



Highlights of [GAO-10-108](#), a report to the Chairwoman, Committee on Small Business, House of Representatives

Why GAO Did This Study

The Service-Disabled Veteran-Owned Small Business (SDVOSB) program is intended to provide federal contracting opportunities to qualified firms. In fiscal year 2007, the Small Business Administration (SBA) reported \$4 billion in governmentwide sole source and set aside SDVOSB contract awards. Given the amount of federal contract dollars being awarded to SDVOSB firms, GAO was asked to determine (1) whether cases of fraud and abuse exist within the SDVOSB program, and (2) whether the program has effective fraud-prevention controls in place.

To identify whether cases exist, GAO reviewed SDVOSB contract awards and protests since 2003, and complaints sent to our fraud hotline. GAO defined a case as one or more affiliated firms who were awarded one or more SDVOSB contracts. To assess fraud-prevention controls, GAO reviewed laws and regulations and conducted interviews with SBA and Department of Veterans Affairs (VA) officials. GAO did not attempt to project the extent of fraud and abuse in the program.

What GAO Recommends

Congress should consider providing VA authority and resources to expand its SDVOSB eligibility process governmentwide. GAO also recommends that SBA and VA explore the feasibility of governmentwide use of the VA VetBiz verified database for SDVOSB contractors. SBA and VA generally agreed with the recommendations.

View [GAO-10-108](#) or [key components](#). For more information, contact Gregory Kutz at (202) 512-6722 or kutzg@gao.gov.

SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS PROGRAM

Case Studies Show Fraud and Abuse Allowed Ineligible Firms to Obtain Millions of Dollars in Contracts

What GAO Found

GAO found that the SDVOSB program is vulnerable to fraud and abuse, which could result in legitimate service-disabled veterans' firms losing contracts to ineligible firms. The 10 case-study firms identified in this report received approximately \$100 million from SDVOSB contracts through fraud or abuse of the program, or both. For example, contracts for Hurricane Katrina trailer maintenance were awarded to a firm whose owner was not a service-disabled veteran. GAO also found SDVOSB companies used as a pass-through for large, sometimes multinational corporations. In another case a full-time federal contract employee at MacDill Air Force Base set up a SDVOSB company that passed a \$900,000 furniture contract on to a company where his wife worked, which passed the work to a furniture manufacturer that actually delivered and installed the furniture. The table below provides details for 3 of the 10 cases.

Details of 3 Ineligible SDVOSB Cases		
Industry	Award—agency	Notes
Maintenance and repair	\$7.5 million—Federal Emergency Management Agency (FEMA)	Firm is not eligible because majority owner is not a service-disabled veteran. Firm's ineligibility was determined by SBA during a bid protest. Company continues to receive tens of millions in non-SDVOSB contracts.
Construction and janitorial services	\$5 million—VA, U.S. Fish and Wildlife Service, Agricultural Research Service, U.S. Forest Service	Firm is ineligible because it does not perform any work and subcontracts 100 percent of the work to non-SDVOSB firms. Our investigation found the SDVOSB firm utilizes employees from a large non-SDVOSB foreign-based corporation, which reported almost \$12 billion in annual revenue in 2008, to perform contracts.
Septic tank and related services	\$200,000—Army	Firm and its SDVOSB joint ventures are ineligible for the program because a non-SDVOSB firm performs all contract work. After being found ineligible for the program by SBA, the firm used another SDVOSB joint venture to continue to receive SDVOSB contracts. Service-disabled veteran used to qualify for current contracts lives over 1,800 miles from contract performance location.

Source: GAO.

GAO found that the government does not have effective fraud-prevention controls in place for the SDVOSB program. Specifically, SBA and agencies awarding SDVOSB contracts do not have processes in place to validate a firm's eligibility for the program prior to bid submission. SBA and contracting agencies also currently do not have a database of individuals that are service-disabled veterans, a key eligibility requirement for the program. According to VA, it is developing a database, called VetBiz, of validated SDVOSBs, but currently it is only used for contracting by the VA. SBA's bid-protest process is the only governmentwide control over the SDVOSB program. However, although ineligible firms have been identified through bid protests, firms found ineligible do not face real consequences, can be allowed to complete the contracts received, and are not suspended or debarred.