

Highlights of [GAO-10-740T](#), a testimony to the Subcommittee on Contracting and Technology, Small Business Committee, 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 2008, the Small Business Administration (SBA) reported \$6.5 billion in sole-source, set-aside, and other SDVOSB contract awards. Testimonies GAO delivered on November 19 and December 16, 2009 identified millions of dollars in SDVOSB contracts that were awarded to ineligible firms, and weaknesses in fraud prevention controls at the SBA and VA which allowed ineligible firms to receive contracts.

GAO was asked to testify about the key elements of a fraud prevention framework within the SDVOSB program and to provide an update on the status of fraud referrals made based on the prior investigation of selected SDVOSB firms.

To address these objectives, GAO reviewed prior findings from audits and investigations of the SDVOSB program and contacted investigative agency officials concerning the referrals GAO made on prior work. GAO also reviewed applicable guidance on internal control standards from the Comptroller General's *Standards for Internal Controls in the Federal Government*.

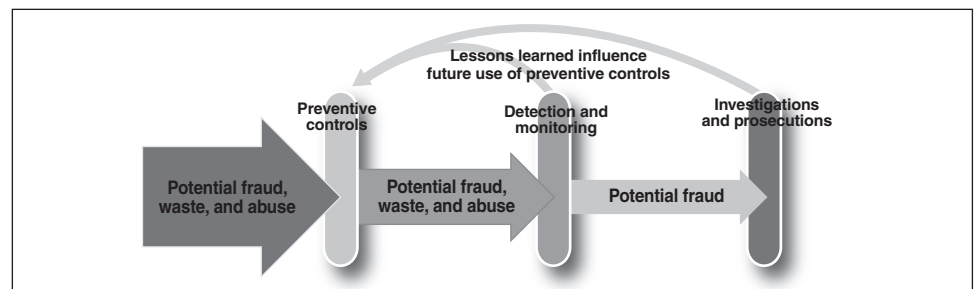
[View GAO-10-740T or key components.](#)
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SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS PROGRAM

Fraud Prevention Controls Needed to Improve Program Integrity

What GAO Found

GAO found a lack of government-wide prevention controls, a lack of validation of information provided by SDVOSB firms used to substantiate their eligibility for the program, non-existent monitoring of continued compliance with program requirements, and an ineffective process for investigating and prosecuting firms found to be abusing the program. The results of GAO's investigation serve to emphasize the overall lesson that a complete fraud prevention framework is necessary in order to minimize fraud, waste, and abuse within the SDVOSB program. The most effective and most efficient part of the framework involves the institution of rigorous controls at the beginning of the process for becoming eligible to bid on SDVOSB contracts. Next, active and continual monitoring of contractors performing SDVOSB contracts is also essential. Given the examples GAO identified of firms owned by a service-disabled veteran who subcontracted 100 percent of contract work to non-SDVOSB firms, it is essential that federal agencies monitor compliance with program rules after contract performance has begun. Finally, as shown in GAO's investigation, prevention and monitoring controls are not effective unless identified fraud is aggressively prosecuted or companies are suspended, debarred or otherwise held accountable. The figure below provides an overview of how preventive controls would help screen out the ineligible firms, and how monitoring controls and prosecutions can help further minimize the extent to which a program is vulnerable to fraud.



Source: GAO.

GAO's prior investigation into allegations of fraud and abuse within SDVOSB contracts found 10 firms that were ineligible for the program but received approximately \$100 million in SDVOSB contracts. Upon completion of its investigation, GAO referred all 10 cases to various agency officials who had contracts with the firms, and each agency's Inspector General (IG). Based on the referrals, agencies have taken a variety of actions including the cancellation of existing contracts, termination of future contract options, and opening of civil and criminal investigations. IG officials have stated that many of their investigations are ongoing, and therefore details cannot be provided due to the risk of jeopardizing the investigation. These 10 companies have obtained over \$5 million in new SDVOSB sole-source and set-aside contact obligations since November 2009.