

## Why GAO Did This Study

The SDVOSB program provides federal contracting opportunities to business-owning veterans who incurred or aggravated disabilities in the line of duty. SBA administers the government-wide program, while VA maintains databases of veterans and SDVOSBs and oversees its own contracts. GAO has reported several times since 2009 that both programs were vulnerable to fraud and abuse and recommended improvements. In October 2010, Congress passed the Veterans Small Business Verification Act (2010 Act), part of the Veterans' Benefits Act of 2010, to provide tools to VA to more-thoroughly validate firms' eligibility before listing them in VetBiz, the database used by VA contracting officials to award SDVOSB contracts.

GAO was asked to assess (1) VA's progress in addressing remaining vulnerabilities to fraud and abuse in its SDVOSB program and (2) actions taken by SBA or other federal agencies to improve government-wide SDVOSB fraud-prevention controls. GAO reviewed agency documentation and interviewed agency officials. GAO also investigated cases of alleged fraud and abuse. GAO did not project the extent of fraud and abuse in the program.

## What GAO Recommends

GAO recommends that VA take steps to ensure that all firms within VetBiz have undergone the 2010 Act verification process. VA generally concurred with the recommendation but expressed concern about how specific report language characterized its program. GAO made some changes to the report but continues to believe that the program remains vulnerable to fraud and abuse.

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# SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS PROGRAM

## Vulnerability to Fraud and Abuse Remains

## What GAO Found

The Department of Veterans Affairs (VA) Service-Disabled Veteran-Owned Small Business (SDVOSB) program remains vulnerable to fraud and abuse. VA has made inconsistent statements about its progress verifying firms listed in VetBiz using the more-thorough process the agency implemented in response to the Veterans Small Business Verification Act (2010 Act). In one communication, VA stated that as of February 2011, all new verifications would use the 2010 Act process going forward. However, as of April 1, 2012, 3,717 of the 6,178 SDVOSB firms (60 percent) listed as eligible in VetBiz had not been verified under the 2010 Act process. Of these 3,717 firms, 134 received \$90 million in new VA SDVOSB set-aside or sole-source contract obligations from November 30, 2011, to April 1, 2012. While the 2010 Act did not include a deadline for verification using the more-thorough process, the presence of firms that have only been subjected to the less-stringent process that VA previously used represents a continuing vulnerability. VA's Office of Inspector General (OIG) reported that the less-stringent process was in many cases insufficient to establish control and ownership and in effect allowed businesses to self-certify as SDVOSBs with little supporting documentation. VA has taken some positive action to enhance its fraud prevention efforts by establishing processes in response to 6 of 13 recommendations GAO issued in October 2011, including conducting unannounced site visits to high-risk firms and developing procedures for referring suspicious SDVOSB applications to the OIG. VA has also begun action on some remaining recommendations, such as providing fraud awareness training and removing contracts from ineligible firms, though these procedures need to be finalized.

Regarding the government-wide SDVOSB program, no action has been taken by agencies to improve fraud-prevention controls. Relying almost solely on firms' self-certification, the program continues to lack controls to prevent fraud and abuse. The Small Business Administration (SBA) does not verify firms' eligibility status, nor does it require that they submit supporting documentation. While SBA is under no statutory obligation to create a verification process, five new cases of potentially ineligible firms highlight the danger of taking no action. These firms received approximately \$190 million in SDVOSB contract obligations. In one case, a firm found ineligible by VA continued to self-certify as an SDVOSB and received about \$860,000 from the General Services Administration and the Department of Interior. Further, the Department of Defense (DOD) OIG reported in 2012 that DOD provided \$340 million to firms that potentially misstated their SDVOSB status. To address these vulnerabilities, GAO previously suggested that Congress consider providing VA with the authority necessary to expand its SDVOSB eligibility verification process government-wide. Such an action is supported by the fact that VA maintains the database identifying which individuals are service-disabled veterans and is consistent with VA's mission of service to veterans. However, the problems GAO identified with VA's verification process indicate that an expansion of VA's authority to address government-wide program problems should not be undertaken until VA demonstrates that its process is successful in reducing its own SDVOSB program's vulnerability to fraud and abuse.