



Highlights of [GAO-10-306T](#), a testimony before the Subcommittee on Oversight and Investigations, Committee on Veterans' Affairs, House of Representatives

Why GAO Did This Study

The Service-Disabled Veteran-Owned Small Business (SDVOSB) program is intended to provide federal contracting opportunities to qualified firms. In fiscal year 2008, the Small Business Administration (SBA) reported \$6.5 billion in governmentwide sole-source, set-aside, and other SDVOSB contract awards. Given the amount of federal contract dollars being awarded to SDVOSB firms, GAO was asked to determine (1) whether cases of fraud and abuse exist within the SDVOSB program and (2) whether the program has effective fraud prevention controls in place.

To identify whether cases exist, GAO reviewed SDVOSB contract awards and protests since 2003 and complaints sent to GAO's fraud hotline. GAO defined case-study firms as one or more affiliated firms that were awarded one or more SDVOSB contracts. To assess fraud prevention controls, GAO reviewed laws and regulations and conducted interviews with SBA and Department of Veterans Affairs (VA) officials. GAO did not attempt to project the extent of fraud and abuse in the program. In addition, GAO did not attempt to assess the overall effectiveness of VA's validation process to prevent or address fraud and abuse in VA SDVOSB contracts.

View [GAO-10-306T](#) or [key components](#). For more information, contact Gregory Kutz at (202) 512-6722 or kutzg@gao.gov.

SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS PROGRAM

Case Studies Show Fraud and Abuse Allowed Ineligible Firms to Obtain Millions of Dollars in Contracts

What GAO Found

GAO found that the SDVOSB program is vulnerable to fraud and abuse, which could result in legitimate service-disabled veterans' firms losing contracts to ineligible firms. The 10 case-study firms that GAO investigated received approximately \$100 million in SDVOSB sole-source and set-aside contracts through fraud, abuse of the program, or both. For example, contracts for Hurricane Katrina trailer maintenance were awarded to a firm whose owner was not a service-disabled veteran. GAO also found that SDVOSB companies were used as pass-throughs for large, sometimes multinational corporations. In another case a full-time federal contract employee at MacDill Air Force Base set up a SDVOSB company that passed a \$900,000 furniture contract on to a company where his wife worked, which passed the work to a furniture manufacturer that actually delivered and installed the furniture. The table below provides details on 3 of the 10 cases, all of which included fraud and abuse related to VA sole source or set aside SDVOSB contracts.

Details of Three Ineligible SDVOSB Cases

Industry	Award—agencies	Notes
Construction, maintenance, and repair	\$39.4 million—VA	SBA determined the firm was ineligible because a non-service-disabled veteran manages daily operations. Service-disabled veteran owned and managed a restaurant in another city 80 miles away when the contract was awarded. Despite being ineligible, VA allowed the firm to continue multiple SDVOSB contracts.
Construction and janitorial services	\$5 million—VA, U.S. Fish and Wildlife Service, Agricultural Research Service, and U.S. Forest Service	Firm is ineligible because it subcontracts 100 percent of the work to non-SDVOSB firms. Our investigation found that the SDVOSB firm utilizes employees from a large non-SDVOSB foreign-based corporation, which reported almost \$12 billion in annual revenue in 2008, to perform contracts. Firm is currently listed in VA database of verified SDVOSB firms.
Construction, maintenance, and medical equipment	\$8.1 million—VA	Firm is ineligible because the service-disabled veteran owner is a full time New Jersey state employee and does not manage day-to-day operations. Our investigation found that the firm's 49 percent non-service-disabled veteran owner owns five additional construction firms at the same address as the SDVOSB firm receiving contracts.

Source: GAO analysis of FPDS-NG, ORCA, CCR, and contractor data and interviews.

GAO found that the government does not have effective fraud prevention controls in place for the SDVOSB program. However, in response to the Veterans Benefits, Health Care, and Information Technology Act of 2006, VA is developing a certification processes for SDVOSB firms, but currently the certification will only be used for contracting by VA. VA officials stated that the certification process could include reviews of documents, validation of the owner's service-disabled veteran status, and potential site visits to SDVOSB firms. To be effective, VA's processes will need to include preventive controls, detection and monitoring of validated firms, and investigations and prosecutions of those found to be abusing the program. In a report GAO issued in October 2009, GAO suggested Congress consider providing VA with additional authority necessary to expand its SDVOSB verification process governmentwide.