

GAO Highlights

Highlights of [GAO-16-866T](#), a testimony before the Committee on Small Business, House of Representatives

Why GAO Did This Study

The purpose of the HUBZone program is to stimulate economic development in economically distressed areas. SBA certified HUBZone firms are eligible for federal contracting benefits, including limited competition awards such as sole-source and set-aside contracts. Small firms in SBA's HUBZone program had almost \$6.6 billion in obligations on active federal contracts for calendar year 2015.

This testimony includes a discussion of (1) how SBA communicates changes in HUBZone designations to firms, including how SBA addressed GAO's 2015 recommendation to improve this process, and (2) SBA's certification and recertification processes for firms, including how SBA addressed GAO's 2015 recommendation to improve recertification.

GAO relied on the work supporting its February 2015 report on SBA's oversight of the program ([GAO-15-234](#)) and its March 2016 report on actions taken in response to GAO recommendations ([GAO-16-423R](#)), as well as July and August 2016 interviews with SBA officials on efforts the agency had undertaken to implement GAO's recommendations.

View [GAO-16-866T](#). For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

September 7, 2016

HUBZONE PROGRAM

Opportunities Exist to Further Improve Oversight

What GAO Found

As of August 2016, the Small Business Administration (SBA) had taken steps to better inform firms about changes in the designations of Historically Underutilized Business Zones (HUBZones) but had not yet fully implemented GAO's February 2015 recommendation to improve this process.

- SBA primarily designates economically distressed areas as HUBZones, based on demographic data such as unemployment and poverty rates. The designations include certain census tracts and counties and are subject to periodic changes as economic conditions change. HUBZones that lose qualifying status due to changes in economic conditions become "redesignated" and undergo a 3-year transition period. After the 3-year period, HUBZone certified firms in these areas can no longer apply to and participate in the program and receive contracting preferences.
- GAO found in February 2015 that SBA's communications to firms about programmatic changes (including redesignation) generally were not specific to affected firms and thus some firms might not have been informed they would lose eligibility. GAO recommended SBA better ensure firms were notified of changes that might affect program participation.

In response, SBA revised its approval letters to newly certified firms to include information about the consequences of redesignation (if applicable). But as of August 2016, SBA had not yet implemented changes to help ensure all currently certified firms would be notified of changes that could affect their program eligibility. SBA officials recently told GAO the agency intended to develop a technology solution by spring 2017 to help address GAO's recommendations.

While SBA made changes to its certification and recertification processes, SBA had not fully addressed GAO's recommendation on recertification of firms. To receive initial certification, SBA requires all firms to provide documentation to show they meet the eligibility requirements. SBA also conducts site visits at selected firms (for example, based on the amount of federal contracts received). According to HUBZone regulations, firms wishing to remain in the program without any interruption must recertify their continued eligibility to SBA within 30 days after the third anniversary of their certification date and each subsequent 3-year period. But in 2015, GAO found SBA did not require firms seeking recertification to submit any information to verify continued eligibility and instead relied on firms' attestations of continued eligibility. GAO also found SBA had a backlog for recertifying firms. GAO recommended in February 2015 that SBA implement additional controls for recertification, including criteria for requesting and verifying firm information, and ensuring sufficient staffing for the process so that significant backlogs would not recur. As of August 2016, SBA had plans to eliminate the backlog, but had not issued guidance on requesting supporting documents. SBA officials stated that any potential risk of fraud during recertification would be mitigated by SBA's site visits of firms. But as GAO stated in 2015 and reiterated in 2016, SBA only conducts site visits to about 10 percent of certified firms on an annual basis and characteristics of firms often can change, therefore relying on site visits is not adequate to mitigate this risk.