



Highlights of [GAO-10-353](#), a report to the Chairwoman, Committee on Small Business, House of Representatives

SMALL BUSINESS ADMINISTRATION

Steps Have Been Taken to Improve Administration of the 8(a) Program, but Key Controls for Continued Eligibility Need Strengthening

Why GAO Did This Study

The Small Business Administration’s (SBA) 8(a) program helps eligible socially and economically disadvantaged small businesses compete in the economy by providing business development activities, such as counseling and technical assistance, and providing opportunities to obtain federal contracts on a set-aside basis. GAO was asked to review SBA’s internal control procedures for determining 8(a) eligibility. Specifically, we (1) evaluated the procedures and processes that SBA has implemented to ensure that only eligible firms participate in the 8(a) program, and (2) assessed the extent to which SBA uses external mechanisms such as complaint information in helping to ensure that only eligible firms participate. To address these objectives, GAO reviewed SBA guidance and prior reports, interviewed SBA officials, and conducted site visits and file reviews of 123 randomly sampled 8(a) firms covering the most recent 2 years of annual reviews at five SBA locations.

What GAO Recommends

GAO makes six recommendations to SBA that include providing more guidance to help ensure staff more consistently follow procedures, reassessing BDSs’ workload distribution, and developing more standard processes for documenting and analyzing certain program data. In responding to a draft of this report, SBA agreed with each of the six recommendations and stated that some corrective measures have already been implemented and additional actions are planned to be implemented in the near future.

View [GAO-10-353](#) or [key components](#). For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

SBA relies primarily on its annual review of 8(a) firms to ensure their continued eligibility in the program, but inconsistencies and weaknesses in annual review procedures limit program oversight. GAO’s review of a random sample of 8(a) firms identified an estimated 55 percent in which SBA staff failed to complete required annual review procedures intended to assess fundamental eligibility criteria, such as being economically disadvantaged (see table). Multiple factors appear to have contributed to the inconsistencies identified, including the lack of specific criteria in SBA’s current regulations and procedures that relate to some eligibility requirements such as determining whether firms exceed program thresholds for industry size averages, personal compensation, and personal asset limits. As a result, firms that may have outgrown the program continued to receive 8(a) program benefits. For example, GAO estimated that 17 percent of the firms we reviewed had exceeded one or more eligibility criteria for 2 consecutive years, but were recommended by SBA for retention. SBA has taken steps to clarify some, but not all, of these rules in recent proposed rule changes. SBA is required by statute to perform annual reviews on 100 percent of 8(a) firms but staff spent significant amounts of time trying to obtain annual review documents from firms—especially firms that did not have 8(a) contracts—which affected the timeliness of reviews. GAO identified a significant number of instances in which firms failed to submit annual review documents as required but still were recommended for retention. The Business Development Specialists’ (BDS) dual role of advocacy for and monitoring of the firms may have contributed in part to the retention of ineligible firms. SBA has been addressing some data integrity and compatibility issues by enhancing its primary electronic system for annual review information. Finally, SBA did not maintain an accurate inventory of 8(a) Mentor-Protégé Program participant data, which limited the agency’s ability to monitor these firms.

SBA’s program offices did not maintain comprehensive data on or have a system in place to track complaints on the eligibility of firms participating in the 8(a) program. District staff were not aware of the types and frequency of complaints across the agency. As a result, SBA staff lacked information that could be used with other information to help identify issues relating to program integrity and help improve the effectiveness of SBA oversight. Although complaint data are not a primary mechanism to ensure program eligibility, continuous monitoring is a key component in detecting and deterring fraud.

Estimated Percentage of Time That SBA Did Not Complete Selected Annual Review Procedures Relating to 8(a) Eligibility

Requirement not met	Estimated percentage
Taking action when a firms exceeded industry averages for economic success by	
• notifying firms that exceeded four of seven industry averages for 1 year (intended to make firms aware they may be subject to early graduation)	26
• graduating or explaining retention of firms that exceeded four of seven industry trends for 2 consecutive years	4
• Reviewing net worth or graduating firms in which individuals exceeded adjusted net worth limitations	7
• Performing required eligibility reviews due to a change in the firms’ ownership	4
• Completing required annual reviews	2

Source: GAO analysis of a random sample of 123 8(a) firms.