



Testimony Before the Subcommittee on  
Contracting and Workforce and  
Subcommittee on Economic Growth, Tax,  
and Capital Access, Committee on Small  
Business, House of Representatives

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## PUERTO RICO

# Information on Trends and Challenges to Small Business Federal Contracting

Statement of William B. Shear, Director,  
Financial Markets and Community Investment

Accessible Version

# GAO Highlights

Highlights of [GAO-17-752T](#), a testimony before the Subcommittee on Contracting and Workforce and Subcommittee on Economic Growth, Tax, and Capital Access, Committee on Small Business, House of Representatives.

## Why GAO Did This Study

SBA administers several programs nationwide and in Puerto Rico that provide federal contracting preferences to small businesses. In June 2017, GAO issued a report on small business contracting opportunities in Puerto Rico.

This testimony summarizes the findings of that report and discusses (1) trends in small business contracting and the use of SBA programs in Puerto Rico that provide contracting preferences to small businesses and (2) stakeholder views on any challenges that small businesses in Puerto Rico face in obtaining federal contracting opportunities.

This testimony is based on GAO's June 2017 report ([GAO-17-550](#)). For that report, GAO obtained data on prime contracts (a contract award made directly by a federal procuring agency to a business) for Puerto Rico for fiscal years 2006 through 2016 and used nationwide data as a reference point. GAO also interviewed stakeholders such as federal agency contracting officials, industry associations in Puerto Rico, and economic development entities about any challenges small businesses in Puerto Rico face in obtaining federal contracts and steps SBA has taken to promote participation in its programs.

View [GAO-17-752T](#). For more information, contact William Shear at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov).

July 2017

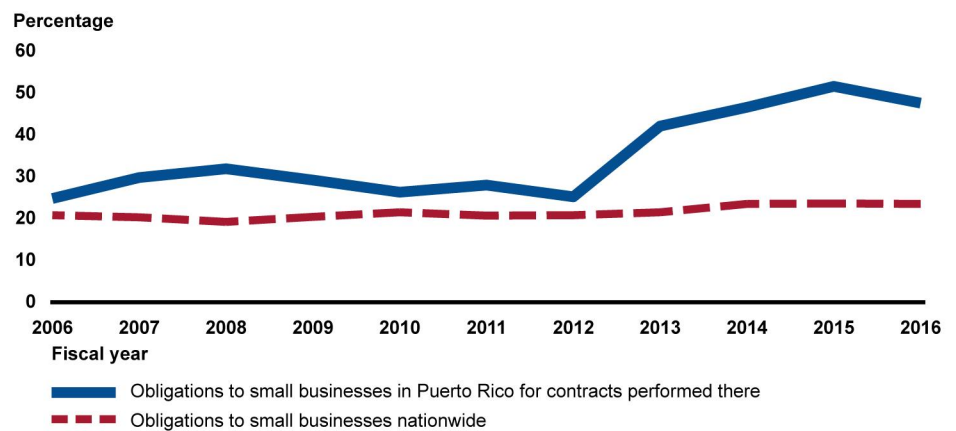
## PUERTO RICO

### Information on Trends and Challenges to Small Business Federal Contracting

## What GAO Found

From fiscal years 2006 through 2016, a higher percentage of federal contracting obligations was awarded to small businesses within Puerto Rico for contracts performed there compared to the percentage for small businesses nationwide, particularly in the last 4 fiscal years of the period (see fig.). In fiscal year 2016, small businesses in Puerto Rico received about 47 percent of federal contracting obligations to Puerto Rico (about \$319 million out of \$682 million) compared to 23 percent of federal obligations awarded to small businesses nationwide. Of the four Small Business Administration (SBA) programs that provide contracting preferences based on socioeconomic designations, a higher percentage of obligations was awarded in Puerto Rico through the 8(a) Business Development program compared to the Historically Underutilized Business Zone (HUBZone), Women-Owned Small Business (WOSB), and Service-Disabled Veteran-Owned Small Business (SDVOSB) programs combined.

**Percentage of Small Business Obligations for Puerto Rico and Nationwide, Fiscal Years 2006–2016**



Source: GAO analysis of data from Federal Procurement Data System-Next Generation. | GAO-17-752T

**Data Table for Percentage of Small Business Obligations for Puerto Rico and Nationwide, Fiscal Years 2006–2016**

Fiscal Year	Obligations to small business in PR	Obligations to small business nationwide
2006"	24	20
2007"	29	19.5
2008"	31.1	18.4
2009"	28.4	19.6
2010"	25.5	20.7
2011"	27.2	19.9
2012"	24.4	20
2013"	41.3	20.7
2014"	45.8	22.7

Fiscal Year	Obligations to small business in PR	Obligations to small business
2015"	50.8	22.8
2016"	46.8	22.7

Stakeholders GAO interviewed identified several challenges small businesses in Puerto Rico may face in obtaining federal contracting opportunities. Challenges they identified included a lack of knowledge about the federal contracting process; difficulty meeting procurement requirements; and difficulty accessing bonding, financing, and capital. Many of these challenges are similar to those GAO identified in a September 2012 report ([GAO-12-873](#)) that small businesses in general face in seeking federal contracting opportunities. However, stakeholders indicated that some challenges may be exacerbated by Puerto Rico's geography and economic conditions. Stakeholders did not identify any federal laws that have created unique contracting challenges for small businesses in the region. SBA and the three other federal agencies GAO contacted identified examples of conducting outreach, providing training and seminars, coordinating with local organizations, and other efforts intended to help Puerto Rican small businesses obtain federal contracting opportunities.

Chairmen Knight and Brat, Ranking Members Murphy and Evans, and Members of the Subcommittees:

Thank you for the opportunity to discuss small business contracting in Puerto Rico. The Small Business Administration (SBA) plays an important role in ensuring that small businesses gain access to federal contracting opportunities. It administers several programs in Puerto Rico and nationwide that provide federal contracting preferences to small businesses based on socioeconomic designations. Over 99 percent (about 44,000) of the businesses in Puerto Rico are small, but only a small number of small businesses in Puerto Rico participate in these programs.<sup>1</sup>

Puerto Rico currently faces many economic challenges, including a government debt crisis. In June 2016, Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act to address Puerto Rico's debt crisis and its fiscal affairs. The act includes a provision that GAO evaluate the application and utilization of SBA programs in Puerto Rico (including contracting activities of HUBZone small business concerns) and identify any provision of federal law that may create an obstacle to efficient implementation of such activities related to these programs. In June 2017, we issued a report on small business contracting opportunities in Puerto Rico.<sup>2</sup>

My testimony today summarizes the findings from our June 2017 report and addresses (1) trends in small business contracting and the use of SBA programs in Puerto Rico that provide contracting preferences to small businesses and (2) stakeholder views on any challenges that small

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<sup>1</sup>Data are from U.S. Census Bureau's County 2014 Business Patterns. This figure counts the number of establishments, which consist of businesses that may have headquarters established elsewhere. The Small Business Administration (SBA) establishes size standards, which are usually number of employees or average annual receipts, to represent the largest size that a business (including its subsidiaries and affiliates) may be to remain classified as a small business for SBA and federal contracting programs. The definition of small business varies to reflect industry differences. SBA considers establishments with fewer than 500 employees to be small for most manufacturing and mining industries and less than \$7 million in average annual receipts for most non-manufacturing industries.

<sup>2</sup>GAO, *Puerto Rico: Information on Trends and Challenges in Small Business Federal Contracting*, [GAO-17-550](#) (Washington, D.C.: June 29, 2017).

businesses in Puerto Rico face in obtaining federal contracting opportunities.

For our June 2017 report, we analyzed data from Federal Procurement Data System-Next Generation (FPDS-NG) to identify trends in the use of the SBA's small business contracting programs in Puerto Rico. We also interviewed stakeholders such as federal agency contracting officials, industry associations, and economic development entities in Puerto Rico about any challenges small businesses in Puerto Rico face in obtaining federal contracts. Additional information on our scope and methodology is available in our report. The work this testimony is based on was performed in accordance with generally accepted government auditing standards.

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## Background

SBA administers several programs that provide socioeconomic designations to small businesses, including the four programs described below. Small businesses certified with these socioeconomic designations benefit from contracting preferences such as sole source contracts (awards are made without competition) and set-aside contracts (awards are limited to a designated pool of competing firms).

**8(a) Business Development (8(a)) Program:** The purpose of the 8(a) program is to develop small businesses owned by socially and economically disadvantaged individuals. Initial eligibility requirements include control and ownership of the business by one or more socially and economically disadvantaged individuals of good character and demonstration of potential for success. Upon SBA certification, the business may continue to participate in the program for 9 years if it meets other requirements.

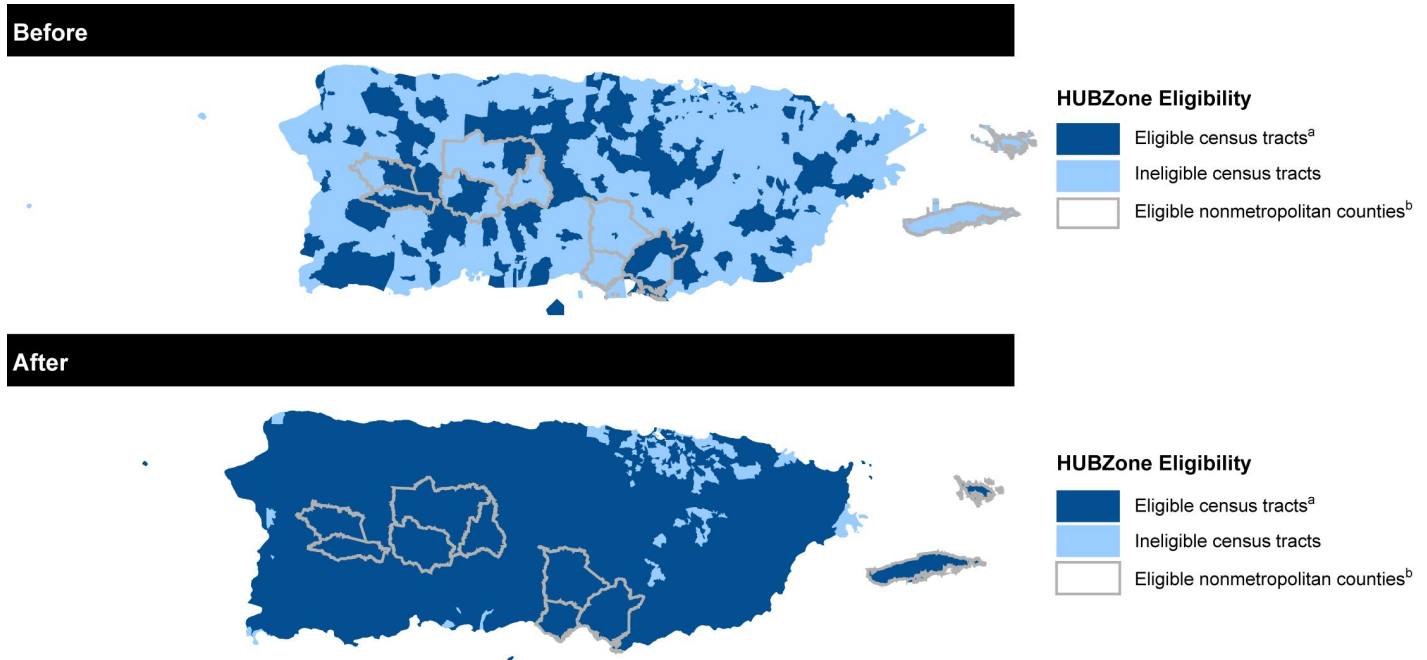
**Historically Underutilized Business Zone (HUBZone) Program:** Congress created the HUBZone program in 1997 to stimulate economic development in economically distressed communities by designating certain areas, such as qualified census tracts, as HUBZones.<sup>3</sup> To be eligible for SBA certification, a business must have its principal office located in a HUBZone and have at least 35 percent of its employees

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<sup>3</sup>HUBZone Act of 1997, Pub. L. No. 105-135, Title VI, 111 Stat. 2592, 2627-38 (1997).

reside in a HUBZone, among other criteria.<sup>4</sup> SBA updates HUBZone designations based on whether areas meet statutory criteria, such as having certain income levels or poverty or unemployment rates. In June 2016, SBA announced that it had revised the definition of qualified census tracts eligible to be designated as HUBZones to provide additional opportunities for small businesses in Puerto Rico and nationwide to participate in the HUBZone program.<sup>5</sup> As a result, nearly all of Puerto Rico now qualifies as a HUBZone (see fig. 1).

**Figure 1: Historically Underutilized Business Zone (HUBZone) Areas in Puerto Rico before and after the Small Business Administration (SBA) Changed the Definition for Qualified Census Tracts in June 2016, as of June 2016**



Source: GAO analysis of data provided by the Small Business Administration, MapInfo (map). | GAO-17-752T

<sup>4</sup>Different rules apply for Indian Tribal governments, Alaska Native Corporations, Community Development Corporations, Native Hawaiian Organizations, and small agricultural cooperatives. See Title 13 of the Code of Federal Regulations, Part 126.

<sup>5</sup>Previously, in addition to poverty rate and income, a statutory population cap limited the number of eligible census tracts. SBA removed the population cap on June 16, 2016. As a result, the number of eligible census tracts in Puerto Rico increased from 260 to 776. On June 30, 2016, Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act, which, among other things, authorized SBA not to apply the 20 percent cap but only for HUBZone designations in Puerto Rico and only for a limited time. Pub. L. No. 114-187, § 412, 130 Stat. 549, 595 (2016).

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Note: SBA's revision in the definition of qualified census tracts eligible to be designated as HUBZones in June 2016 led to an increase in the number of eligible HUBZone census tracts in Puerto Rico.

<sup>a</sup>Previously eligible census tracts are those that were eligible prior to the expansion of the HUBZone eligibility criteria and retained eligibility after the SBA revision.

<sup>b</sup>In addition to qualified census tracts, HUBZone areas may also be located in certain nonmetropolitan counties.

**Women-Owned Small Business (WOSB) Program:** Congress authorized the WOSB program in order to increase federal contracting opportunities for WOSBs. SBA implemented the program in 2011. Under the program, contracts are reserved for WOSBs in designated industries in which WOSBs and economically disadvantaged WOSBs were historically underrepresented. Among other eligibility requirements, businesses must be at least 51 percent controlled and owned by one or more women and must document that they meet program requirements. Currently, WOSBs can self-certify or be certified by a third party.

**Service-Disabled Veteran-Owned Small Business (SDVOSB) Program:** The Veterans Benefits Act of 2003 gave federal contracting officers the authority to restrict competition for SDVOSBs and award a sole source or set-aside contract where certain criteria are met.<sup>6</sup> To be eligible, the small business must be majority-owned by one or more service-disabled veterans who manage and control daily business operations. The Veterans Benefits, Health Care, and Information Technology Act of 2006 requires the Department of Veterans Affairs (VA) to set aside contracts for SDVOSBs and other veteran-owned small businesses under certain conditions.<sup>7</sup>

Firms with multiple socioeconomic designations can receive set-aside or sole source contracts under one or more of the four programs.<sup>8</sup> For example, a HUBZone firm that also qualifies as an SDVOSB could receive awards under both programs. As of March 2017, Puerto Rico had

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<sup>6</sup>Pub. L. No. 108-183, § 308, 117 Stat. 2651, 2662 (2003).

<sup>7</sup>Pub. L. No. 109-461, § 502, 120 Stat. 3403, 3431 (2006).

<sup>8</sup>The federal government has specified annual prime contracting and subcontracting goals for designated small business categories. These contracting goals are 5 percent for WOSBs and small disadvantaged businesses (including 8(a) businesses) and 3 percent for SDVOSBs and businesses located in HUBZones. A prime contract is awarded directly by a federal procuring agency to the bidder or offeror (prime contractor).

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76 8(a) certified businesses, 40 HUBZone certified businesses, 256 WOSBs, and 56 SDVOSBs.<sup>9</sup>

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## Among Other Trends, the Percentage of Obligations to Small Businesses in Puerto Rico Was Relatively High, and Use of SBA Programs Varied

Our analysis of federal prime contracting data identified a number of trends in federal contracting obligations to small businesses in Puerto Rico from fiscal years 2006 through 2016.<sup>10</sup>

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### Small Businesses in Puerto Rico Received a Relatively High Percentage of Federal Prime Contracting Obligations

From fiscal years 2006 through 2016, a higher percentage of federal contracting obligations was awarded to small businesses within Puerto Rico for contracts performed there compared to the percentage for small businesses nationwide, particularly in the last 4 fiscal years of the period (see fig. 2). Of the total obligations awarded to businesses of all sizes for contracts performed in Puerto Rico, the percentage awarded to small businesses located there ranged from about 24 percent in fiscal year 2006 to about 51 percent in fiscal year 2015.<sup>11</sup> In fiscal year 2016, small businesses in Puerto Rico received about 47 percent of federal prime contracting obligations (about \$319 million out of \$682 million) for work performed there. In contrast, federal prime contracting obligations awarded to small businesses nationwide were consistently around 20

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<sup>9</sup>The WOSBs total includes Economically Disadvantaged WOSBs. With the exception of the 8(a) program, all data are obtained from SBA's Dynamic Small Business Search database. SBA officials stated that for the 8(a) program, the number of participants differs from Dynamic Small Business Search database results.

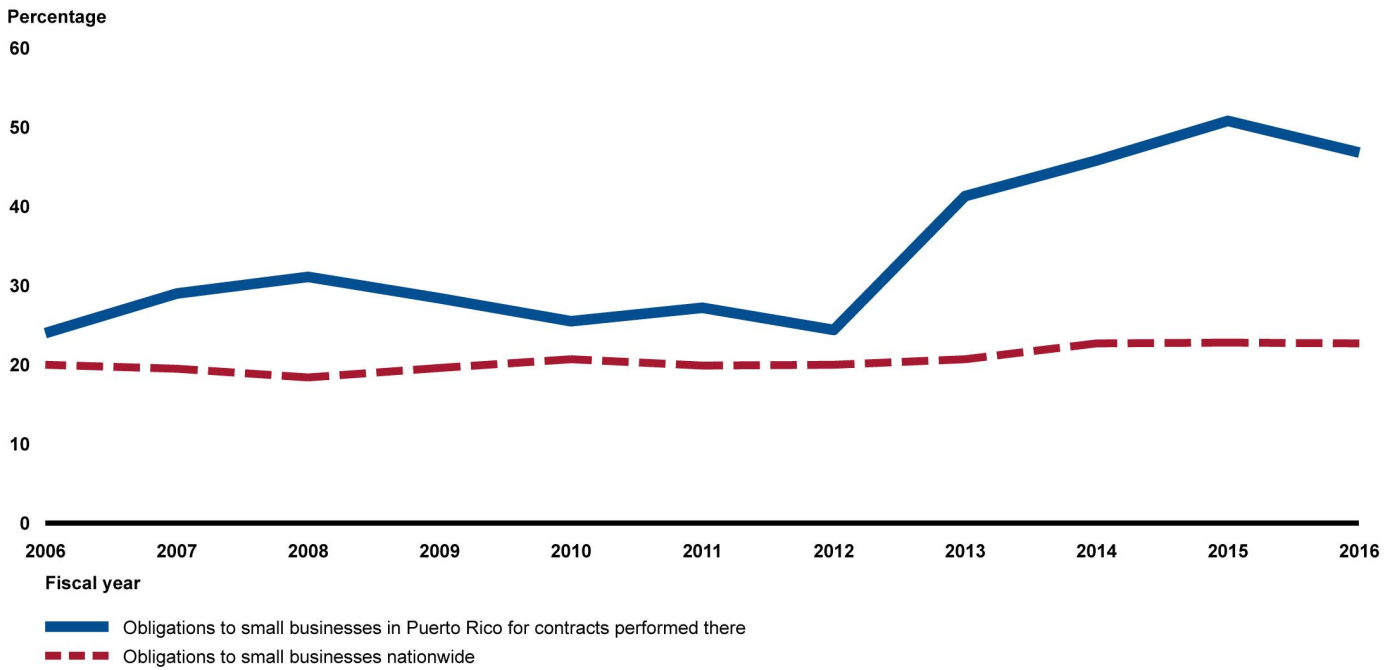
<sup>10</sup>For Puerto Rico, we analyzed data for prime contracts performed in Puerto Rico by businesses located in Puerto Rico.

<sup>11</sup>These figures represent federal prime contracting obligations awarded to small businesses located in Puerto Rico as a portion of the total federal contracting dollar obligations awarded for contracts performed in Puerto Rico.



percent from fiscal years 2006 through 2013 and increased to about 23 percent from fiscal years 2014 through 2016.<sup>12</sup>

**Figure 2: Percentage of Small Business Obligations for Puerto Rico and Nationwide, Fiscal Years 2006–2016**



Source: GAO analysis of data from Federal Procurement Data System-Next Generation. | GAO-17-752T

**Data Table for Figure 2: Percentage of Small Business Obligations for Puerto Rico and Nationwide, Fiscal Years 2006–2016**

Fiscal Year	Obligations to small business in PR	Obligations to small business nationwide
2006"	24	20
2007"	29	19.5
2008"	31.1	18.4
2009"	28.4	19.6
2010"	25.5	20.7
2011"	27.2	19.9

<sup>12</sup>These figures represent federal prime contracting obligations awarded to small businesses nationwide as a portion of total prime federal contracting dollar obligations nationwide, including U.S. territories. The calculation of this percentage by SBA for its procurement scorecard may differ by excluding certain federal procurements.

Fiscal Year	Obligations to small business in PR	Obligations to small business
2012"	24.4	20
2013"	41.3	20.7
2014"	45.8	22.7
2015"	50.8	22.8
2016"	46.8	22.7

Note: For Puerto Rico, we calculated the percentage of federal prime contracting obligations awarded to small businesses in Puerto Rico for contracts where the place of performance was in Puerto Rico. This means that prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the place of performance is in Puerto Rico. For nationwide, we calculated the percentage of federal prime contracting obligations awarded to small businesses nationwide, including U.S. territories. The calculation of this percentage by the Small Business Administration for its procurement scorecard may differ by excluding certain federal procurements.

For the contracts performed in Puerto Rico by small businesses, most obligations went to businesses also located in Puerto Rico, although some obligations were awarded to businesses located elsewhere, such as on the U.S. mainland. Specifically, we found that of the obligations awarded to all small businesses for contracts performed in Puerto Rico, over 70 percent went to small businesses located in Puerto Rico for 7 of the 11 fiscal years we reviewed; in fiscal year 2016, this figure was 81 percent.<sup>13</sup> We also found that small businesses in Puerto Rico largely performed contracts inside of Puerto Rico rather than outside of Puerto Rico. Specifically, more than 94 percent of the small businesses located in Puerto Rico that received contract awards received them for work performed in Puerto Rico each fiscal year from 2006 through 2016, with the exception of fiscal year 2006.

### Full and Open Competition and the 8(a) Program Were the Most Prevalent Bases for Awards, and HUBZone Applications Increased in Puerto Rico after Expansion of Criteria

To illustrate how SBA certifications may have influenced the ability of small businesses in Puerto Rico to obtain prime contracts for work

<sup>13</sup>These figures represent federal prime contracting obligations awarded to small businesses located in Puerto Rico as a portion of the total federal prime contracting obligations awarded to all small businesses for contracts where the place of performance was Puerto Rico.

performed in Puerto Rico, we analyzed contract obligations based on whether awards were obtained through the four SBA programs—8(a), HUBZone, WOSB, and SDVOSB—or through other means. We found that for fiscal years 2006 through 2016, the percentage of obligations awarded without the use of the four SBA programs in Puerto Rico ranged from a combined low of 49 percent in 2009 to a combined high of 82 percent in 2013; a substantial percentage of the awards were made based on full and open competition or through other socioeconomic designations.<sup>14</sup> Additionally, we found that a higher percentage of federal prime contracting obligations were awarded through the 8(a) program than through HUBZone, WOSB, or SDVOSB programs combined for contracts awarded to small businesses located in Puerto Rico.

We also found that the number of applications submitted to the HUBZone program in Puerto Rico increased after the expansion in the number of qualified census tracts in June 2016 and some businesses with primary locations in newly eligible qualified census tracts applied to the program. The number of certified HUBZone firms also increased. Specifically, between fiscal years 2015 and 2016, the number of certified HUBZone businesses in Puerto Rico increased from 23 to 25, whereas for the first 6 months of fiscal year 2017, the number of HUBZone businesses increased from 25 to 40. Six of the newly certified HUBZone businesses were located in newly designated qualified census tracts.

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## Stakeholders Believe That Small Business Challenges in Puerto Rico May Be Exacerbated by Geography and Economic Conditions

Stakeholders we spoke with identified a number of challenges that small businesses in Puerto Rico may face in obtaining federal contracting opportunities. Many of these challenges were similar to those we found in 2012 that small businesses, including minority-owned businesses, face

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<sup>14</sup>Contract awards based on full and open competition consist of awards not identified as being awarded through any socioeconomic program and those specifically labeled as having no set-asides. Other socioeconomic programs include those for veterans, small disadvantaged businesses, and other small businesses. Awards reserved for small businesses (excluding those for 8(a), HUBZone, WOSB, and SDVSOB programs) made up a large portion of these obligations.

nationwide in seeking federal contract opportunities.<sup>15</sup> Some stakeholders we interviewed indicated that the island geography of Puerto Rico and its economic conditions may complicate or exacerbate some of these challenges compared to small businesses elsewhere. None of the stakeholders we interviewed identified federal laws as having created unique challenges for small businesses in Puerto Rico in obtaining federal contracting. In addition, SBA and other agencies identified examples of efforts undertaken to further assist Puerto Rican small businesses in obtaining federal contracting opportunities, such as holding training events and conferences.

Stakeholders we interviewed identified the following challenges:

- Increased use of contract bundling or consolidation. Increased use of contract bundling or consolidation may have led to a decrease in the number of small businesses competing for federal contracts.<sup>16</sup> SBA officials stated that smaller businesses are less likely to have the capability or experience to compete or qualify for the large scope of work associated with consolidated contracts and noted that for an island like Puerto Rico small businesses are generally smaller. According to SBA, one of the roles that its Procurement Center Representatives play is to work with contracting officers to evaluate whether bundling is the best way to acquire services and supplies.<sup>17</sup>
- Difficulty meeting procurement requirements. Procurement requirements for federal contracts, such as performance history for construction contracts, may pose challenges for small businesses in Puerto Rico. For example, representatives from one organization we

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<sup>15</sup>GAO, *Government Contracting: Federal Efforts to Assist Small Minority Owned Businesses*, [GAO-12-873](#) (Washington, D.C.: Sept. 12, 2012).

<sup>16</sup>Bundling” denotes consolidating two or more requirements for goods or services previously provided or performed under separate smaller contracts into a solicitation for a single contract that is likely to be unsuitable for award to a small business due to its size or scope. “Consolidation” is similarly defined to mean solicitation to obtain offers for a single contract that satisfies two or more requirements for goods or services valued in excess of \$2 million that have been provided or performed under two or more separate contracts each of which was lower in cost than the contract for which offers are solicited, or to satisfy requirements for construction to be performed at two or more discrete sites. For more information, see GAO, *Small Business Contracting: Updated Guidance and Reporting Needed for Consolidated Contracts*, GAO 14 36 (Washington, D.C.: Nov. 26, 2013).

<sup>17</sup>SBA employs Procurement Center Representatives to assist small businesses in obtaining federal contracts.

interviewed said that the construction of a cemetery required a business to demonstrate experience in developing several cemeteries in the past 5 years; however, opportunities to construct cemeteries are limited in Puerto Rico and that relevant experience may have been from more than 5 years ago.

- Lack of access to capital and financing. A lack of access to capital and financing may have inhibited construction businesses' ability to obtain bonding, which is often required for federal construction contracts.<sup>18</sup> Small businesses in Puerto Rico may not be able to meet bonding requirements based on the businesses' credit or on the financial standards required by the surety companies due to Puerto Rico's economic downturn. In April 2017, SBA announced that it had approved the first Puerto Rican surety company to participate in its Surety Bond Guarantee Program. Through this program, qualifying surety companies can receive a guarantee of a percentage of the losses incurred on bonds issued to small businesses.
- Lack of knowledge of the federal contracting process. A lack of knowledge of the federal contracting process may also be a challenge for small businesses in Puerto Rico. For example, some small businesses in Puerto Rico may not know how to complete a proposal for federal contracting and may not have the infrastructure in place to prepare contracts accurately. Additionally, some small businesses may be unfamiliar with federal contracting opportunities and where to find them. Officials from SBA's Puerto Rico District Office said that they hold regular training on contracting programs and how to navigate the contracting process and have offered training on proposal writing.
- Lack of knowledge of federal contracting programs. Small businesses may also lack knowledge of SBA's federal contracting programs and their benefits. For example, some small businesses may not know how to complete the paperwork to become certified in SBA's programs. Officials in SBA's Puerto Rico District Office stated that the office has conducted various small business outreach activities in Puerto Rico to promote participation in its small business contracting programs, including between 50 to 60 training classes and seminars

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<sup>18</sup>Performance and bid bonds are types of surety bonds consisting of a three-party agreement. A surety bond provides assurance to the project owner that the contractor will perform a contract in accordance with the contract documents. The surety company prequalifies the contractor based on financial strength and construction expertise. Among many requirements, the surety company requires evidence of a bank line of credit to augment working capital and to handle temporary cash flow deficits or financial strains.

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focused on the 8(a), HUBZone, WOSB, and SDVOSB programs each year from fiscal years 2014 to 2016.

- Lack of access to agency contracting officials. Some stakeholders cited the lack of access to contracting officials as an issue for small businesses in Puerto Rico. Additionally, geographic barriers may be a challenge for small businesses there because it is difficult for these businesses to market and maintain their relationships with contracting officers, who are generally located at the headquarters level on the mainland. Officials from SBA, Department of Defense, Department of Veterans Affairs, and General Services Administration said they help to connect small businesses to federal contracting officers through conferences and matchmaking events where businesses can meet contracting officers one-on-one.

Chairmen Knight and Brat, Ranking Members Murphy and Evans, and members of the Subcommittees, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

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## GAO Contact and Staff Acknowledgments:

If you or your staff have any questions about this testimony, please contact William Shear, Director, Financial Markets and Community Investment at (202) 512-8678 or [shearw@gao.gov](mailto:shearw@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Harry Medina (Assistant Director), Weifei Zheng (Analyst in Charge), Pamela Davidson, Julia Kennon, John McGrail, John Mingus, and Jennifer Schwartz.

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