



Highlights of [GAO-11-589T](#), a testimony before the Subcommittee on Oversight and Investigations, Committee on Veterans' Affairs, House of Representatives

## Why GAO Did This Study

The Small Business Administration (SBA) most recently reported in fiscal year 2010 that \$10.8 billion of federal contracts were awarded to Service-Disabled Veteran-Owned Small Businesses (SDVOSB). SBA's report also showed that, of this amount, \$3.2 billion was for Department of Veterans Affairs (VA) contracts. In 2009 and 2010, GAO reported on weaknesses in fraud-prevention controls that allowed 10 ineligible firms to receive millions of dollars in SDVOSB contracts. GAO was asked to update (1) agency actions in response to prior investigations of 10 case-study firms, the status of prior GAO recommendations, and the status of ongoing Inspector General (IG) investigations, and (2) the status of any new federal contract obligations associated with the case-study firms. This testimony provides preliminary information on GAO's ongoing work.

To address these objectives, GAO reviewed prior findings from audits and investigations of the SDVOSB program, and contacted SBA, VA, and agency IG officials for an update on actions taken in response to GAO's prior recommendations and the 10 case-study firms. GAO identified contract obligations awarded to the 10 case-study firms. GAO did not validate representations made by agency officials or determine whether any of the 10 case-study firms receiving contracts subsequent to the November 2009 testimony were eligible or not. GAO discussed information in this statement with SBA and VA officials who generally agreed with the findings.

View [GAO-11-589T](#) or key components. For more information, contact Gregory D. Kutz at (202) 512-6722 or [kutzg@gao.gov](mailto:kutzg@gao.gov).

July 28, 2011

# SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS PROGRAM

## Preliminary Information on Actions Taken by Agencies to Address Fraud and Abuse and Remaining Vulnerabilities

### What GAO Found

SBA and VA have taken a number of positive actions in response to prior GAO findings and recommendations concerning the SDVOSB program, but the program remains vulnerable to fraud and abuse. For example, SBA requested all 10 previously identified case-study firms to change their SDVOSB status in the Central Contractor Registration (CCR) to show they are not eligible for SDVOSB contracts, and VA rejected 7 of the 10 firms from participation in its VetBiz program. However, as of July 2011, two of the firms rejected by VA continued to self-certify themselves as an SDVOSB in CCR which allows the firms to compete for governmentwide SDVOSB contracts. The fact that some firms continue to list themselves as SDVOSB firms in CCR despite VA finding them ineligible exposes the gaps that still exist in SDVOSB program fraud-prevention controls across the government. Agencies have also taken some actions to suspend some of the case-study firms. For example, SBA suspended four companies and three individuals associated with 2 of the 10 case-studies, making them ineligible for further contracts with the federal government.

In an effort to minimize the potential for fraud in the SDVOSB program, GAO made recommendations to SBA and VA concerning overall SDVOSB program improvements. In response to prior recommendations, SBA, VA, and other agencies have met to coordinate improvements. VA is also developing procedures to refer firms that knowingly misrepresent their status as an SDVOSB for debarment or suspension. GAO also suggested that Congress consider providing VA with additional authority and resources to expand its SDVOSB verification process governmentwide. There is currently a Senate bill that addresses this matter. SBA and VA concurred with GAO's conclusion that legislative changes would be needed to expand the VA verification process. Such action would help prevent firms from obtaining contracts from the rest of the government after VA found the firm to be ineligible. GAO inquiries to IG officials revealed that 6 of the 10 firms are currently under investigation. Further details can be provided once the cases have been fully adjudicated.

GAO's prior investigation found that 10 case-study firms that fraudulently or abusively misrepresented material facts related to their eligibility for the SDVOSB program had received approximately \$100 million in SDVOSB sole-source and set-aside contracts, and an additional \$300 million in other federal contracts. Subsequent to GAO's reporting on this, from November 2009 to March 2011, the 10 firms received more than \$100 million in additional obligations on federal contracts, of which approximately \$16 million in obligations were associated with SDVOSB set-aside contracts. GAO did not investigate the additional contract obligations to determine whether or not they were appropriate; however, GAO plans to review the basis for these actions and the firms' continued participation in the SDVOSB program as part of its ongoing work and will include these results in its final report.