

GAO Highlights

Highlights of [GAO-15-234](#), a report to congressional requesters

Why GAO Did This Study

Small firms participating in SBA's HUBZone program received about \$4 billion in federal contracts in fiscal year 2013. The program's purpose is to stimulate economic development in economically distressed areas. A certified HUBZone firm is eligible for federal contracting benefits, including limited competition awards such as sole-source and set-aside contracts. GAO previously reported on weaknesses in SBA's internal controls and problems with ensuring that only eligible firms participate in the program. GAO was asked to examine the steps SBA has taken to address these issues. This report (1) describes HUBZone designations and how SBA communicates with interested parties about the program, and (2) examines SBA's certification and recertification processes for firms.

To address these objectives, GAO analyzed statutory provisions, SBA documents, and federal procurement data. GAO also interviewed SBA and representatives from applicant firms (certified, decertified, and denied) and local economic development agencies located in four HUBZones selected for geographic diversity.

What GAO Recommends

SBA should (1) establish a mechanism to better ensure firms are notified of changes that could affect their participation in the program, and (2) assess the recertification process and implement additional controls, such as criteria and guidance for a risk-based approach to requesting and verifying information during recertification. SBA agreed with both recommendations.

View [GAO-15-234](#). For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

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SMALL BUSINESS CONTRACTING

Opportunities Exist to Further Improve HUBZone Oversight

What GAO Found

The Small Business Administration (SBA) designates economically distressed areas as Historically Underutilized Business Zones (HUBZone), based on demographic data such as unemployment and poverty rates, but lacks an effective way to communicate program changes to small businesses. The designations apply to areas such as nonmetropolitan counties and census tracts and are subject to periodic changes as economic conditions change. Small businesses in HUBZones can apply for certification to participate in the program. HUBZones that lose their qualifying status due to changes in economic conditions become "redesignated" and undergo a 3-year transition period. In 2015, 3,417 redesignated areas will lose their HUBZone status. There are 578 firms in those areas (see table below). SBA relies on website updates and broadcast e-mails to inform firms about program changes, and consequently not all affected may be informed about the changes before their resultant decertification. SBA has initiated efforts to improve notification of program changes, but its communications may not reach all affected firms and do not specify when the status of areas might change or what firms are located in those areas. As a result, some firms in the program lack timely awareness of information that could affect their eligibility.

Number of Firms and Amount of Contracts Received for Firms in HUBZone Areas in Fiscal Year (FY) 2013, by Designation Status

	Number of certified firms, as of June 2014		Amount of contract obligations to firms in area (FY13)	
	Total	Percent	Total	Percent
Qualified areas	4,318	83%	\$3,295,006,042	81%
Redesignated until 2014	146	3	\$24,467,606	1
Redesignated until 2015	578	11	702,784,535	17
Redesignated until 2016	69	1	28,832,221	1
Redesignated until 2017	78	2	40,477,929	1
Total	5,189	100%	\$4,091,568,333	100%

Source: GAO analysis of SBA data. | GAO-15-234

SBA has addressed weaknesses in its certification process that GAO previously identified, but lacks key controls for its recertification process. For instance, to receive certification SBA now requires all firms to provide documentation to show they meet the eligibility requirements. SBA also conducts site visits at selected firms based on, for example, the amount of federal contracts they received. However, SBA does not require firms seeking recertification to submit any information to verify their continued eligibility or provide guidance on when staff should request or verify documentation for recertification. Instead, it relies on firms attesting that they continue to meet the program's eligibility requirements. By not routinely requiring and reviewing key supporting documentation from recertification applicants, SBA is missing an additional opportunity to reduce the risk that ineligible firms obtain HUBZone contracts.