

GAO Highlights

Highlights of [GAO-17-456T](#), a testimony before the Subcommittee on Contracting and Workforce, 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 designated as HUBZones. SBA certifies small business firms located in HUBZones to participate in the HUBZone program—that is, determines they are eligible for federal contracting preferences under the program, such as awards of sole-source and set-aside contracts. HUBZone areas lose their designations when they no longer meet applicable criteria on economic conditions and enter a 3-year transitional period (“redesignation”) during which HUBZone firms can continue to apply to and participate in the program. HUBZone firms had almost \$6.6 billion in obligations on active federal contracts for calendar year 2015.

This testimony discusses, among other things, areas of weaknesses that GAO previously identified in reviews and fraud investigations of the program, related recommendations, and SBA’s actions to address them. This statement is based on GAO’s body of work issued between June 2008 and September 2016. GAO also met with SBA officials in February 2017 to discuss the status of open recommendations.

Since 2008, GAO has made 11 recommendations to improve the HUBZone program. SBA has implemented seven of these recommendations, not implemented two and is in the process of implementing the other two.

View [GAO-17-456T](#). For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

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HUBZONE PROGRAM

Oversight Has Improved But Some Weaknesses Remain

What GAO Found

The Small Business Administration (SBA) designates economically distressed areas as Historically Underutilized Business Zones (HUBZones), based on data such as unemployment and poverty rates. Since 2008, GAO has issued several products that identified weaknesses in the HUBZone program and made recommendations to SBA to address them. While weaknesses remain, SBA has taken some steps to enhance program processes to varying extents. For example,

- **Certification process.** In 2008, GAO found that SBA performed limited verification of the information firms reported on applications. In response to GAO’s recommendation to develop and implement guidance for the certification process, SBA has taken steps to improve its processes to verify the eligibility of firms applying to the program. Since fiscal year 2009, SBA has required firms to provide supporting documentation for applications that the agency then reviews.
- **Susceptibility to fraud and abuse.** In 2008 and 2009, GAO’s investigations found 29 HUBZone firms in five metropolitan areas made fraudulent or inaccurate representations, which allowed them to get into or remain in the program. In response to GAO’s recommendations to address potential fraud, SBA increased its documentation requirements. But in 2010, GAO still was able to obtain HUBZone certification using bogus addresses. Subsequently, according to SBA officials, in fiscal year 2010 SBA began conducting site visits to 10 percent of certified firms.
- **Recertification process.** Firms wishing to remain in the program must recertify their continued eligibility to SBA every 3 years. However, in 2015, GAO found that SBA had not required firms seeking recertification to submit any information to verify continued eligibility and instead simply relied on their attestations of continued eligibility. GAO recommended that SBA reassess its recertification process and add additional controls. As of February 2017, SBA had not yet implemented this recommendation.
- **Communications with firms about designations.** GAO found in 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 that SBA establish a better notification mechanism. In response, SBA revised its letters to newly certified firms to inform them of the consequences of redesignation, and as of February 2017, SBA was implementing additional steps to ensure that all currently certified firms would be notified of changes that could affect their program eligibility.