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# Highlights

Highlights of [GAO-10-759](#), a report to the Chairwoman, Committee on Small Business, House of Representatives

## Why GAO Did This Study

The Small Business Administration's (SBA) Historically Underutilized Business Zone (HUBZone) program provides federal contracting assistance to small firms located in economically distressed areas, with the intent of stimulating economic development. In July 2008 and March 2009, GAO reported on substantial vulnerabilities to fraud and abuse in the HUBZone application and monitoring process. GAO also found 10 HUBZone firms in the Washington, D.C., area and 19 firms in four other metropolitan areas in Alabama, California, and Texas that made fraudulent or inaccurate representations to get into or remain in the HUBZone program.

Given the Committee's continued concern over fraud and abuse in the HUBZone program, GAO (1) performed additional proactive testing of SBA's HUBZone certification process, and (2) determined whether SBA has taken any actions against the 29 case study firms GAO identified in its prior work. Using publicly available resources to fabricate documents, GAO proactively tested SBA's application process by applying for HUBZone certification for four bogus businesses with fictitious owners and employees. GAO also interviewed SBA officials and reviewed SBA data about the 29 case study firms. GAO did not attempt to project the extent of fraud and abuse in the program nor systematically assess HUBZone program controls.

GAO makes no recommendations in this report.

View [GAO-10-759](#) or [key components](#). For more information, contact Gregory Kutz at (202) 512-6722 or [kutzg@gao.gov](mailto:kutzg@gao.gov).

## SMALL BUSINESS ADMINISTRATION

### Undercover Tests Show HUBZone Program Remains Vulnerable to Fraud and Abuse

#### What GAO Found

The HUBZone program remains vulnerable to fraud and abuse. Using falsified documents and employee information, GAO obtained HUBZone certification for three bogus firms using the addresses of the Alamo in Texas, a public storage facility in Florida, and a city hall in Texas as principal office locations. A simple Internet search by SBA could have revealed these as phony applications. While the agency has required more documentation in its application process since GAO's July 2008 report, GAO's testing shows that SBA does not adequately authenticate self-reported information and, for these cases, did not perform site visits to validate the addresses. Further, the changes have significantly increased the time it takes SBA to process applications. Specifically, SBA took 7 or more months to process each of the bogus applications—at least 6 months longer than for GAO's previous investigations. SBA continually lost documentation for GAO's fourth application, and eventually withdrew it after GAO failed to resubmit the same materials for the fourth time. On its Web site, SBA reported that applicants are experiencing delays during the application process.

**National Historic Landmark Address (The Alamo) Used by GAO as Principal Office Location for a Bogus HUBZone Firm**



Source: GAO.

SBA has taken some action on most of the 29 firms that GAO previously reported did not meet HUBZone program requirements. The SBA decertified 16 firms from the HUBZone program, and another 8 firms voluntarily withdrew. While GAO maintains all 29 firms did not meet requirements at the time of its review, SBA stated that the other 5 firms were in compliance at the time of its own review and so remain certified. Since GAO's March 2009 report, 17 of the 29 companies have received more than \$66 million in federal obligations for new contracts. GAO recently reported that one firm has also defrauded the SBA 8(a) program. Because the SBA did not promptly debar the firm from federal contracts, it was able to fraudulently receive an additional \$600,000 in noncompetitive 8(a) federal contracts since GAO's last report. SBA recently proposed debarring this firm.