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Highlights

Highlights of GAO10-425, a report to the Chairwoman, Committee on Small Business, House of Representatives

Why GAO Did This Study

The Small Business Administration (SBA) helps socially and economically disadvantaged small businesses gain access to federal contracting opportunities through its 8(a) program. To participate, firms must be at least 51 percent owned and controlled by an individual who meets SBA's criteria of socially and economically disadvantaged. The firm must also qualify as a small business. Once certified, 8(a) firms are eligible to receive sole-source and set-aside contracts for up to 9 years.

GAO was asked to (1) determine whether ineligible firms are participating in the 8(a) program, (2) proactively test SBA's controls over the 8(a) application process, and (3) determine what vulnerabilities, if any, exist in SBA's fraud prevention system. To identify cases, GAO reviewed SBA data and complaints to GAO's fraud hotline. To perform its proactive testing, GAO created four bogus businesses and applied for 8(a) certification. GAO did not attempt to project the extent of fraud and abuse in the program.

What GAO Recommends

GAO makes six recommendations to improve SBA's ability to screen and monitor fraud and abuse within the 8(a) program. SBA agreed with five recommendations and stated that it would evaluate our recommendation related to how family members' assets are included in the assets of the 8(a) participant based upon the comments received as a result of the proposed 8(a) rule change.

View GAO-10-425 or key components.
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8(a) PROGRAM

Fourteen Ineligible Firms Received $325 Million in Sole-Source and Set-Aside Contracts

What GAO Found

GAO identified $325 million in set-aside and sole-source contracts given to firms not eligible for the 8(a) program. Most were obtained through fraudulent schemes. In the 14 cases GAO investigated, numerous instances were found where 8(a) firm presidents made false statements, such as underreporting income or assets, to either qualify for the program or retain certification. For example, one firm president who is not socially disadvantaged misrepresented her ethnicity to SBA. GAO also found cases where ineligible companies used certified firms to secure 8(a) work. For instance, a West Virginia company that graduated from the program in 2001 used a series of three certified companies as pass-throughs to continue obtaining set-aside and sole-source contracts. In some cases, SBA did not detect the false statements and misrepresentations made by certified firms. In others, SBA became aware of the firms' ineligibility but failed to take action. The table below shows details on 3 of the 14 case studies.

Selected Case Studies of Fraud and Abuse in the 8(a) Program

Industry	Ineligible 8(a) awards / awarding department	Case details
Roofing/ construction	$48.3 million—Agriculture, Commerce, Defense, Interior, EPA, GSA, SSA	• This firm is ineligible because it operated as a pass-through for a graduated company—both firms were being run by the same white, father-and-son team at the time of our investigation.
Construction	$ 11.2 million—Defense, Homeland Security	• This firm is ineligible because the president fraudulently reported his adjusted net worth to be $217,000 on his application when it was actually at least $806,000—an amount clearly exceeding the allowable $250,000 threshold. We estimate his current adjusted net worth to be at least $1.7 million dollars—nearly double the allowable $750,000.
Landscaping/ janitorial	$13.8 million—Defense	• This firm is ineligible because it operated as an extension of a graduated 8(a) firm run by the same father-and-son team that owned the previous firm—effectively giving them an extra 9 years of eligibility.

Source: GAO.

GAO's proactive testing found several strengths in SBA's 8(a) application process that helped prevent three bogus applicants from being certified for the program. Examples of the strengths included validation of data with third-party credit bureaus and the Excluded Parties List System. These controls and effective review appropriately raised questions about income and assets of GAO's bogus applicants that would have made them ineligible. However, GAO obtained 8(a) certification for one bogus firm using fabricated documentation and owner information. Certification of GAO's bogus firm shows vulnerabilities in the process such as the lack of any face to face contact that could allow ineligible individuals or pass through companies to enter the program. Although we were unable to determine whether all 14 cases were ineligible at application, these cases show substantial vulnerabilities in SBA's monitoring of eligibility for individuals and firms already in the program. The lack of a consistent enforcement strategy or any real consequences for fraud and abuse is a further weakness in SBA's fraud prevention program.