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VETERAN-OWNED SMALL BUSINESSES

Planning and Data System for VA's Verification Program Need Improvement

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

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Chairmen Hanna and Coffman, Ranking Members Meng and Kirkpatrick, and Members of the Subcommittees:

I am pleased to be here to discuss the Department of Veterans Affairs' (VA) efforts to verify the eligibility of veteran-owned small businesses (VOSB), including service-disabled veteran-owned small businesses (SDVOSB), to receive contracting preferences under VA's Veterans First Contracting program.[1] During fiscal year 2012, VA awarded $3.8 billion in contracts to SDVOSBs and VOSBs, which underscores the importance of ensuring the eligibility of those firms to receive contracting preferences.[2] My statement is based on our January 2013 report on VA's verification program.[3] During the period covered by our study—February 2012 to January 2013—VA was introducing significant changes to its verification procedures and operations. As a result, we determined that evaluating VA's compliance with its past procedures would be of limited value and that testing the effectiveness of verification procedures that were still evolving would be premature. We focused instead on issues related to planning for and designing the verification program and on changes in the program's management and operations.

My testimony today addresses the (1) progress that VA has made in ensuring that its program verifies the eligibility of SDVOSBs and VOSBs on a timely and consistent basis, and (2) key operational and policy issues that VA will have to address if its verification program is expanded to support the government-wide SDVOSB contracting program. That

[1]VA established the Veterans First Contracting program in response to the Veterans Benefits, Health Care, and Information Technology Act of 2006. Pub. L. No. 109-461, § 502, 120 Stat. 3403, 3431 - 3435 (codified as amended at 38 U.S.C. § 8127). The act requires VA to give preference in its small business contracting to SDVOSBs and VOSBs. It also gives the agency unique authority to make noncompetitive (sole-source) awards to these firms and to restrict competition for awards to them (set-asides). Along with establishing VA's contracting preferences, the 2006 Act makes VA responsible for maintaining a database of SDVOSBs and other VOSBs. The act requires VA to verify that all firms entered in the database are actually owned and controlled by one or more veterans and to confirm the status of any owner who indicates a service-connected disability.

[2]Our analysis of fiscal year 2012 data reflects data input into the Federal Procurement Data System—Next Generation (FPDS-NG) as of February 2013. Because agencies enter and revise data in FPDS-NG on an ongoing basis, the results reported here may differ from the Small Business Administration's official fiscal year 2012 report on federal agencies' achievement of small business goals, which will be released later in fiscal year 2013.

[3]See GAO, *Veteran-Owned Small Businesses: Planning and Data System for VA's Verification Program Need Improvement*, GAO-13-95 (Washington, D.C.: Jan. 14, 2013).

program, which is administered by the Small Business Administration (SBA), authorizes other federal agencies to award set-aside or sole-source contracts up to certain dollar thresholds to firms that self-certify as SDVOSBs.[4]

In summary, the two key findings from our January 2013 report are:

- VA has instituted a number of significant changes to its verification processes to improve and address program weaknesses but continues to face challenges in its efforts to establish a stable and efficient program to verify firms on a timely and consistent basis. These challenges are directly related to shortcomings in strategic planning and data systems for the verification program. Specifically, we noted that the plan lacked performance measures to assess whether the desired outcomes were being achieved and had a short-term focus not typically associated with a strategic plan. Additionally, we found that VA's data system did not collect important data and had limited reporting and workflow management capabilities.

- Expanding VA's verification program to support the government-wide SDVOSB contracting program would require VA to improve its verification process and address a number of operational and policy issues.

To improve the management and oversight of VA's SDVOSB and VOSB verification program, our January 2013 report made two recommendations addressing strategic planning and data system needs. VA concurred with the two recommendations and stated that it had actions under way that would address them.

For our January 2013 report, we reviewed relevant statutes, regulations, procedures, and planning and organizational documents. As we were completing our review in late October 2012, VA prepared an initial strategic planning document for the verification program in response to our inquiries. We compared that document to six leading practices

[4]The Veterans Benefits Act of 2003, Pub. L. No. 108-183, § 308, 117 Stat. 2651, 2662 (codified at 15 U.S.C. § 657f).

relevant to agencies' initial strategic planning efforts.[5] We also interviewed VA officials and representatives from three veteran service organizations and a technical assistance association that were participating in an outreach program VA had launched to assist applicant firms. We reviewed our prior work on the verification program and a report from VA's Office of Inspector General. We developed rough order-of-magnitude estimates of how many more SDVOSBs might seek verification if it were required government-wide beyond those firms that VA had already verified or was in the process of verifying as of September 30, 2012.[6] Further, because of SBA's role in administering the government-wide SDVOSB program, we reviewed SBA documents and interviewed SBA staff. Our work was performed in accordance with generally accepted government auditing standards.

VA Has Made Changes to Improve Its Verification Program but Continues to Face Challenges in Its Strategic Planning and Information Technology Efforts

Since December 2011, VA has instituted a number of significant changes that are designed to improve its operations and address program weaknesses. These changes include:

- revising its Standard Operating Procedures to help ensure greater consistency in its verification process and instituting a more robust quality assurance process;
- increasing the number of employees and contractors assigned to the verification process to about 28 full-time equivalent employees and 174 contractors as of October 2012;

[5]We have reported in the past that, taken together, the strategic planning elements established under the Government Performance and Results Act of 1993 and associated Office of Management and Budget guidance, and practices identified by GAO provide a framework of leading practices in federal strategic planning. The six leading practices that have been identified as being the most relevant to VA's initial strategic planning efforts are (1) defining the mission and goals; (2) defining strategies that address management challenges and identifying resources needed to achieve goals; (3) ensuring leadership involvement and accountability; (4) involving stakeholders; (5) coordinating with other federal agencies; and (6) developing and using performance measures.

[6]Specifically, our estimation method relied on the number of SDVOSBs listed in the Central Contractor Registration database that had not been verified by VA and were not in the process of being verified. Next, we determined whether or not these self-certified SDVOSBs had received contracts from agencies other than VA in fiscal years 2010 or 2011 using FPDS-NG.

- launching a new Verification Counseling program that trains partner organizations to provide counseling to firms interested in becoming verified;

- extending the term of a firm's verification status from 1 to 2 years and introducing simplified procedures for reverifying firms that have already passed a full verification examination to mitigate an expected increase in its workload; and

- forming a senior executive task force in June 2012 to review the verification program, determine whether it has sufficient resources and support, and present recommendations in the second quarter of fiscal year 2013.

Despite the steps that it has taken since December 2011, VA has consistently placed a higher priority on addressing immediate operational challenges than on developing a comprehensive, long-term strategic focus for the verification program—an approach that has contributed to programmatic inefficiencies. As of October 2012, when we were completing our review, VA had not created a formal strategic plan for the verification program. In response to our observations, VA initiated action in late October 2012 to compile a strategic planning document for the verification program. In this initial strategic planning effort, VA appears to have at least partially applied six key leading strategic planning practices. We believe that fully implementing these leading practices would make the plan more useful. Specifically, we noted that the plan identified goals and objectives, but some of these were worded so broadly that it would be difficult to assess whether they had been met. For example, one long-term objective is establishing and sustaining a "best in show" operation. But VA's strategic plan does not define such an operation or provide any criteria or associated metrics to determine whether it has been achieved. Also, VA has not shared the plan with key stakeholders, such as veteran support organizations, business associations, and congressional staff and committees. As a result, VA has missed an opportunity to make the verification program's plans and priorities transparent and to facilitate continued stakeholder involvement. Further, the plan lacks performance measures to assess whether the desired outcomes were being achieved and has a short-term focus of 2 to 3 years that is not typically associated with a strategic plan. Without a longer-term perspective, the current strategic plan serves more as a short-term management plan than as a forward-looking guide to help frame the verification program's future needs and direction.

Since the verification program began in 2008, VA has relied on data systems that it developed on an incremental, ad hoc basis in response to immediate needs, without an overarching plan or vision and without centralized oversight by VA's Office of Information and Technology.[7] As a result, the current system has shortcomings that have required VA to develop inefficient workarounds in order to operate and oversee the verification program. For example, because the data system does not meet VA's needs for assigning and monitoring the progress of applications, supervisors use separate spreadsheets to track the status of applications as their teams review them, increasing the risk that data will not be completely or accurately recorded across systems. Furthermore, the verification program's current data system lacks certain data fields and reporting capabilities needed to provide key information for program management. VA began formally planning in July 2012 to modify or replace the system, a process that the Office of Information and Technology will manage. But this planning effort had not been tied to broader long-term strategic planning to better ensure that the resulting system meets the verification program's long-term information needs and goals. Without tying that effort to long-term strategic planning, VA risks failing to meet the program's information needs going forward.

To improve the management and oversight of VA's SDVOSB and VOSB verification program, our January 2013 report recommended that VA

- continue to develop, refine, and implement a formal strategic plan to provide a comprehensive framework to guide, integrate, and monitor the verification program's activities over time (including incorporating longer-term goals, objectives, and outcome measures for the verification program and sharing the plan with key stakeholders); and

- integrate its efforts to modify or replace the verification program's data system with the broader programwide strategic planning effort to ensure that the new system not only addresses the short-term needs of the program but also can be readily adapted to meet long-term needs.

[7]We have previously reported that an agency must have relevant, reliable information to run and control its operations. More specifically, we have noted that pertinent information should be identified, captured, and distributed to the right people in sufficient detail, in the right form, and at the appropriate time to enable them to carry out their duties and responsibilities efficiently and effectively. GAO, *Internal Control Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: August 2001).

VA concurred with the two recommendations and stated that it had actions under way that would address them. For example, VA indicated that it anticipated submitting a strategic plan for the verification program to the Office of the Secretary in fiscal year 2013 and would develop a schedule to brief VA senior leaders and other key stakeholders once the plan is approved. VA also noted that it had begun the process of replacing the verification program's data system.

Expanding Its Verification Program Government-wide Would Require VA to Make Further Improvements and Address Policy Issues

Expanding VA's verification program to support the government-wide SDVOSB contracting program would require VA to increase the scale of its program to verify potentially thousands of additional firms.[8] Beyond those firms that VA has already verified or was in the process of verifying as of September 30, 2012, we estimated that between about 3,600 and 16,400 more self-certified SDVOSBs might seek verification under a government-wide program.[9] Thousands more existing but unverified and new SDVOSBs could eventually register and seek verification if it were required.

Because VA would face additional operational challenges in preparing to verify potentially thousands of additional firms, it needs to continue to address existing program weaknesses. For example, we reported in August 2012 that VA had taken some positive actions to enhance its fraud prevention efforts, such as formalizing a process for conducting

[8]Considering the risk of awarding contracts under the government-wide SDVOSB program to self-certified firms that are ineligible or deliberately misrepresenting their SDVOSB status, in 2009 we suggested that Congress consider providing VA with the authority and resources necessary to expand its SDVOSB eligibility verification process to all contractors seeking to bid on SDVOSB contracts government-wide. GAO, *Service-Disabled Veteran-Owned Small Business Program: Case Studies Show Fraud and Abuse Allowed Ineligible Firms to Obtain Millions of Dollars in Contracts,* GAO-10-108 (Washington, D.C.: Oct. 23, 2009). For purposes of our January 2013 report, we were asked to consider steps necessary for VA to expand its verification program government-wide. Accordingly, we did not evaluate whether another agency, such as SBA, could or should assume responsibility for such a program. Also, we focused only on SDVOSBs (not all VOSBs), because they are the subject of government-wide contracting goals and preferences and because a recent legislative proposal for a government-wide verification program applied only to them.

[9]The estimate of 3,600 firms is based on the number of self-certified SDVOSBs that received contract obligations from agencies other than VA in fiscal years 2010 or 2011 (the last full fiscal year available), according to FPDS-NG. The estimate of 16,400 firms includes those 3,600 firms and another 12,800 self-certified SDVOSBs that did not receive contract obligations in fiscal years 2010 or 2011, according to FPDS-NG.

unannounced site visits to firms identified as high risk during the verification process. However, VA has not fully implemented 7 of the 13 recommendations we made in October 2011, including providing regular fraud-awareness training to VA verification and contracting personnel and removing contracts from ineligible firms.[10] Without implementing these recommendations, VA's program for awarding contracts to service-disabled and other veteran-owned small businesses remains vulnerable to the fraud and abuse that could result in contracts being awarded to ineligible firms. In addition, VA has not determined whether recent operational changes have resulted in improved performance or whether its new methods for educating applicants have been effective. It has also, as noted earlier, not addressed limitations to its data system that hinder its ability to operate and oversee the program.

In our January 2013 report, we noted that VA had begun a process to revise the verification program's regulations that would likely serve as the starting point if VA were charged with implementing a government-wide verification program. VA officials said that they were planning to revise the regulations partly in response to applicants' and veterans' organizations' concerns about VA's eligibility standards. For example, two veterans' organizations that we interviewed questioned VA's requirement that veteran owners be able to transfer their ownership interest without restriction by nonveteran owners, effectively suggesting that VA's standard for establishing control of a firm is too strict. VA officials said that they would weigh this concern and others as they developed proposed revisions to the regulation.

However, as we concluded in our January 2013 report, any changes to VA's verification requirements could create or widen differences between the various government-wide small business contracting programs'

[10]GAO, *Service-Disabled Veteran-Owned Small Business Program: Vulnerability to Fraud and Abuse Remains,* GAO-12-697 (Washington, D.C.: Aug. 1, 2012). We are reviewing documentation that VA submitted on February 28, 2013, to determine if VA's actions taken to address some of our prior recommendations are sufficient to consider them implemented.

requirements and VA's.[11] Some veterans' organizations and others with whom we spoke have cited perceived differences between VA's eligibility standards and SBA's standards for the government-wide SDVOSB program and the 8(a) program for economically disadvantaged small businesses, whose certification process is most similar to VA's verification program. Initially, VA and SBA officials told us that they had not found major differences in the programs' regulatory eligibility requirements, the agencies' interpretation of them, or the documentation requirements for verification. However, in commenting on a draft of our January 2013 report, SBA said that while the wording of the regulations pertaining to eligibility requirements was comparable, some key differences existed in the way the agencies interpreted them. SBA also noted that the agencies were consulting with one another to determine whether those differences could or should be resolved.[12]

Going forward, any unilateral changes to VA's verification policies and procedures could make aligning small business contracting programs more difficult. VA officials told us that the tension between competing calls for VA to ease its requirements and to be consistent with the government-wide SDVOSB and 8(a) programs would be a major consideration as VA continued making changes to its regulations, particularly in light of the potential for expanding VA's program government-wide. Accordingly, the officials said that they were consulting with SBA as they developed changes to VA's verification program regulation.

[11]In addition to the government-wide SDVOSB program, federal contracting preference programs give federal agencies the authority to set aside contracts for small business concerns and specific types of small businesses: women-owned small businesses, businesses located in historically underutilized business zones (HUBZone), and socially and economically disadvantaged small businesses participating in SBA's 8(a) program. While the SDVOSB and women-owned small business programs allow firms to self-certify their eligibility, SBA reviews supporting documentation to certify HUBZone and 8(a) firms, with the 8(a) program requiring more extensive documentation similar to what is required under VA's verification program.

[12]SBA also noted a distinction regarding ownership by spouses of disabled veterans. By statute, firms owned and controlled by surviving spouses of deceased veterans may be eligible for verification by VA (38 U.S.C. § 8127(h)), but they are not eligible under SBA's regulations for the SDVOSB program.

Chairmen Hanna and Coffman and Ranking Members Meng and Kirkpatrick, this concludes my prepared statement. I would be happy to answer any questions at this time.

GAO Contacts and Staff Acknowledgments

If you or your staff have any questions about this statement, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. Key contributors to this testimony include Harry Medina, Assistant Director; Emily Chalmers, Julianne Dieterich, Julia Kennon, and John McGrail.

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