Performance Audit Report

Opportunities Exist to Further Improve Quality and Timeliness of HUBZone Certifications

November 19, 2013 **Report No. 14-03**

U.S. Small Business Administration
Office of Inspector General
Washington, D.C. 20416

FINAL REPORT TRANSMITTAL
REPORT NUMBER: 14-03

DATE: November 19, 2013

TO: John Shoraka
Associate Administrator for Government Contracting and Business Development

SUBJECT: Opportunities Exist to Further Improve Quality and Timeliness of HUBZone Certifications

This report presents the results of our audit of the Small Business Administration's process used to certify firms into the Historically Underutilized Business Zones program.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

We appreciate the courtesies and cooperation of the SBA extended to the staff during this audit. Please direct any questions to me at (202) 205-6587 or Riccardo Buglisi, Director, Business Development Programs Group at (202) 205-7489.

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/s/

Robert A. Westbrooks
Deputy Inspector General

EXECUTIVE SUMMARY

Opportunities Exist to Further Improve Quality and Timeliness of HUBZone Certifications

Report Number 14-03
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What OIG Audited

This report presents the results of our Audit of the Small Business Administration's (SBA) Historically Underutilized Business Zones (HUBZone) Certification Process. The HUBZone Program helps small businesses that are located in economically challenged areas to stimulate their local economies. This program was created to assist firms located in these zones gain access to federal contracting opportunities that normally would not be available to them.

The objective of the audit was to determine whether the SBA's HUBZone certification process provides assurance to limit program certification to eligible firms. We identified the 12 firms certified into the program between July and December 2012 that had received the largest amount of federal contracts. The 12 firms received 94 percent of all federal dollars awarded to the 367 firms who received certification during this time. We reviewed the certification files and interviewed program personnel including analysts, reviewers, and senior program personnel. Additionally, we performed site visits and interviews with 3 of the 12 firms.

What OIG Found

In recent years, the HUBZone certification process has been reengineered from self-certification to a full document review. We found that the SBA properly certified 9 of 12 firms we reviewed. However, we identified three firms the SBA certified even when the firms did not meet all of the eligibility criteria. Ineligible firms that obtained certification distorted the small business HUBZone goaling numbers by at least $1.3 million and possibly took contracting opportunities away from eligible firms. Additionally, other inconsistencies in the review process that, while not leading to ineligibility, could lead to the admittance of a firm that did not meet the requirements of the program. Ineligible firms that obtain certification distort the small business HUBZone goaling numbers reported to Congress and detract from opportunities for eligible firms. Additionally, ineligible firms detract from the intended economic benefits the program was designed to promote.

Furthermore, we found that the SBA took longer to certify firms than the current and proposed regulation allows the SBA. The SBA did not meet the current 30 day requirement for any of the firms and did not meet the proposed 90 day requirement for 5 of the 12 firms. As a result, firms could not obtain the benefits of the program as quickly as possible.

OIG Recommendations

We recommended that the SBA update HUBZone guidance and review the certifications of the three firms identified by the Office of the Inspector General in this report for possible decertification. In addition, we recommended that the SBA review the certification process and identify a means to meet the deadlines established by regulation through improved business processes.

Agency Comments

On November 12, 2013, management submitted three SBA Form 1824s, *Recommendation Actions Sheets*, concurring with the recommendations in the report. The Agency response did not specifically state if they concurred with the findings in the report. Further, the Agency did not provide any additional comments.

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Introduction

The Historically Underutilized Business Zones (HUBZone) Program helps small businesses that are located in economically challenged areas, or HUBZones, stimulate their local economies. This program was created to assist HUBZone firms in gaining access to federal contracting opportunities that normally would not be available to them.[1] Before Fiscal Year 2010, HUBZone firms self-certified that they met the requirements of the HUBZone Program. However, the Government Accountability Office (GAO), in three separate reports[2] and multiple hearing testimonies[3] found that self-certifying firms committed fraud, waste, and abuse within the Small Business Administration (SBA) HUBZone Program. Further, GAO recommended the SBA implement additional controls over the certification process to ensure that only eligible firms participate in the HUBZone Program.[4] Based on these recommendations, the SBA implemented an initial certification full document review process; a recertification review, and increased the number of site visits to verify principal offices.

Objective

The audit objective was to determine whether SBA's HUBZone program certification process provides assurance to limit program certification to eligible firms.

To address this objective, we reviewed SBA guidance, prior OIG and GAO reports, and interviewed SBA officials in the HUBZone Program Office (Program Office). We identified the 12 firms HUBZone certified between July and December 2012 that received the largest amount of federal contracts. These 12 firms received 34.9 million dollars in federal contracts from the date of certification until January 2013. The 12 firms received 94-percent of all federal dollars awarded to the 367 firms who received HUBZone certification during this period. For these 12 firms, we reviewed the certification files. Additionally, 3 of the 12 firms were located within the Washington, DC, region. We performed site visits and interviews with representatives from those firms.

We conducted this audit from January to August 2013, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Appendix I contains a detailed description of our scope and methodology.

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[1] The Small Business Reauthorization Act of 1997 created the Historically Underutilized Business Zones (HUBZone) Program. HUBZone areas are typically areas of low household income and/or high unemployment.

[2] GAO Report No. GAO-08-643 *Additional Actions Are Needed to Certify and Monitor HUBZone Businesses and Assess Program Results.* July 2008. GAO Report No. GAO-09-440 *Fraud and Abuse Identified in Four Metropolitan Areas.* March 2009. GAO Report No. GAO-10-759 *Undercover Tests Show HUBZone Program Remains Vulnerable to Fraud and Abuse*. June 2010.

[3] GAO Testimony GAO-08-964T. *SBA's Control Weaknesses Exposed the Government to Fraud and Abuse*. Released July 2008. GAO Testimony GAO-09-519T. *Fraud and Abuse Identified in Four Metropolitan Areas*. Released March 2009. GAO Testimony GAO- 09-532T. *Status of Efforts to Address Previous Recommendations on the HUBZone Program*. Released March 2009. GAO Testimony GAO-10-920T. *Undercover Tests Show HUBZone Program Remains Vulnerable to Fraud and Abuse*. July 2010.

[4] GAO Report No. GAO-08-643*. Additional Actions Are Needed to Certify and Monitor HUBZone Businesses and Assess Program Results*. July 2008.

Background

The HUBZone Program helps small firms located in certain communities with low median household incomes, high unemployment, or both, gain access to federal contracting opportunities. Additionally, the program provides federal contracting assistance to qualified small firms in designated HUBZones to:

- Increase employment opportunities,
- Stimulate capital investment, and
- Empower communities through economic leveraging.

A HUBZone is defined as a historically underutilized business zone, which means any area located within one or more qualified census tracts; qualified nonmetropolitan counties; lands within the external boundaries of an Indian reservation; re-designated areas, or base closure areas. By statute, designation as a HUBZone is determined by information obtained from various Federal agencies.

HUBZone Maps

The SBA is responsible for consolidating the information provided by these Federal agencies into a HUBZone Map. The SBA is also responsible for maintaining the accuracy of the map. The table below identifies the types of HUBZones and the agency responsible for contributing the data used to determine HUBZone status.

Table 1 HUBZone Types and Data Contributors

HubZone Type	Subtype	Data Update Frequency	Source Data Agency
Qualified Census Tract	-	Every 5 years	Department of Housing and Urban Development
Qualified Nonmetropolitan County	Qualified by unemployment	Annually	Bureau of Labor Statistics
Qualified Nonmetropolitan County	Qualified by income	Annually	Census Bureau
Qualified Nonmetropolitan County	Qualified Difficult Development Area	Annually	Department of Housing and Urban Development
Qualified Indian Land	-	As necessary	Bureau of Indian Affairs
Qualified Base Closure Area	-	As necessary	Department of Defense

Since multiple agencies are responsible for providing updated information concerning the HUBZone map, updates are often performed multiple times a year. This is particularly the case with the Qualified Nonmetropolitan County HUBZones, which have three types of qualifications generated by three different agencies. While the SBA is responsible for consolidating the information and maintaining the accuracy of the HUBZone map, it does not participate in the designation of HUBZones.

The SBA's HUBZone Role and Responsibilities

The SBA regulates and implements the HUBZone program by:

- Determining which businesses are eligible,
- Maintaining a list of qualified HUBZone firms to fulfill procurement opportunities, and
- Adjudicating protests of eligibility regarding HUBZone contracts.

When determining eligibility, the SBA must oversee the firm's initial certification, as well as decertification and recertification, as required. The SBA is required to recertify HUBZone firms every three years.

As of January 2013, staff from the SBA HUBZone program office (program office) reported that approximately 5,000 firms were enrolled in the HUBZone program. For Fiscal Year (FY) 2012, HUBZone firms obtained $8.1 billion in prime contracts or 2.01 percent of total federal contracting dollars, which was short of the Federal goal of 3-percent. Additionally, the HUBZone contracting dollars decreased from FY 2011 when HUBZone firms received 2.35 percent of Federal contracts.

Eligibility Requirements

To qualify for the HUBZone program, a business must meet the following conditions:

- The firm must be a small business by SBA standards;
- The firm must be owned and controlled at least 51-percent by U.S. citizens;[5]
- The firm's principal office must be located within a HUBZone, which includes lands considered "Indian Country" and military facilities closed by the Base Realignment and Closure Act; and
- The firm must have at least 35-percent of its employees residing in a HUBZone.

HUBZone Standard Operating Procedure

The SBA's HUBZone Standard Operating Procedure[6] (SOP) was last updated in November 2007. The SOP still requires that firms self-certify themselves into the program, and does not account for recent certification policy changes made by the program office. Before Fiscal Year 2010, HUBZone firms self-certified that they met all eligibility requirements. After the GAO[7] issued two reports on the SBA's certification process—that found that self-certifying firms committed fraud, waste, and abuse—the GAO recommended that the SBA develop additional controls over the certification process. The SBA now performs full documentation reviews of HUBZone applicants' supporting documents to determine the applicant's eligibility for the program.

Overview of the Review Process

The current HUBZone certification process requires program staff to review all HUBZone applications and to either certify or decline the firm entry into the HUBZone program. The program office created a

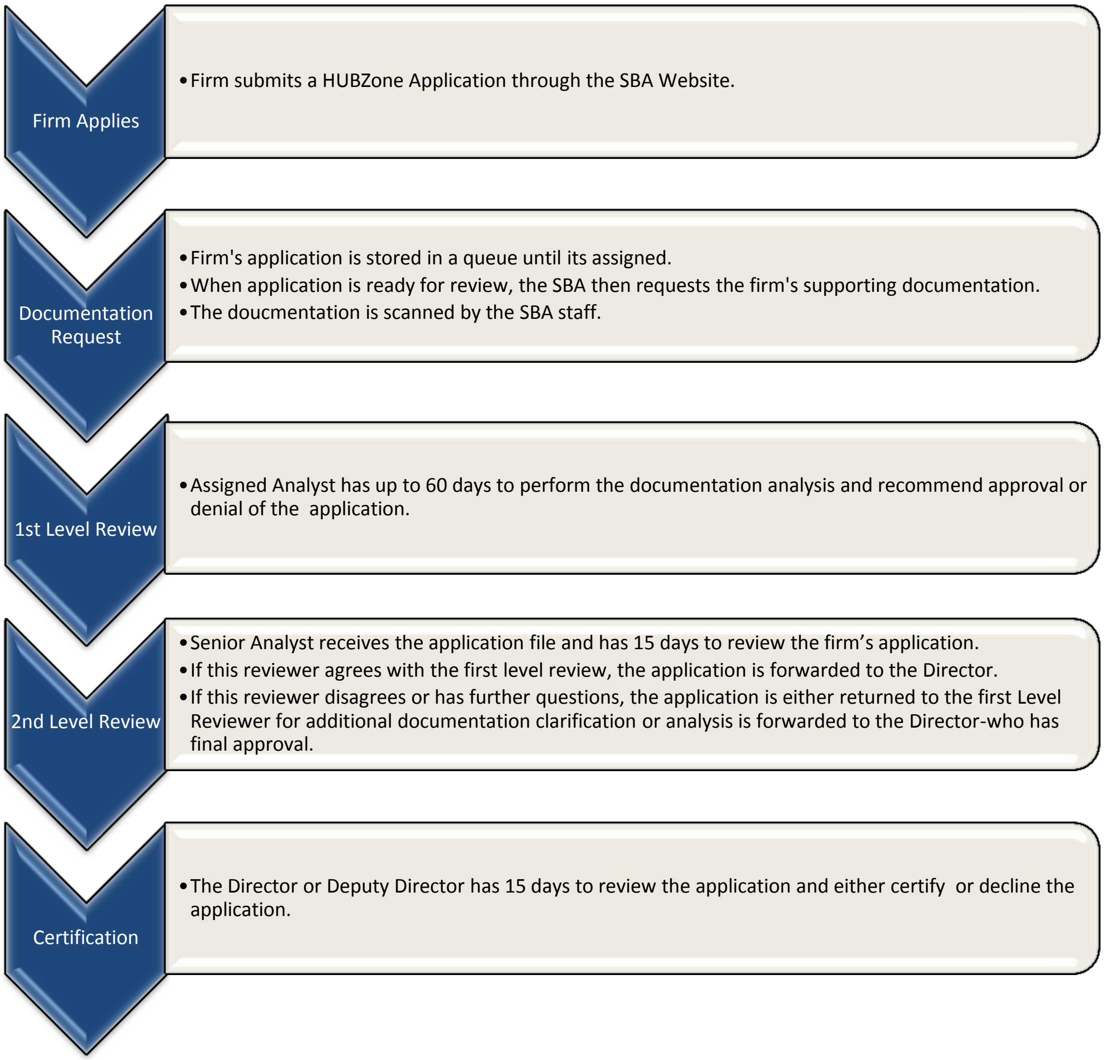
[5] Additional ownership types are listed at 13 CFR§ 126.103 and § 126.200.

[6] Standard Operating Procedure (SOP) 80 06, *HUBZone Program*, issued November 2, 2007.

[7]GAO Reports GAO-08-964T, *SBA's Control Weaknesses Exposed the Government to Fraud and Abuse*. July 2008 and GAO-10-759, *Undercover Tests Show HUBZone Program Remains Vulnerable to Fraud and Abuse,* June 2010.

three level review process to ensure qualified firms are admitted into the program. Each reviewer evaluates whether a firm should be certified, denied, or declined from the program with the ultimate decision being made by the certifying official, the HUBZone Director. Figure 1 describes this process.

Figure 1 HUBZone Staff Review Process Cycle



Documentation Review and Eligibility Determination

The analyst reviews supporting documentation to verify that the business is small, the principal office is located in a HUBZone, a U.S. Citizen owns and controls the firm,[8] and that 35-percent of its employees reside in a HUBZone. The analyst then uses a variety of documentation to verify the firm's eligibility, as described in Figure 2. The following figure depicts the types of documentation used to establish the above four are truthful.

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[8] Additional ownership types are listed at 13 CFR § 126.103 and § 126.200.

Figure 2 Documentation Used to Establish Eligibility

Size	•North American Industrial Classiciatoin System Code •Federal Tax Returns
Ownership	•Owner's birth certificate or passport •Firm's stock certificates
Principle Office	•HUBZone map verification •Office lease and utility bills •Site Visits
35-Percent Rule	•HUBZone map verification of addresses •Employee's state issue identification or driver's license

Nature of Limited or Omitted Information

No information was omitted due to confidentiality or sensitivity, nor were there limitations to information on this audit.

Review of Internal Controls

The Office of Management and Budget (OMB) Circular A-123[9] provides guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on internal controls. We determined that material internal control weaknesses existed.

During our review, we found that the SBA program office did not have consistent certification review procedures for each level of the certification process due to a lack of guidance on the certification process. This lack of controls is attributed to the out of date SOP governing the HUBZone certification process.

Results

In recent years, the HUBZone certification process has been reengineered from self-certification to a full document review and we found that SBA properly certified 9 of 12 firms we reviewed. However, we identified three firms the SBA certified even when the firms did not meet all of the eligibility criteria. Ineligible firms that obtained certification distorted the small business HUBZone goaling numbers by at

[9] OMB Circular A-123, *Management's Responsibility for Internal Control*, December 21, 2004.

least $1.3 million and possibly took contracting opportunities away from eligible firms. Additionally, certifying ineligible firms detracted from the economic benefits the program intends to promote in the disadvantaged HUBZone areas. The SBA also did not meet the required 30-calendar day timeline for any of the 12 firms we reviewed, nor did it meet the proposed deadline of 90 days for 5 firms. For firms who are certified, the amount of time the SBA takes to review the application directly inhibits their opportunities to obtain federal contracts.

Finding 1: Weaknesses in the SBA's HUBZone Certification Approval Process Allowed Three Ineligible Firms into the HUBZone Program

We found that 3 of the sampled 12 firms certified between July and December 2012 received certification without meeting the requirements of the program. Additionally, we found other inconsistencies in the review process that while not leading to ineligibility, could potentially lead to the admittance of a firm that did not meet the requirements of the program. An outdated SOP and varying levels of analytics applied to the review of the applications contribute to the possibility of certifying ineligible firms. Because of these inconsistencies, ineligible firms that obtain certification distort the small business HUBZone goaling numbers reported to Congress and detract from opportunities for eligible firms. Additionally, they detract from the intended economic benefits of the program to promote small business in disadvantaged HUBZone areas.

The HUBZone Program Office Certified Ineligible Firms

Certification into the HUBZone program is based on meeting the following four conditions:

- The firm must be a small business by SBA standards;
- The firm must be owned and controlled at least 51-percent by U.S. citizens;[10]
- The firm's principal office must be located within a HUBZone, which includes lands considered "Indian Country" and military facilities closed by the Base Realignment and Closure Act; and
- The firm must have at least 35-percent of its employees residing in a HUBZone.

During our review of 12 certified firms, we determined that one firm did not meet the principal office requirement, one firm did not meet the 35-percent residency requirement, and one instance where a possibly fraudulent application was missed. We also found additional inconsistencies that did not disqualify firms but are included only to further illustrate areas of improvement that are needed to eliminate the possibility of ineligible firms being admitted into the program.

Evidence for Principal Office Was Not Persuasive for One Firm

In order to gain entrance into the HUBZone program, a firm must maintain its principal office[11] within a HUBZone. In addition, if a firm is declined entry into the program, it must wait at least 90 days from the date of decline before reapplying. However, one firm[12] we examined did not meet either of these requirements.

[10] Additional ownership types are listed at 13 CFR § 126.103 and § 126.200.

[11] Principal office is the location where the greatest number of the Small Business Concern's employees performs work. 13 CFR § 126.103.

[12] The names of firms identified in this report were provided to SBA management during the exit conference.

The analyst documented the incorrect web address for the company during the review of the firm's application. We located the actual web address for the firm and noted the company's address and phone numbers were different from those on the HUBZone application. The address we identified was not located in a HUBZone. Additionally, the water bill submitted as evidence of "use of the space" had no usage for the dates billed, even though the firm reported this as their office location and as the residence for two employees.

We also reviewed the firm's profile in the SBA Dynamic Small Business Search (DSBS) and noted that the firm's address had been updated. Specifically, the address was changed from the one listed on the HUBZone application to the same address on the website. Further, the principal office address from the application was no longer listed in the DSBS. We realized the firm could have relocated since their HUBZone application, so we further looked into the addresses used by the firm.

To determine if the address provided on their HUBZone application was valid, the OIG audit team visited the principal office at 10 am on a weekday, but no one answered the door. We spoke to a neighbor who had never seen any evidence of a cleaning business. The OIG then looked into the most current address used by the firm. Further research of the Maryland Department of Assessments and Taxation Real Property Data Search shows that the owner of the firm has owned the house listed as the firm's new address since 2007. The firm's owner has paid property taxes on the home since at least 2010, which is listed as his principal residence. Because the owner also reported that he lived in the principal office space, this evidence raises questions with the validity of these claims on the application and is cause for concern. Currently, it does not appear the firm operates out of the HUBZone location and decertification is warranted. However, with the property history and the water bill with zero usage at the time of application, the audit team concluded the principal office was not valid at the time of application, and the firm should not have been certified.

Additionally, the firm's application file states that the firm was previously declined certification into the HUBZone program on September 18, 2012. Then, 48 days later, the firm received certification. This is not compliant with Title 13 of the Code of Federal Regulations (CFR) Section 126.309, which requires declined firms to wait 90 calendar days from the date of decline before seeking certification again. Meaning, it would not have been eligible to submit another application until December 17, 2012. Furthermore, the Federal Procurement Data System – Next Generation (FPDS-NG)[13] reported that the firm received a federal contract in August 2012 and the firm was identified as being SBA HUBZone certified, even though this was before the firm was certified.[14]

Additional Inconsistencies Related to Principal Office

While reviewing the 12 sampled firms, we identified issues regarding the accuracy of the HUBZone map. For instance, the map identifies all of the HUBZones and is used by SBA staff to determine if firms are located in a HUBZone and if persons live or work in a HUBZone. For the firms we reviewed, the audit team input the business address and the employee address—for those listed as HUBZone residents—in the HUBZone map in order to verify their validity.

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[13] The database used to report Federal contracts.

[14] During our review of the 332 firms certified from July 2012-December 2012, 20 obtained Federal contracts as HUBZone firms prior to their date of certification according to the Federal Procurement Data System.

While performing the searches, we found three instances where the HUBZone map indicated that an address was located in a HUBZone at the time the analyst searched the map. However, when we searched the historical information, it no longer indicated that the address was HUBZone qualified for FY 2012. We followed up with the Director of the HUBZone program who explained that the HUBZone maps are created from multiple data sets. Some of the data sets are updated anywhere from once every five years based on census data, for example, or two to three times a year for the Qualified Nonmetropolitan Counties.[15]

Each time the SBA is provided an updated data set, the maps are updated with the information. This can cause areas that were once HUBZones to no longer be qualified. However, even with this understanding, we still had some questions on the accuracy of the historical map data. In a couple of instances the HUBZone map changed from re-designated to unqualified for FY 2012 between the analyst's and the auditor's search. If the maps changed in this time because of new data sets, it should be better documented on the map. If not, HUBZone firms will have a difficult time staying abreast of their HUBZone requirements, especially in relation to their compliance with the 35-percent HUBZone residency rule.

False Information on Application Should Have Led to Denial of One Firm

As part of the HUBZone certification process, the analyst checks the Excluded Parties List System[16] to ensure the company and the responsible officials (owners and controllers) are not debarred. This information is now maintained in the System Award Management database. For the owner of one firm, the analyst searched for current exclusions, but did not check the inactive exclusions. When the auditors searched for inactive exclusions, we found that the owner was debarred from contracting with the Veterans Administration from February 10, 2011 until September 21, 2011.

On the HUBZone application the applicant is asked, "Has this individual ever been debarred, suspended, voluntarily excluded or otherwise ineligible from any department or agency of the Federal Government." The owner's section of the firm's application states no. This is a false statement. According to the Director of the HUBZone program, a firm with a previous debarment that was not reported on the application is a false statement[17] and the firm should not be admitted into the HUBZone program.

Additional Inconsistencies Related to Application Verification

A tool the analyst uses for verifying information on the HUBZone application is the internet. The analyst is expected to conduct a Google search of the business and owners, as well as searching for the phone numbers and websites of the businesses to look for inconsistencies. However, for the 12 firms we reviewed, we found 11 files did not have all of the searches performed or documented.

[15] See Table on page 5 of report.
[16] The Excluded Parties List System was a website used by the Federal government to ensure companies and responsible officials are not debarred or suspended from contracting with the government.
[17] 13 CFR 126.900 (b) and (c).

Figure 3 Number of Firms Missing Information by Category

Search Item[18]	Number of Firms
URL Search	7
Phone Number Search	3
Address Search	1
Google Search	1

By not performing the searches, the analyst misses a vital opportunity to find inconsistencies in the businesses application and the SBA loses an opportunity to validate, further, the information on the HUBZone application.

Incomplete Review Led to Improper Approval of One Firm Not Meeting the 35-Percent Requirement

One firm applied to the HUBZone program on July 16, 2012; however, it was not approved until November 21, 2012. The firm had 30 employees at the time of application and required 11 employees to reside in the HUBZone to meet the 35-percent residency requirement. At the time of application, this requirement was met with 12 employees or 40-percent of the employees residing within a HUBZone. However, since the application processing took approximately four months, two employees' driver's licenses expired before approval was received. A driver's license is evidence of an employee's address, and is expected to be current due to standard application processing practices within the HUBZone office. With two employees' licenses being expired and the analyst not following-up to acquire current licenses or proof of residency, those employees should not have been counted as HUBZone residents. Thus, without those two employees, the firm only had 33-percent of its employees residing in a HUBZone and therefore, should not have been certified.

By not ensuring the firm has 35-percent of its employees living in a HUBZone, the local area is not fully receiving the benefits of the program. The analyst simply needed to follow-up for current driver's licenses or for additional staff members living in the HUBZone.

Additional Inconsistencies Related to the 35-Percent Requirement and Determining the Number of Employees

When reviewing payroll and employee lists, we found that there was not always a uniform method for ensuring all data was collected and reviewed. For one firm, the analyst calculated requirements based on 28 employees;[19] however, if a complete review of the payroll records was performed, there were actually 31 employees. In another instance, the firm did not submit the required payroll documentation of the previous two pay periods to calculate and determine the number of full time employees. Lastly, an independent contractor was counted as a firm's employee even though there was no documentation to prove that this employee met the requirements of an "employee" for HUBZone purposes. For these firms, while they still met the 35-percent rule these inconsistencies could result in unqualified firms being HUBZone certified.

[18] Some items may not exist for a firm, but the analyst did not document they searched for the item in the file.
[19] Employee is defined as an employee who works 40 hours a month.

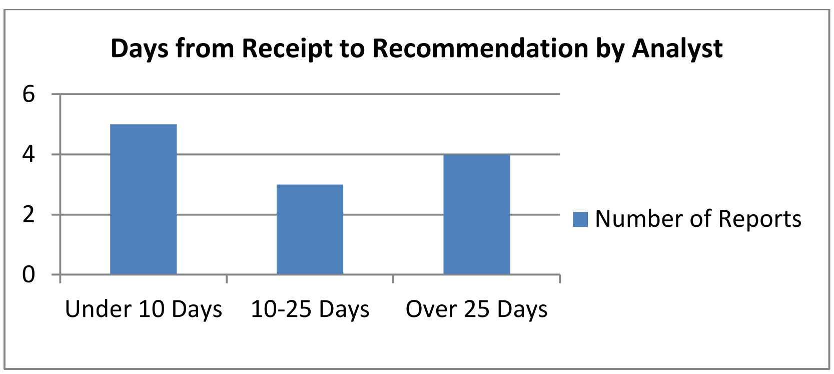
Outdated Standard Operating Procedure Leads to Inconsistent Review of Applications

The SBA's inconsistent application reviews and use of an outdated SOP increases the likelihood that ineligible firms are certified into the HUBZone program. The examples above demonstrate inconsistencies in the HUBZone certification review process related to principal office, the 35-percent rule, and overall procedural inconsistency.

Currently, the SOP is outdated and requires that firms self-certify that they meet the requirements of the HUBZone program, even though the process changed in FY 2010—in response to GAO criticism—to require a full documentation review. In addition, HUBZone management relies solely on the experience of their staff to complete these reviews in a consistent method. However, the HUBZone staff has a wide variance of experience at the analyst and senior analyst levels. Additionally, HUBZone management has voiced concerns with the quality of analytics their analysts apply when conducting HUBZone reviews.

For the 12 HUBZone certifications we reviewed, we found that 10 of the 12 were performed by four analysts, each with over five years of experience in the HUBZone program. The analysts are allotted 60 calendar days to perform their review and make their recommendation as to a firm's eligibility for the HUBZone program. However, for the 12 firms we reviewed, the review process for five of the firms took less than 10 days or one-sixth of the time allowed. Of those five files, analysts with over five years of experience reviewed three. Additionally, for one of the firms that we identified as ineligible at the time of certification, the analyst completed the review in only 10 days. For the four files with over 25 days of review, one analyst performed three of those reviews. The application receives the most scrutiny during the first level review, and as such, 60 days is allotted for this review. The analysts need to make optimal use of this time to perform a thorough review.

Figure 4 Number of Days from Receipt to Recommendation by Analyst



With 69-percent of the HUBZone analysts and senior analysts having more than five years of experience in the program, a certain level of expertise is expected. However, with the wide variance of time invested and the inconsistencies the audit team found in the 12 files reviewed, experience alone is not enough to create a consistent review process. While this is a subjective process, there are certain steps that should always occur when reviewing each HUBZone certification file. By outlining this process in an internal guidance, the SBA could add rigor and consistency to the review process.

Conclusion

The HUBZone program is not meeting its mission to help small firms in certain communities gain access to federal contracting opportunities to the greatest extent possible. Specifically, ineligible firms received federal contracts that should have been awarded to legitimate HUBZone companies, resulting in the diversion of economic benefits to an unintended target. In addition, Federal agencies inappropriately received credit toward their Certified HUBZone Small Business contracting goals, resulting in overstated HUBZone goaling achievements.

Recommendation

We recommend that the Associate Administrator for Government Contracting and Business Development:

1) Update HUBZone guidance based on the current certification process, which includes the full supporting documentation review. Consider incorporating into the guidance a search of the FPDS-NG database to ensure a firm isn't receiving contracts with HUBZone status during their application review and a method to maintain a complete history of the firm's status in DSBS.

2) Review the certifications of the three firms identified by the OIG in this report for possible decertification.

Finding 2: The SBA is not Making Eligibility Determinations within 30 Calendar Days, as Required

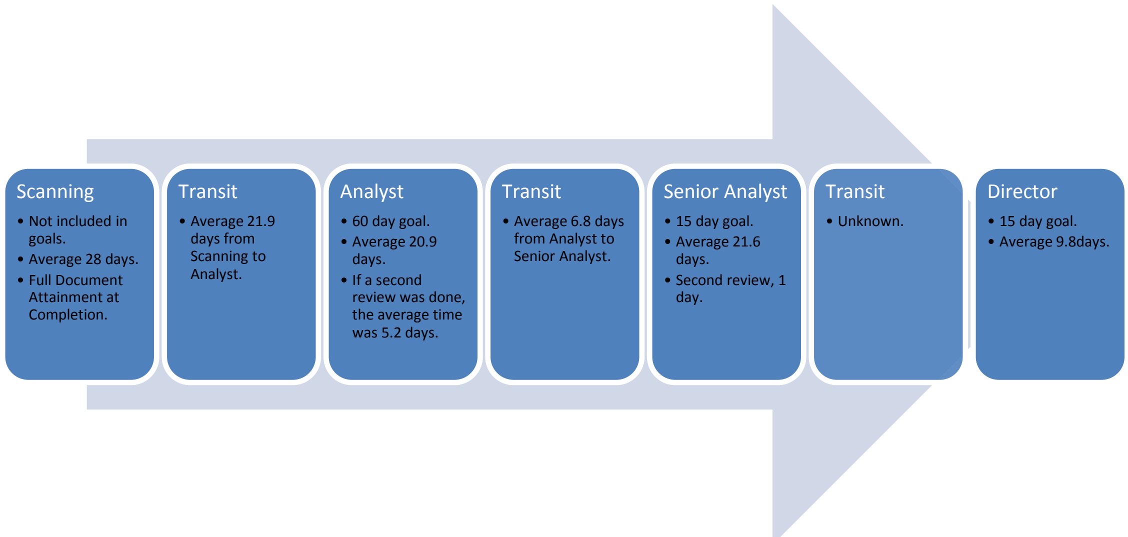
The CFR states that the SBA is responsible for receiving and reviewing all complete HUBZone applications. The SBA is required to make their determination within 30 calendar days after receipt of a complete package whenever practicable. Due to the change from self-certification to the full document review for certification, the SBA is seeking to increase the length of time to approve applications to 90 calendar days. We found that the SBA took longer than the required 30 calendar days[20] to make its eligibility determinations for all 12 firms, and longer than the proposed 90 calendar days for 5 of 12 firms.[21] This occurred because the elapsed days from the date that a firm applies to the program to when the SBA receives full supporting documentation is not included in the SBA's calculation of the time needed to certify firms. Currently, the application process requires applicants to submit an application online, but the required supporting documentation is not submitted until the SBA contacts the firm.

The average wait time from application to full document attainment by the SBA was 28 days for the 12 firms reviewed. This additional time results in firms waiting on average 116 days to receive their certification. The CFR states that the SBA is required to make their determination within 30 calendar days after receipt of a complete package whenever practicable. However, the SBA calculates the time to begin when an analyst is assigned to the application. We believe the SBA should calculate the time from receipt of the complete package, which is at the completion of the scanning step (see Figures 1 and 4 for more details).

[20] 13 CFR 126.306.
[21] Time was calculated based on when full documentation was obtained by SBA.

For the of 12 sampled firms, we found that the average completion time from full documentation attainment to certification was 87 calendar days, 3 days less than the proposed goal of 90 days. However, 5 of the 12 firms exceeded the goal. Approximately one third of the total processing time, or a total of 29 days, related to the transit of the application between review levels. The steps included in the process are presented in Figure 5.

Figure 5 Goals and Average Times for Certification Process Steps



The breakdown of the time each application review took to move through the certification process reveals the following:

- The analysts averaged 21 days or about a third of their goal.
- The senior analysts averaged 22 days or 1.5 times longer than their goal.
- From application to full document attainment averages 28 days.
- Total SBA review time averages 52 days per application.
- The transit time between personnel in the process takes on average at least 29 days or a third of the planned 90 days turnaround time.

For an applicant, the timeline is significantly longer with the time from application to certification averaging 116 calendar days. The difference in the 87 days and the 116 days is based on the additional time used to obtain the full documentation for the certification process. Currently, the application process requires applicants to submit an application online, but the required supporting documentation is not submitted until the SBA contacts the firm. The average wait time from application to full document attainment by the SBA was 28 days for the 12 firms reviewed.

Delays in Obtaining Applicant's Supporting Documents and Inefficiency of the Certification Process Results in Longer Processing Times

The program office needs to reduce the average applicant-waiting period of 116 days or almost four months to receive HUBZone certification. The Program could improve application-processing times by shortening the time spent in transition between review levels and revising the time required to obtain all documents needed for the review.

One would anticipate a quicker certification time because the analysts only use a third of their allotted time to review files; however, due to lags in the movement of the files, an average of 29 days was added to the certification process because the file was in transit. The largest amount of time is consumed at the beginning of the process, when the scanner has completed obtaining the supporting documentation and the file is waiting to be assigned to an analyst. This averaged 22 days for the files we reviewed.

Furthermore, additional time passes from the time of application until full document attainment or the SBA obtains a complete package. Since supporting documentation is not included with the initial application package, applicants are instructed to wait until they are contacted to provide this information to the SBA. For the 12 files we reviewed, this averaged 28 days for the Agency to receive the application and subsequently obtain all of the supporting documents.

Conclusion

The HUBZone program is not meeting its mission to help small firms in certain communities gain access to federal contracting opportunities to the greatest extent possible. Specifically, the delays in the certification process may cause firms to lose-out on potential federal contracts they could have obtained with their HUBZone certification. Further, additional consideration will need to be made to the impact of analyst's reviews lengthening with a more robust review process as reported in the first finding. With their review times possibly increasing by an average of about 40 days, the overall application to certification time could increase to 155 days. To manage this risk, greater efficiencies are needed to ensure firms receive certification in a timely manner.

Recommendation

We recommend the Associate Administrator for Government Contracting and Business Development:

1) Review the HUBZone certification process and identify a means to meet the deadlines established by regulation, through an improved business process.

Agency Comments and OIG Response

On September 25, 2013, we provided a DRAFT copy of this report to the SBA's Office of Government Contracting and Business Development for comment. On November 12, 2013, the Agency submitted three SBA Form 1824s, *Recommendation Actions Sheets*, concurring with the recommendations in the report. The Agency response did not specifically state if they concurred with the findings in the report. Further, the Agency did not provide any additional comments.

Recommendation 1—Update HUBZone guidance based on the current certification process, which includes the full supporting documentation review. Consider incorporating into the guidance a search of the FPDS-NG database to ensure a firm isn't receiving contracts with HUBZone status during their application review and a method to maintain a complete history of the firm's status in DSBS.

Management Comments

Management stated that the Agency is planning to update and publish HUBZone Standard Operations Procedures by the fourth quarter of FY 14.

OIG Response

We consider the management decision for this recommendation as resolved and the recommendation will remain open pending final action.

Recommendation 2—Review the certifications of the three firms identified by the OIG in this report for possible decertification.

Management Comments

Management stated that the Agency is planning to issue proposed decertification notices by 11/29/13 and complete actions within 90 days from the date the firms receive the notifications.

OIG Response

We consider the management decision for this recommendation as resolved and the recommendation will remain open pending final action..

Recommendation 3—Review the HUBZone certification process and identify a means to meet the deadlines established by regulation, through an improved business process.

Management Comments

Management stated that the Agency is planning to amend the certification process so that actions are completed within an average of 90 days from the date the application is electronically verified.

OIG Response

We consider the management decision for this recommendation as resolved and the recommendation will remain open pending final action..

Appendix I: Scope and Methodology

We conducted this audit from January to August 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

To address this objective, we reviewed the Code of Federal Regulations, SBA guidance, prior OIG and GAO reports, and interviewed SBA officials in the HUBZone Program Office. We identified the 12 firms HUBZone certified between July and December 2012, who had received the largest amount of federal contracts. These 12 firms received 34.9 million dollars in federal contracts from the time they were certified until January 2013. The 12 firms received 94% of all federal dollars awarded to the 367 firms who received HUBZone certification during this time. For these 12 firms, we reviewed the certification files. Additionally, three of the 12 firms were located within the Washington, DC, region and we performed site visits and interviews with those firms.

For the sampled firms, the audit team obtained the certification file containing the firm's application, supporting documents and analyst's evaluation of the firm's HUBZone qualifications. The audit team reviewed and assessed if the firm's file proved that the firm met the HUBZone requirements of:

1. The firm must be a small business by SBA standards;
2. The firm must be owned and controlled at least 51-percent by U.S. citizen;[22]
3. The firm's principal office must be located within a "Historically Underutilized Business Zone," which includes lands considered "Indian Country" and military facilities closed by the Base Realignment and Closure Act; and
4. The firm must have at least 35-percent of its employees residing in a HUBZone.

Auditors also noted any review inconsistencies, if each firm was certified within the HUBZone Program office 90-day timeframe, and if there were issues with analyst's documentation.

Additionally, for three firms within the sample that are located within the Washington, DC area, the audit team performed unannounced site visits to verify the firm's principal office.

Use of Computer Processed Data

We relied on the data prepared by the SBA program office that was generated from a report run in the Federal Procurement Data System. The SBA identified the firms who received HUBZone set-aside contracts, and the audit team identified all federal contracts where the firm was identified as HUBZone certified. Additionally, analysts and auditors performed online information searches, utilized the HUBZone Map, and root data at a geographic coding site. We believe the information is reliable for the purposes of this audit.

[22] Additional ownership types are listed at 13 CFR § 126.103 and § 126.200.

Prior Coverage

Congressional Research Service Reports

Small Business Administration HUBZone Program issued December 27, 2012.

U.S. Government Accountability Office Audit Reports

Report GAO-08-643, *Additional Actions Are Needed to Certify and Monitor HUBZone Businesses and Assess Program Results*, June 2008.

Report No. GAO-09-440, *Fraud and Abuse Identified in Four Metropolitan Areas*, March 2009.

Report No. GAO-10-759, *SBA: Undercover Tests Show HUBZone Program Remains Vulnerable to Fraud and Abuse*, June 2010.

Testimony

GAO Testimony No. GAO-08-964T, *SBA's Control Weaknesses Exposed the Government to Fraud and Abuse,* July 2008.

GAO Testimony No. GAO-08-975T, *Additional Actions Are Needed to Certify and Monitor HUBZone Businesses and Assess Program Results*, July 2008.

GAO Testimony No. GAO -09-519T, *HUBZONE Program: Fraud and Abuse Identified in Four Metropolitan Areas*, March 2009.

GAO Testimony No. GAO - 10-920T, *SBA: Undercover Tests Show HUBZone Program Remains Vulnerable to Fraud and Abuse,* July 2010.