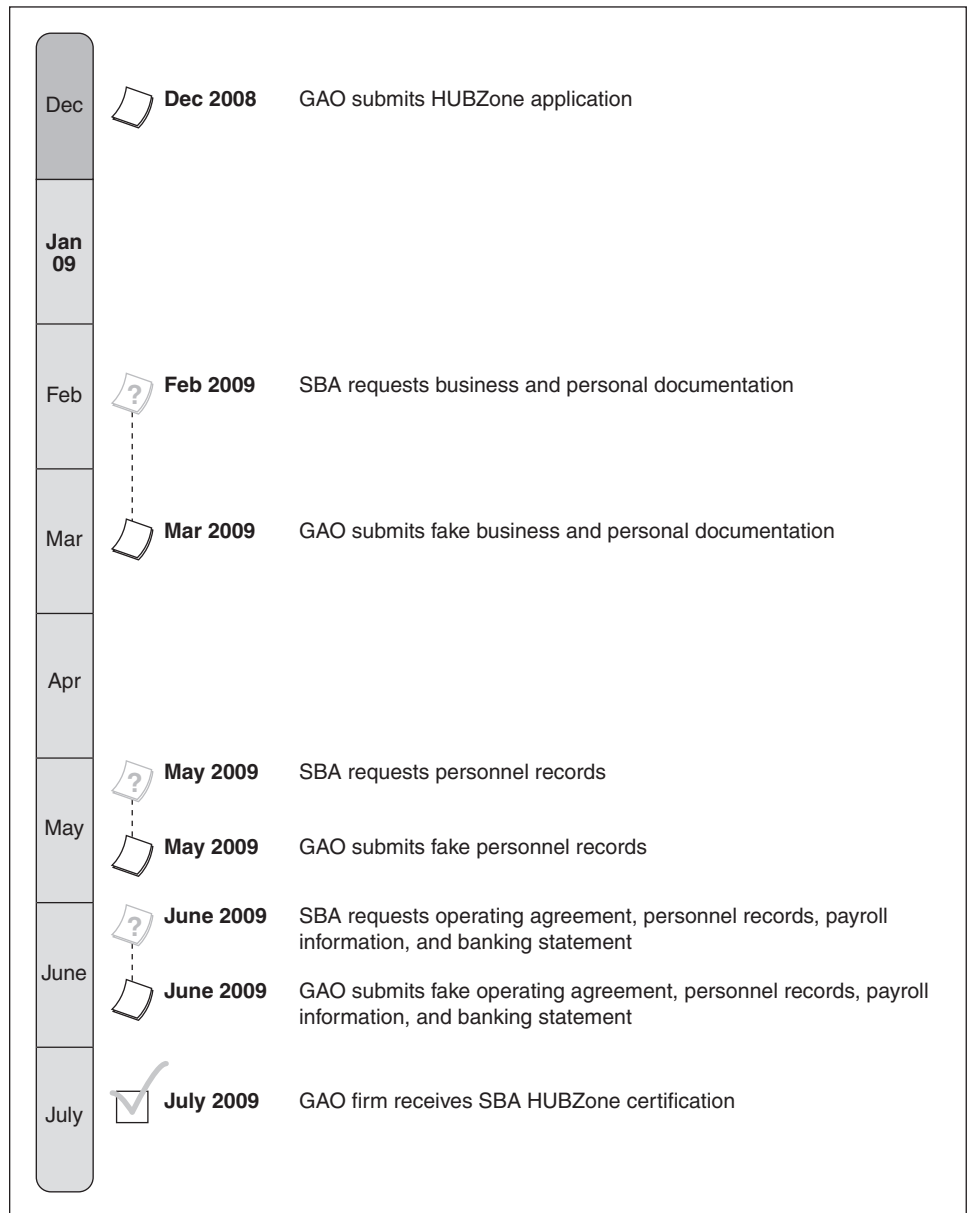
<sup>10</sup>GAO, *HUBZone Program: SBA's Control Weaknesses Exposed the Government to Fraud and Abuse*, [GAO-08-964T](#) (Washington, D.C.: July 17, 2008).

<sup>11</sup>According to the SBA, the increase in processing time is attributed to its efforts to implement a new, more rigorous certification process it started in late 2008 in response to our findings of fraud and abuse within the HUBZone program. The SBA also stated that this new process, which requires the review of supporting documentation to verify a firm's eligibility for the program, is significantly more labor intensive than the previous electronic-only process that we were able to successfully exploit before. The agency further noted that the HUBZone program is experiencing much heavier application volume than ever before.

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SBA. The SBA then requested a copy of the firm's most recent official payroll records and sought clarification between the number of employees who worked at our firm's principal office and those who worked off site. We were also required to provide additional payroll records and corresponding banking statements with the line-by-line transactions that supported the payments that we claimed to make to our fictitious employees. After all of the requested information was provided, we were approved for HUBZone certification. Figure 2 provides a timeline highlighting the major interactions that occurred with the SBA during the processing of this application.

**Figure 2: Timeline of HUBZone Application**



Source: GAO analysis.

**Fictitious Application 2:** The SBA certified this bogus company 14 months after our investigators applied for HUBZone certification. The address we used for our principal office was the same as a rental storage

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unit in Florida. We claimed the firm was a partnership that employed two individuals who both resided in a HUBZone. To substantiate our firm's principal address, the agency requested that we submit a lease, a recent utility and telephone bill, and a copy of our firm's business registration. To verify the firm's business activity and ownership, the SBA requested copies of our firm's federal business income tax returns for the last 3 years and birth certificates of the two owners, and a copy of our firm's partnership agreement. To verify employee information, the SBA requested copies of each of the HUBZone resident employees' driver's licenses or voter registration cards, a copy of our firm's quarterly unemployment tax filings, and certified copies of the firm's quarterly payroll. SBA also requested tax information and a copy of our firm's most recent payroll documents, which we fabricated and provided to the SBA. Several months thereafter, our bogus firm was granted HUBZone certification.

**Fictitious Application 3:** After 7 months of processing, SBA approved this bogus firm for HUBZone participation. The address of this firm's principal office was a city hall in Texas. We indicated that two of the firm's employees who worked for the bogus firm lived in a HUBZone. Several months after processing our application, the SBA requested documentary evidence of the firm's location, business activity, ownership, and employee information. After the SBA deemed the fabricated information that we submitted regarding payroll as insufficient to determine our employee information, the agency put our application on hold until we provided further documentation. We then provided SBA with a sworn statement to support information regarding payroll. SBA requested clarification about the frequency that our bogus employees worked from the principal office and granted HUBZone certification soon after.

**Fictitious Application 4:** After 4 months of processing, the SBA withdrew this application after we abandoned it. We abandoned this application because the SBA claimed that it did not receive supplementary documentation that we repeatedly provided. Two months after the initial submission of this application, we followed up with the SBA to inquire about its status. At the point of inquiry, SBA indicated that our application was being assigned to an analyst for processing. Two months after our inquiry, we received a request for supporting documentation that was similar to those we received in our previous applications. We provided the requested information 3 days after receiving the request. Two weeks later, we followed up to confirm receipt of our documents. The SBA indicated that it did not receive the information that we provided, so we resent the information and requested that the agency confirm receipt. Three weeks

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later, after failing to receive confirmation on the receipt of our documentation, we inquired about the status of our application. Again, the agency told us that it did not receive the documentation and subsequently gave us one day to resubmit it. If not provided, the agency indicated, our application would be withdrawn. We decided to abandon the application and our application was withdrawn from the program.

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## **SBA Has Taken Some Actions on the 29 HUBZone Firms Previously Investigated by GAO**

As of March 2010, the SBA has reviewed the status of all 29 firms we referred to it from our prior HUBZone investigations. Since our March 2009 report, these firms have received more than \$66 million in federal obligations for new contracts. Not all of these obligations are necessarily improper, and some do not relate to HUBZone contracts. Of the 29 firms, 16 were decertified by the SBA, 8 voluntarily withdrew from the HUBZone program, and 5 were found by the agency to be in compliance with program requirements and remain certified. We did not attempt to verify SBA's work. And although SBA indicated that firms sometimes come in and out of compliance while in the program, we maintain that the firms represented in the cases that the SBA reviewed and determined to meet HUBZone program requirements were out of compliance at the time of our review. In addition, we found that five decertified firms continued to market themselves, through their Web sites, as HUBZone certified even after the SBA removed them from the HUBZone program. Tables 1 and 2 below show the results of the SBA's review of the 29 firms we referred from our July 2008 testimony and March 2009 report.

**Table 1: SBA Actions on 10 Firms GAO Reported as Ineligible for the HUBZone Program in July 2008**

<b>GAO case</b>	<b>Primary product or service</b>	<b>Violations found by GAO, December 2007</b>	<b>SBA compliance actions and additional procurement actions through March 2010</b>	<b>HUBZone status, March 2010</b>
1	Information technology (IT), engineering, business management	<ul style="list-style-type: none"> <li>Principal office not in HUBZone.</li> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and removed firm from HUBZone program in June 2009.</li> <li>SBA Suspension and Debarment Official is coordinating with Department of Justice (DOJ) and Interagency Suspension and Debarment Committee (ISDC) to determine whether debarment is appropriate action and, if so, whether SBA should be the lead agency.</li> <li>Since our March 2009 report, this firm has received \$9.4 million in federal obligations for new contracts.</li> </ul>	Decertified
2	Construction	<ul style="list-style-type: none"> <li>Principal office not in HUBZone.</li> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and removed firm from HUBZone program in July 2009.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> <li>Since our March 2009 report, this firm has received \$9.6 million in federal obligations for new contracts.</li> </ul>	Decertified
3	Design and installation of fire alarm systems	<ul style="list-style-type: none"> <li>Principal office not in HUBZone.</li> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and removed firm from HUBZone program on November 2008.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> <li>Since our March 2009 report, this firm has received \$3.4 million in federal obligations for new contracts.</li> </ul>	Decertified
4	Engineering and construction management	<ul style="list-style-type: none"> <li>Principal office not in HUBZone.</li> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and removed firm from HUBZone program on May 2009.</li> <li>SBA SDO is coordinating with DOJ and ISDC to determine whether debarment is appropriate action and, if so, whether SBA should be the lead agency.</li> </ul>	Decertified
5	IT consulting	<ul style="list-style-type: none"> <li>Principal office not in HUBZone.</li> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and proposed removal of firm from HUBZone program.</li> <li>Firm voluntarily withdrew from the HUBZone program in May 2009.</li> <li>SBA SDO is coordinating with DOJ and ISDC to determine whether debarment is appropriate action and, if so, whether SBA should be the lead agency.</li> <li>Since our March 2009 report, this firm has received \$500,000 in new federal obligations.</li> </ul>	Voluntarily withdrew

GAO case	Primary product or service	Violations found by GAO, December 2007	SBA compliance actions and additional procurement actions through March 2010	HUBZone status, March 2010
6	Mechanical engineering	<ul style="list-style-type: none"> <li>Principal office not in HUBZone.</li> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and proposed removal from HUBZone program.</li> <li>Firm voluntarily withdrew from the HUBZone program in March 2009.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> <li>Since our March 2009 report, this firm has received \$630,000 in federal obligations for new contracts.</li> </ul>	Voluntarily withdrew
7	Acquisition and project management	<ul style="list-style-type: none"> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>Firm voluntarily withdrew from the HUBZone program in November 2008.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> <li>Since our March 2009 report, this firm has received \$960,000 in federal obligations for new contracts.</li> </ul>	Voluntarily withdrew
8	Construction management	<ul style="list-style-type: none"> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA concluded firm met HUBZone program requirements based on an SBA program examination.<sup>a</sup></li> <li>Since our March 2009 report, this firm has received \$3.3 million in federal obligations for new contracts.</li> </ul>	Certified
9	IT products and services	<ul style="list-style-type: none"> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA concluded firm met HUBZone program requirements based on an SBA program examination.<sup>a</sup></li> <li>Since our March 2009 report, this firm has received \$657,000 in federal obligations for new contracts.</li> </ul>	Certified
10	IT and logistics management	<ul style="list-style-type: none"> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA concluded firm met HUBZone program requirements based on an SBA program examination.<sup>a</sup></li> <li>Since our March 2009 report, this firm has received \$5.8 million in federal obligations for new contracts.</li> </ul>	Certified

Source: GAO analysis.

Note: Cases are presented in the same order as reported in [GAO-08-964T](#).

<sup>a</sup>Although SBA indicated that some firms may come in and out of compliance while in the program, we maintain that this firm did not comply with HUBZone requirements at the time of our review.



**Table 2: SBA Actions on 19 Firms GAO Reported as Ineligible for the HUBZone Program in March 2009**

GAO case	Primary product or service	Violations found by GAO, March 2009	SBA compliance actions and additional procurement actions through March 2010	HUBZone status, March 2010
1	Environmental consulting	<ul style="list-style-type: none"> <li>Less than 50% of personnel costs for own staff to perform HUBZone contracts.</li> </ul>	<ul style="list-style-type: none"> <li>SBA did not take any action on firm because SBA concluded that firm met both the 35% residency and principal office requirement. SBA stated that contracting officers are required by the Federal Acquisition Regulations to insert such clauses regarding subcontracting limitations. We believe that SBA should evaluate whether HUBZone firms are meeting the performance-for-work requirements.</li> </ul>	Certified
2	Grounds maintenance and furniture	<ul style="list-style-type: none"> <li>Principal office not in HUBZone.</li> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and proposed removal from HUBZone program.</li> <li>Firm voluntarily left HUBZone program in June 2009.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> <li>Since our March 2009 report, this firm has received \$71,000 in federal obligations for new contracts.</li> </ul>	Voluntarily withdrew
3	General contractor	<ul style="list-style-type: none"> <li>Principal office not in HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and proposed removal from HUBZone program.</li> <li>Firm voluntarily left HUBZone program in June 2009.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> </ul>	Voluntarily withdrew
4	Information technology	<ul style="list-style-type: none"> <li>Principal office not in HUBZone.</li> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and proposed removal from HUBZone program.</li> <li>Firm voluntarily left HUBZone program in July 2009.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> <li>Since our March 2009 report, this firm has received \$2.9 million in federal obligations for new contracts.</li> </ul>	Voluntarily withdrew
5	Information technology, general contracting	<ul style="list-style-type: none"> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and removed the firm from HUBZone program in October 2009.</li> <li>SBA SDO determined that debarment was not warranted based on the evidence of the case.</li> </ul>	Decertified

<b>GAO case</b>	<b>Primary product or service</b>	<b>Violations found by GAO, March 2009</b>	<b>SBA compliance actions and additional procurement actions through March 2010</b>	<b>HUBZone status, March 2010</b>
6	Janitorial	<ul style="list-style-type: none"> <li>Principal office not in HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and removed the firm from HUBZone program in June 2009.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> </ul>	Decertified
7	Medical laboratories	<ul style="list-style-type: none"> <li>Principal office not in HUBZone.</li> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and proposed removal from HUBZone program.</li> <li>Firm voluntarily left HUBZone program in July 2009.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> </ul>	Voluntarily withdrew
8	Medical services and support	<ul style="list-style-type: none"> <li>Principal office not in HUBZone.</li> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and proposed removal from HUBZone program.</li> <li>In July 2009, SBA SDO proposed debarment for the firm. At that time, the firm was placed on the federal Excluded Parties List System.</li> <li>In response to the proposed debarment, the firm provided evidence that it was presently responsible and that it was no longer necessary for the firm to be debarred. In October 2009, SBA SDO determined that debarment was unnecessary to protect the government's interests and the firm was removed from the Excluded Parties List System.</li> <li>SBA SDO did not believe evidence established sufficient grounds for debarment.</li> <li>The firm voluntarily withdrew from the HUBZone program in July 2009.</li> </ul>	Voluntarily withdrew
9	Military logistics and maintenance	<ul style="list-style-type: none"> <li>Principal office not in HUBZone.</li> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and removed the firm from HUBZone program in July 2009.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> </ul>	Decertified
10	Facility support services	<ul style="list-style-type: none"> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and removed the firm from HUBZone program in July 2009.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> </ul>	Decertified

<b>GAO case</b>	<b>Primary product or service</b>	<b>Violations found by GAO, March 2009</b>	<b>SBA compliance actions and additional procurement actions through March 2010</b>	<b>HUBZone status, March 2010</b>
11	Construction	<ul style="list-style-type: none"> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and removed the firm from HUBZone program in July 2009.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> </ul>	Decertified
12	Construction	<ul style="list-style-type: none"> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and removed the firm from HUBZone program in August 2009.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> <li>Since our March 2009 report, this firm has received \$8.9 million in federal obligations for new contracts.</li> </ul>	Decertified
13	Engineering	<ul style="list-style-type: none"> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and removed the firm from HUBZone program in July 2009.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> <li>Since our March 2009 report, this firm has received \$4.7 million in federal obligations for new contracts.</li> </ul>	Decertified
14	Engineering and information technology	<ul style="list-style-type: none"> <li>Principal office not in HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and removed the firm from HUBZone program in February 2009.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> </ul>	Decertified
15	Facilities support services/construction	<ul style="list-style-type: none"> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and removed the firm from HUBZone program in August 2009.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> <li>Since our March 2009 report, this firm has received \$9.1 million in federal obligations for new contracts.</li> </ul>	Decertified

GAO case	Primary product or service	Violations found by GAO, March 2009	SBA compliance actions and additional procurement actions through March 2010	HUBZone status, March 2010
16	Food service contractors	<ul style="list-style-type: none"> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and removed the firm from HUBZone program in November 2009.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> <li>Since our March 2009 report, this firm has received \$319,000 in federal obligations for new contracts.</li> </ul>	Decertified
17	Information technology	<ul style="list-style-type: none"> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA concluded firm met HUBZone program requirements based on an SBA program examination.<sup>a</sup></li> <li>Since our March 2009 report, this firm has received \$5.4 million in federal obligations for new contracts.</li> </ul>	Certified
18	Janitorial	<ul style="list-style-type: none"> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and removed the firm from HUBZone program in August 2009.</li> <li>SBA SDO determined that debarment was unwarranted based on the evidence of the case.</li> <li>Since our March 2009 report, this firm has received \$76,000 in federal obligations for new contracts.</li> </ul>	Decertified
19	Temporary help services	<ul style="list-style-type: none"> <li>Fewer than 35% of employees live in a HUBZone.</li> </ul>	<ul style="list-style-type: none"> <li>SBA performed program examination and removed the firm from HUBZone program in August 2009.</li> <li>In May 2009, SBA SDO proposed debarment for the firm. At that time, the firm was placed on EPLS.</li> <li>In September 2009, SBA SDO determined that firm did not willfully misrepresent its status to obtain a HUBZone set-aside contract and because of administrative action taken by SBA, that debarment was unnecessary to protect the government's interests. The firm was removed from EPLS at that time.</li> </ul>	Decertified

Source: GAO analysis.

Note: Cases are presented in the same order as reported in [GAO-09-440](#).

<sup>a</sup>Although SBA indicated that some firms sometimes come in and out of compliance while in the program, we maintain that this firm did not comply with HUBZone requirements at the time of our review.

We also found that one firm continued to benefit from another SBA program even though it misrepresented its eligibility for the HUBZone program and was decertified by the SBA. This firm, a construction firm

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that was a part of our recent investigation into fraud and abuse in the SBA's 8(a) Business Development Program,<sup>12</sup> also had been 8(a) certified while in the HUBZone program.<sup>13 14</sup> During that investigation, we found that the firm misrepresented its status as a qualified 8(a) firm because it was being controlled by individuals who did not qualify for the program. Because the SBA did not promptly suspend or debar the firm, this firm was able to receive nearly \$600,000 in additional noncompetitive 8(a) contracts since our last report. According to SBA officials, SBA has recently proposed debarment for this firm.

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## Corrective Action Briefing

We briefed SBA officials on the results of our investigation on June 17, 2010. Regarding our proactive testing, SBA officials indicated that it was unreasonable to expect them to have identified our fictitious firms due to the bogus documentation that we included in our applications. For example, SBA officials stated that the submission of false affidavits would subject an applicant to prosecution. SBA officials also stated that competitors may identify fraudulent firms and likely protest if those firms were awarded a HUBZone contract. While competitors may identify some ineligible firms that were awarded contracts, it is SBA's responsibility to ensure that only eligible firms participate in the HUBZone program. We suggested that SBA conduct Internet searches on the addresses of applicant firms to help validate principal office locations. We also indicated that if SBA had conducted site visits at the addresses of the firms represented in our applications, those applications would have been identified as fraudulent. SBA officials stated that due to resource constraints, they primarily conduct site visits on certified firms that receive large prime HUBZone contracts.

Regarding our 29 referred firms, SBA officials stated that debarment has recently been proposed for an additional firm. We suggested that if SBA determines that a HUBZone firm is not eligible for the program, it should consider conducting a review of that firm's eligibility if that firm is also certified in other SBA programs. SBA agreed with our suggestion. In

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<sup>12</sup> GAO, *8(a) Program: Fourteen Ineligible Firms Received \$325 Million in Sole-Source and Set-Aside Contracts*, GAO-10-425 (Washington, D.C.: March 2010).

<sup>13</sup> The 8(a) program, also administered by the SBA, is one of the federal government's vehicles for developing small businesses that are owned by socially and economically disadvantaged individuals.

<sup>14</sup> This firm is represented as GAO case number 2 in table two above.

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addition, SBA provided technical comments which we incorporated into our report.

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As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies of this report to the Administrator of the Small Business Administration, interested congressional committees and members, and other interested parties. In addition, this report will also be available at no charge on GAO's Web site at <http://gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-6722 or [kutzg@gao.gov](mailto:kutzg@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report were Andy O'Connell, Assistant Director; Matthew Valenta, Assistant Director; Lerone Reid, Analyst-In-Charge; Eric Eskew, Agent-In-Charge; Jason Kelly; Barbara Lewis; Jeff McDermott; and Timothy Walker.

Sincerely yours,

A handwritten signature in black ink that reads "Gregory D. Kutz". The signature is written in a cursive style with a large, stylized initial "G".

Gregory D. Kutz  
Managing Director  
Forensic Audits and Special Investigations

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