

June 11, 2013

The Honorable Grace Meng
Member
Committee on Small Business
U.S. House of Representatives
Washington, DC 20515

Dear Representative Meng:

Thank for your recent correspondence regarding the U.S. Small Business Administration's (SBA) oversight efforts in the HUBZone Program. As you know, during the past few years we have concentrated our efforts in the following areas: effective certification processes, continued eligibility monitoring, and robust and timely enforcement. This has led to more civil and criminal contracting cases being brought agency-wide in the past three years. In fact, we have taken over 80 suspension, debarment, or propose- for-debarment actions against Federal contractors and individuals over the past three years, including 30 in fiscal year (FY) 2012 and 19 thus far in FY 2013.

In FY 2009, SBA began conducting site visits of 10 percent of its HUBZone portfolio to validate the principal offices of HUBZone-certified firms. The SBA has continued this practice during subsequent fiscal years. In FY 2010 there were 10,700 certified firms, resulting in 1,070 site visits.

In October 2012, the HUBZone portfolio had about 5,000 firms. Accordingly, the FY 2013 site visit list included 500 HUBZone certified small business concerns or 10%. The list includes:

- 354 HUBZone firms with the highest HUBZone set-aside contract award amounts in FY 2011 (above \$50,000) that had not undergone a site visit in FY 2012;
- 85 HUBZone firms that were awarded HUBZone set-aside contracts in FY 2011 (above \$1.5 million) and visited in FY 2012; and
- 61 HUBZone firms that had obtained HUBZone certification in FY 2012, were located within close proximity to an SBA district office, and had yet to be awarded a HUBZone set-aside contract.

It is important to note that the above-mentioned site visits complement the regulatory eligibility reviews, including status protests. As such, ad hoc site visits are conducted in all HUBZone status protests where the principal office is being challenged. Site visits are also conducted in certain initial applications, recertifications and program

examinations, where SBA's external research does not corroborate the documentation provided by the applicant firm.

The HUBZone Program office continues to work closely with SBA's Office of Inspector General (OIG) and the Suspension and Debarment Official (SDO) to help identify and take quick and efficient enforcement actions to root out fraud in the HUBZone Program. The SBA took action in egregious cases in which the Government's interests could have been prejudiced by a firm's continued eligibility to receive a government contract.

Criminal and civil enforcement actions have been taken by the U.S. Department of Justice with support from the SBA and SBA's OIG. An example of a recent enforcement action would be the case of Lusk Mechanical.¹ However, it is important to note that HUBZone ineligibility does not necessarily mean there was fraudulent or wrongful behavior involved.

In addition, SBA has been educating its employees on ways to detect wrongful behavior, and what to do when they uncover it. The training provides employees with an understanding of the numerous tools that SBA has available to use to combat fraud. It also streamlines the process for internal referrals within SBA, allowing us to take quicker administrative actions. These actions include not only suspension and debarment, but also program level remedies such as program examinations, program terminations, and program decertification.

The SBA has also increased its coordination with our agency partners. In many instances, procuring agencies and their contracting offices are in the best position to identify possible fraudulent activity. SBA has provided a training session to Department of Defense contracting personnel. SBA has also provided assistance and expertise to the Department of the Air Force, the Department of the Army, and the Department of Homeland Security in order to help suspend or debar firms that were abusing the SBA's contracting programs. For example, SBA's SDO and SBA's HUBZone Program office provided information, advice, and evidence to the Department of the Navy that resulted in the suspension of two firms and three individuals.

The SBA's goal is to continually improve its detection of fraudulent and abusive practices and to create an efficient system of referrals and communication between all parties in order to protect the Federal Government from abusive contractors and individuals. We look forward to working with you on that continued improvement.

¹ See, <http://www.justice.gov/opa/pr/2012/December/12-civ-1453.html>

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We appreciate your support as the SBA continues to assist small businesses while enforcing existing regulations to maintain the integrity of the HUBZone Program and Federal procurement. A similar response is being set to Representatives Velázquez and Schrader.

With warmest regards,

Karen G. Mills