Why GAO Did This Study

Economic development programs—administered efficiently and effectively—can contribute to the well-being of the economy at the least cost to taxpayers. Such programs can encompass small business development and contracting. To encourage such contracting, Congress created programs—such as the Historically Underutilized Business Zone (HUBZone), service-disabled veteran-owned small business, and 8(a) Business Development programs—that give contracting preferences to some types of small businesses: in economically distressed communities; to those owned by service-disabled veterans; and to those with eligible socially and economically disadvantaged owners. This testimony addresses (1) potential duplication in economic development programs and (2) internal controls weaknesses in three small business programs. This testimony is based on related GAO work from 2008 to the present and updates it as noted.

GAO examined programs at the Departments of Commerce, Housing and Urban Development, and Agriculture and the Small Business Administration (SBA) to assess program overlap, collaboration, and measures of effectiveness (GAO-11-477R). GAO also reviewed data from SBA and the Department of Veterans Affairs (VA) and conducted site visits. The reports identified opportunities to increase program efficiencies and made recommendations to improve internal controls and develop outcome-oriented measures.

What GAO Found

Results of GAO’s work on 80 economic development programs at the four agencies indicate that the design of each appears to overlap with that of at least one other in terms of the economic development activities they can fund. For example, the agencies administer 54 programs that fund “entrepreneurial efforts,” which include business development. SBA has 19 such economic development programs. To address issues arising from potential overlap and fragmentation, GAO relied on previously identified collaborative practices agencies should consider using to maximize performance and results. GAO found that agencies’ collaborative efforts were not comprehensive but conducted on a case-by-case basis. Further, the agencies generally have not measured outcomes. For instance, SBA has not yet developed outcome measures that directly link to the mission of its HUBZone program. In 2005 and 2008, GAO made recommendations to Commerce and SBA, respectively, aimed at improving the data and methods they rely on to measure the outcomes of some of their economic development programs. Generating key information on outcomes (that measure effectiveness) could help agencies better manage programs. Such information also would enable decision makers to better identify opportunities to realign resources, and if necessary, consolidate or eliminate some programs.

As GAO has reported, three small business programs have had varying degrees of internal control weaknesses that affected program oversight. First, in a June 2008 report, GAO determined that SBA’s mechanisms for certifying and monitoring firms in the HUBZone program gave limited assurance that only eligible firms participated. For certification and recertification (of initial and continued eligibility), SBA requested documentation or conducted site visits to validate self-reported data in limited instances. In response to GAO’s recommendations, SBA has issued guidance requiring supporting documentation upon application and conducted site visits to certified firms. Second, in a May 2010 report, GAO reported that VA has faced challenges in effectively responding to a 2006 statutory mandate to verify the eligibility of small businesses owned by service-disabled or other veterans. Although such businesses self-certify their contracting eligibility, VA (unique among federal agencies) must maintain a database of these firms, verify their status, and only give contracting preferences to verified firms. GAO reported that VA had verified only about 14 percent of firms in its database. Since GAO recommended that VA develop a plan for a more effective verification program, VA stated that it has taken steps to improve its verification process, including awarding contracts to expedite the processing of applications. And finally, in a March 2010 report, GAO found that while SBA conducts annual reviews of 8(a) firms to help ensure continued eligibility, GAO found that key controls needed to be strengthened. GAO’s review of a sample of 8(a) firms identified an estimated 55 percent in which SBA staff failed to complete required procedures to assess eligibility criteria. In response to GAO’s recommendation that SBA provide more guidance to staff on annual review procedures, SBA stated that it issued a new guide in August 2010.