

Highlights of [GAO-12-443T](#), a testimony before the Subcommittee on Technology, Information Policy, Intergovernmental Relations and Procurement Reform, Committee on Oversight and Government Reform, House of Representatives

Why GAO Did This Study

In fiscal year 2010, federal agencies awarded \$10.8 billion to Service-Disabled Veteran-Owned Small Businesses (SDVOSB), according to the Small Business Administration (SBA). The Department of Veterans Affairs (VA) awarded \$3.2 billion, or approximately 30 percent of governmentwide SDVOSB awards. The SDVOSB program, established by the Veterans Benefit Act of 2003, is designed to honor disabled veterans' service by providing them with exclusive contracting opportunities. Since 2009, GAO has issued seven reports or testimonies on the SDVOSB program, focusing on its vulnerability to fraud and abuse and agencies' actions to prevent contracts from going to firms that misrepresent themselves as SDVOSBs.

For this testimony, GAO was asked to (1) summarize the status of governmentwide fraud prevention controls over the SDVOSB program and (2) discuss GAO's recent assessment of fraud prevention control improvements instituted by VA over its verification program.

This testimony is based on prior GAO products on the SDVOSB program. GAO also reviewed applicable laws, regulations, and guidance including the Comptroller General's *Standards for Internal Controls in the Federal Government* and related findings from VA's and SBA's Inspector General.

View [GAO-12-443T](#). For more information, contact Richard J. Hillman at (202) 512-6722 or hillmanr@gao.gov.

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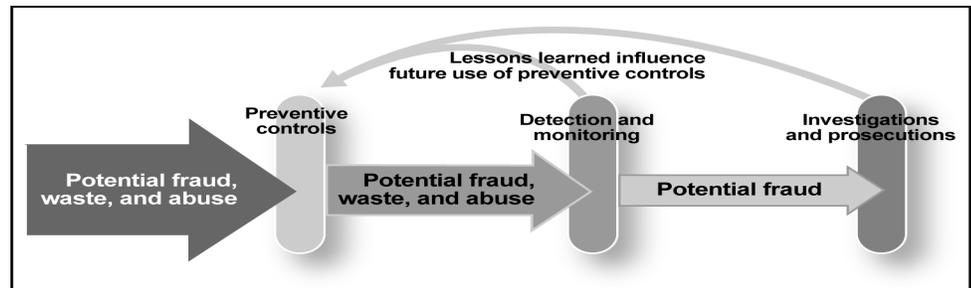
SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS PROGRAM

Governmentwide Fraud Prevention Control Weaknesses Leave Program Vulnerable to Fraud and Abuse, but VA Has Made Progress in Improving Its Verification Process

What GAO Found

Governmentwide fraud prevention control weaknesses over the SDVOSB program leave it vulnerable to fraud and abuse. In October 2009, GAO reported on 10 selected firms that misrepresented their status as SDVOSBs, which allowed them to win approximately \$100 million in SDVOSB set-aside and sole-source contracts. Cases like this happen because the SDVOSB program relies on firms to self-certify annually in the federal government's contractor registry that they are owned and controlled by service-disabled veterans, but most agencies do not validate this information. In fact, GAO found that the program lacks key fraud prevention framework elements, which include preventing firms from fraudulently entering the program, detecting and monitoring for continuing compliance, and investigating firms that abuse the program.

Figure 1: GAO's Fraud Prevention Framework



Source: GAO.

For example, the only governmentwide fraud prevention control in place is SBA's bid-protest process, in which interested parties can contest contract awards. In prior work, GAO found that the process lacked effective controls because firms could complete contracts even after SBA found them ineligible, rendering the process ineffective. In July 2011 GAO testified that the 10 firms cited in the 2009 report had received another \$100 million dollars in new federal contract obligations despite their fraudulent history. SBA and VA had taken some actions against firms by July 2011, including suspending 2 of the firms, and requesting that all firms change their status in federal contracting databases to show they were not eligible for SDVOSB contracts. However, as of July 2011, several of the firms continued to self-certify themselves as SDVOSBs.

VA has made progress implementing a verification program for firms seeking SDVOSB contracts from VA. GAO testified in November 2011 that VA's program includes an initial verification process involving document reviews, site visits to contractor offices, and a risk assessment for each applicant firm. In addition, VA has instituted a status protest process and a debarment committee designed to ensure only eligible firms receive contracts and that ineligible firms face consequences for misrepresenting their status. Those improvements may help VA reduce the risk that ineligible firms will gain access to VA SDVOSB contract dollars. Nonetheless, GAO also made 13 recommendations to VA for improving its verification program and further reducing the risk of fraud and abuse. VA concurred with the recommendations and outlined plans to improve the program. To improve governmentwide fraud prevention controls, GAO suggested that Congress consider expanding the VA verification program to all agencies.