

# AUDIT REPORT

## REASSESSMENT OF ELIGIBILITY REQUIREMENTS FOR 30 FIRMS IN SBA'S 8(a) BUSINESS DEVELOPMENT PROGRAM





# EXECUTIVE SUMMARY

Report  
No. 17-15

July 17, 2017

## REASSESSMENT OF ELIGIBILITY REQUIREMENTS FOR 30 FIRMS IN SBA'S 8(a) BUSINESS DEVELOPMENT PROGRAM

### What OIG Reviewed

The Small Business Administration's (SBA's) 8(a) Business Development Program (8(a) program) provides economically and socially disadvantaged small business owners with business development assistance and preference-based Federal contracts.

In a prior audit of 8(a) program eligibility, we determined that for 30 of the 48 applicants we reviewed, the Associate Administrator for Business Development (AA/BD) approved the firms without fully documenting in the Business Development Management Information System (BDMIS) how all areas of concern regarding eligibility raised by lower-level reviewers were resolved. As a result, it was not clear whether these 30 firms should have been approved into the 8(a) program. At the request of SBA's former Deputy Administrator, we conducted this follow-on audit to determine whether SBA resolved eligibility concerns for the 30 firms.

### What OIG Found

We determined that SBA resolved eligibility concerns for 20 of the 30 firms that we reviewed. However, we continue to question the eligibility of 10 of the 30 firms. The AA/BD, who has the final authority to determine whether an applicant is admitted into the 8(a) program, did not sufficiently establish that the 10 applicants met the eligibility requirements of the 8(a) program.

Absent adequate documentation to demonstrate that participants met all eligibility requirements, SBA lacks assurance that only eligible firms receive the benefits of the 8(a) program. Unqualified firms that receive Federal contracts jeopardize the integrity of the 8(a) program.

### OIG Recommendations

We recommended that SBA conduct continuing eligibility reviews for the 10 firms we identified as possibly being ineligible for the 8(a) program. SBA should also develop specific measurements to monitor the performance and compliance of applicants admitted to the 8(a) program in which there was a discrepancy between the approver and reviewer, and based on this information, adjust eligibility criteria as necessary.

### Agency Response

Although SBA initially agreed with all three of our recommendations, it did not concur with Recommendations 2 and 3 in its final response; SBA management's proposed actions, however, resolve all three of our recommendations. To address Recommendation 1, SBA plans to conduct continuing eligibility reviews for the 10 firms identified in the report. To address Recommendations 2 and 3, SBA agreed to strengthen its controls and amend its procedures to ensure it documents in BDMIS differences between lower-level reviewers and approver.

In its final response, SBA requested that OIG amend the report to state that there was no finding of intentional or actual impropriety by anyone within GCBD, including, but not limited to, the AA/BD. We conducted this audit in accordance with Government auditing standards, which require us to conduct an assessment to determine the presence of fraud indicators. Through this assessment and fieldwork analysis, we did not identify the presence of those indicators for the 30 firms we reviewed. We believe that addressing SBA's concerns in our response was sufficient.



**U.S. SMALL BUSINESS ADMINISTRATION  
OFFICE OF INSPECTOR GENERAL  
WASHINGTON, D.C. 20416**

---

**Final Report Transmittal**  
Report Number: 17-15

**DATE:** July 17, 2017

**TO:** Linda E. McMahon  
Administrator



**FROM:** Hannibal "Mike" Ware  
Acting Inspector General

**SUBJECT:** *Reassessment of Eligibility Requirements for 30 Firms in SBA's 8(a) Business Development Program*

This report presents the results of our audit on the reassessment of eligibility requirements for 30 firms in the Small Business Administration's 8(a) Business Development Program. We conducted this audit in accordance with Generally Accepted Government Auditing Standards.

We considered management comments on a draft of this report when preparing the final report. Based on SBA's response, the overall report is partially resolved, with two recommendations pending resolution.

We appreciate courtesies and cooperation that we received from your staff during our audit. Please contact me at (202) 205-6586 or Riccardo Buglisi, Director, Business Development Programs Group at (202) 205-7489, if you would like to discuss this report or any related issues.

cc: Mary Anne Bradfield, Chief of Staff  
Robb N. Wong, Associate Administrator, Office of Government Contracting and Business Development  
Jackie Robinson-Burnette, Deputy Associate Administrator, Office of Government Contracting and Business Development  
Ajoy Sinha, Acting Associate Administrator for Business Development  
Timothy E. Gribben, Chief Financial Officer and Associate Administrator for Performance Management  
Christopher M. Pilkerton, General Counsel  
Martin Conrey, Attorney Advisor, Legislation and Appropriations  
LaNae Twite, Director, Office of Internal Controls

## Table of Contents

---

Introduction.....	1
8(a) Business Development Program .....	1
8(a) Program Administration Offices and Application Process .....	2
Prior Work.....	2
Objective.....	3
Finding: Eligibility Concerns Remain for 10 of the 30 Firms Reviewed.....	4
Eligibility Concerns Were Resolved for 20 of 30 Firms.....	4
Documentation Did Not Sufficiently Support Decision to Admit 10 Firms into the 8(a) Program ..	4
Size.....	5
Control.....	5
Economic Disadvantage .....	5
Good Character .....	6
Potential for Success.....	6
Conclusion .....	7
Recommendations.....	7
Analysis of Agency Response.....	7
Summary of Actions Necessary to Close the Report.....	8
Appendix I: Objective, Scope, and Methodology.....	9
Use of Computer-Processed Data.....	9
Review of Internal Controls.....	9
Appendix II: Agency Comments .....	10

## Introduction

---

This report presents the results of our follow-on audit of the Small Business Administration's (SBA's) 8(a) Business Development Program (8(a) program) eligibility. In our first report, *SBA's 8(a) Business Development Program Eligibility*, we determined that the Associate Administrator for Business Development (AA/BD) approved 30 of the 48 firms we reviewed without fully documenting in the Business Development Management Information System (BDMIS) how all eligibility concerns raised by lower-level reviewers were resolved. As a result, the SBA's former Deputy Administrator requested that the Office of Inspector General (OIG) perform a follow-on audit of the 30 firms to determine whether SBA resolved the eligibility concerns. The former Deputy Administrator stated that the Office of Government Contracting and Business Development (GCBD) would provide the documentation previously requested by OIG that was not in BDMIS and make staff available for interviews. OIG agreed to conduct further analysis of the questioned 30 firms.

### 8(a) Business Development Program

In 1978, Congress amended the Small Business Act (Act) of 1958 to give SBA statutory authority for its 8(a) program for minority-owned businesses. The 8(a) program provides economically and socially disadvantaged small business owners with business development assistance and preference-based Federal contracts. To be eligible for the 8(a) program, a firm must meet several criteria: be a small business as defined by the SBA, be at least 51 percent owned and controlled by a socially and economically disadvantaged individual(s) who are of good character and citizen(s) of the United States, and show a potential for success. As of February 2017, the 8(a) program had approximately 5,097 participants.

Firms admitted into the 8(a) program are eligible for business development assistance and can be awarded Federal contracts known as 8(a) set-asides, which can be sole-source contracts or competed awards.<sup>1</sup> Participation in the 8(a) program encompasses two phases over a 9-year period. The first phase covers the first 4 years in the program and is considered the developmental stage. The second phase covers the remaining 5 years and is the transitional stage. In the transitional stage, SBA requires that the participant rely less on 8(a) set-aside contracts and more on non-8(a) contract revenue.

In an effort to ensure small businesses are given Federal contracting opportunities, the Act establishes a Federal Government goal that 5 percent of eligible prime contract dollars be awarded to small disadvantaged businesses each fiscal year.<sup>2</sup> In fiscal year (FY) 2015, Federal agencies awarded \$35.4 billion, or 10.1 percent of the total small business eligible dollars, to small disadvantaged businesses—of which \$15.9 billion, or 4.5 percent, were 8(a) set-aside contracts awarded to 8(a) program participants.

---

<sup>1</sup> FAR 19.800 (b) states that 8(a) firms may perform contracts on a sole source or competitive basis. SBA SOP 80 05 3A, chapter 1, section 1.b, *What is the Mission and Who Provides Assistance* (April 11, 2009), states that the 8(a) program assists firms by facilitating the award of sole source and limited competition contracts.

<sup>2</sup> A prime contract is any direct contract between the Government and a contractor.

## 8(a) Program Administration Offices and Application Process

The 8(a) program is administered by SBA's Office of Business Development (OBD), with the AA/BD performing day-to-day leadership. Within OBD, the Office of Certification and Eligibility (OCE) receives, reviews, and evaluates all 8(a) program applications.

Applicants provide information verifying that they meet program requirements using SBA's BDMIS.<sup>3</sup> The applicant is responsible for proving they are eligible to be in the program. If a firm fails to provide necessary information, the AA/BD may determine that it did not demonstrate eligibility.

Within OCE, business opportunity specialists and supervisors, which are located at two central office duty stations (duty station), review the application, and make a recommendation to approve or decline the application.<sup>4</sup> Their recommendations are then forwarded to the director of OCE to recommend approving or declining the application based on the duty station review. After the OCE review, the AA/BD ultimately approves or declines the application in writing. Any denial recommendations must state reasons a firm was found to be ineligible and their rights for appeal. (See Figure 1 for a description of the application and certification review process.)

**Figure 1. 8(a) Application Review and Certification Process**

1. Applicant submits online application.

2. Duty station receives application, and business opportunity specialist makes recommendation to approve or decline the applicant.

3. Duty station supervisor reviews the business opportunity specialist's analysis and adjusts, approves, or declines the application. (Legal opinion can be requested.)

4. OCE's director reviews the duty station recommendations and makes a recommendation to approve or decline the applicant.

5. AA/BD approves or declines the applicant into the 8(a) program.

Source: Generated by OIG based on 13 CFR § 124.202, SOP 80 05 3A, and 8(a) records.

### Prior Work

OIG previously reported that for 30 of the 48 applicants we reviewed, the AA/BD approved the firms without fully documenting in BDMIS how all eligibility concerns raised by lower-level reviewers were resolved. As a result, it was not clear whether these 30 firms should have been approved into the 8(a) program.<sup>5</sup> We recommended that the Associate Administrator for GCBD

---

<sup>3</sup> BDMIS is an online system applicants use to input information to obtain 8(a) program certification.

<sup>4</sup> For the purposes of our report, all 8(a) application recommendations to the AA/BD are considered lower-level reviews.

<sup>5</sup> SBA OIG Report Number 16-13, SBA's 8(a) Business Development Program Eligibility (April 7, 2016).

(AA/GCBD) update its policy to require the AA/BD and OCE's director clearly document their justification for approving or denying applicants into the 8(a) program, particularly when those decisions differed from lower-level recommendations. We also recommended that the AA/GCBD provide documentation showing how eligibility concerns raised by lower-level reviewers were resolved for the 30 firms not documented in BDMIS. SBA management agreed with the recommendations but asserted that this was not an issue of ineligible firms being certified into the program without adequate review.

### **Objective**

At the request of SBA's former Deputy Administrator, we conducted this follow-on audit to determine whether SBA resolved the eligibility concerns for the 30 firms.

## **Finding: Eligibility Concerns Remain for 10 of the 30 Firms Reviewed**

We evaluated the additional documentation provided by Agency officials subsequent to the issuance of our audit report 16-13 to determine whether the eligibility concerns we previously identified for 30 firms admitted into the 8(a) program were resolved. The AA/BD fully documented eligibility issues for 20 of the 30 firms reviewed. However, the AA/BD, who has the final authority to accept or decline the applicant into the 8(a) program, did not sufficiently support that 10 applicants met the eligibility requirements of the 8(a) program. Therefore, SBA lacks assurance that only eligible firms receive the benefits of the 8(a) program.

### **Eligibility Concerns Were Resolved for 20 of 30 Firms**

Additional information provided by SBA clarified that the AA/BD adequately justified eligibility concerns for 20 of the 30 firms we originally questioned in our first report. For example, lower-level reviewers recommended a firm's denial because it did not meet the economic disadvantage requirement. However, additional information obtained from the applicant validated that the firm was economically disadvantaged. Although the lower-level reviewers identified eligibility issues, the director of OCE contacted the applicant, obtained documentation verifying economic disadvantage, and resolved the outstanding eligibility issue. In addition, the AA/BD provided written support for the firm's 8(a) program approval.

### **Documentation Did Not Sufficiently Support Decision to Admit 10 Firms into the 8(a) Program**

The Act provides that the AA/BD is the final decision authority for the 8(a) program. As a result, the AA/BD has the ability to overturn the lower-level reviewers' conclusions pertaining to an individual firm as long as the AA/BD believes that the firm meets the requirements of the program as stated in the Act. The additional information considered by the AA/BD did not sufficiently address that 10 of the 30 firms met eligibility requirements by either not fully documenting or addressing all concerns from lower-level reviewers or not obtaining sufficient assurance to prove eligibility. The unresolved eligibility concerns related to the certification requirements for size, control, economic disadvantage, good character, and potential for success. Specifically, we found the following:

- 2 firms did not demonstrate that they met size requirements for small businesses
- 2 firms did not demonstrate control by disadvantaged individuals
- 2 firms did not demonstrate that their owners were economically disadvantaged
- 2 firms did not demonstrate good character
- 7 firms did not demonstrate potential for success

Some of these firms did not demonstrate that they met multiple certification requirements. See Table 1 for information regarding each firm's eligibility issues.

**Table 1. Questioned Firms' Unresolved Eligibility Issues**

Eligibility Issue		Firms									
		A	B	C	D	E	F	G	H	I	J
<b>Size</b>			X						X		
<b>Control</b>							X		X		
<b>Economic Disadvantage</b>		X			X						
<b>Good Character</b>		X								X	
<b>Potential for Success</b>				X		X	X	X	X	X	X
<b>Type of Potential for Success Issue</b>	Unreliable Financial Statements			X		X		X			
	Firm's Financial Condition			X			X				X
	Economic Dependence on One Firm							X	X		
	Lack of Revenue in Primary Industry									X	
Source: Generated by OIG based on audit analysis of 8(a) records.											

*Size*

For one firm, the lower-level reviewer found that the applicant may have been affiliated with a large company and recommended that the applicant undergo a size determination to conclude whether the applicant was a small business or was affiliated with a large company and therefore was not a small business. The firm had received 100 percent of its revenue from a large company since 2010, causing concern that the applicant was economically dependent on, and therefore associated with, the large company. The AA/BD decided that the firm was capable of making decisions independently from the large company and that a size determination was unnecessary. However, to ensure the integrity of the program by admitting only eligible firms, we believe that size determinations in such cases could help prevent large companies from using affiliates to profit from the 8(a) program.

*Control*

According to 13 CFR 124.106, "SBA regards control as including both the strategic policy setting exercised by boards of directors and the day-to-day management and administration of business operations. An applicant's or participant's management and daily business operations must be conducted by one or more disadvantaged individuals." In one example, the lower-level reviewer determined that the applicant was financially dependent on another firm for the majority of its revenues, which could result in control issues. The letter that the applicant provided to the AA/BD did not provide sufficient verification that the applicant was in control of the firm and not affiliated with another firm. Title 13 CFR 124.106(g)(4) identifies business relationships creating reliance as an example of something that may create a control problem. The AA/BD did not have sufficient documentation at the time of approval to determine whether the applicant was in control of its firm. We are concerned that the identified, unresolved financial dependence issues may allow another firm to have control of the 8(a) firm.

*Economic Disadvantage*

According to 13 CFR 124.104, "economically disadvantaged individuals are socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same or similar line of business who are not socially advantaged." The AA/BD did not justify economic disadvantage concerns raised by the lower-level reviewers for two firms during the review process. Lower-level

reviewers recommended one firm for denial because they were unable to conclude whether the adjusted personal net worth of the applicant was below the regulatory \$250,000 limit. In doing their analysis, the lower-level reviewers later adjusted the personal net worth calculation of the applicant to remove a personal liability of \$71,000 that was not originally included or supported. However, the AA/BD accepted the applicant's claim as fact that this loan was from the applicant's father, so the AA/BD did not require loan documents or any proof that the applicant repaid any portion of the loan to validate the claim. Considering the information was not originally provided and was not supported, we find issue with the calculation of net worth, and that the AA/BD accepted this liability reasoning without supporting documentation or further inquiry.

#### *Good Character*

The AA/BD must ensure 8(a) program participants have good character. However, the AA/BD admitted a firm with multiple defaults and tax problems without documenting the resolution of those issues. Lower-level reviewers recommended the firm for denial into the 8(a) program due to lack of good character, specifically a lack of business integrity demonstrated by information related to civil judgments in accordance with 13 CFR 124.108(a)(4)(i). Third-party records revealed multiple county tax liens as well as 21 Notices of Default related to Sheriff Sales. Lower-level reviewers were neither able to conclude whether the tax liens were discharged in bankruptcy nor able to reasonably determine the extent of the applicant's liability related to the property defaults. The AA/BD followed up with the applicant on these issues and inquired what documents could be provided to substantiate that the liens were paid off. The applicant stated that if requested, it could provide a notice from the tax office along with chapter 7 documents. The applicant also questioned what specifically was needed, but the AA/BD did not attempt to request any of this information or confirm the status of the tax liens and Notices of Default. By not obtaining information substantiating that these issues were resolved, the AA/BD cannot determine whether the applicant met good character requirements.

#### *Potential for Success*

Potential for success was cited by lower-level reviewers for 7 of the 10 firm's 8(a) program denial recommendations. According to 13 CFR 124.107, "the applicant must possess reasonable prospects for success in competing in the private sector if admitted to the 8(a) BD program." Additionally, SOP 80 05 3A guidance requires that SBA reviewers examine the firms' financial statements to ensure that they align with generally accepted accounting principles. In one instance, lower-level reviewers initially questioned the eligibility of a firm because they were unable to determine a firm's potential for success because of errors in the financial statements. The AA/BD supplemental documentation stated that the errors were not a reason to decline the firm because the firm was eligible for the 8(a) program without correcting the financial statement mistakes. However, the AA/BD's explanation did not indicate whether the financial statements met accounting standards or whether she obtained and reviewed updated financial statements. Subsequently, the AA/BD told us that she did not review the firm's updated financial statements, and in her opinion the applicant was eligible at the time of submission.

In another instance, lower-level reviewers recommended denying a firm because it was not operating in the primary industry classification in which it was seeking 8(a) certification for 2 full years as evidenced by income tax returns and did not meet the requirements for a waiver. SBA regulations require five conditions to be present in order to waive the 2 years in business component of potential for success requirements. All of the firm's revenue was generated from real estate brokerage commissions. In BDMIS, the AA/BD justified approval by stating that the applicant was qualified to provide advice and assistance to businesses on administrative management issues, which was the industry listed on its 8(a) application. However, the applicant did not demonstrate

experience in consulting needed to meet the requirements for a waiver to the 2 years in business requirement.

The Act's language regarding potential for success is subjective, which leaves open to interpretation whether a firm has met this requirement. While a lower-level reviewer may believe these firms did not meet the requirement, the AA/BD believed that the firms met the requirement as stated in the Act. While differing interpretations are possible, dissension should be properly documented and justified to ensure the integrity of the process.

## **Conclusion**

By approving firms into the 8(a) program, the SBA is certifying to all Federal agencies that the firm meets all 8(a) requirements. Once a firm is admitted, the 8(a) program provides access to business development assistance and to set-aside contracts for 8(a) firms, including sole-source contracts. Absent adequate documentation to demonstrate that participants met all eligibility requirements, SBA lacks assurance that only eligible firms receive the benefits of the 8(a) program. To strengthen the program and make the best decisions in the future, we believe that the SBA should begin to monitor the success and compliance of firms that the AA/BD approved after lower-level reviewers recommended declination.

As the approving official for the 8(a) program, the AA/BD should clearly document in BDMIS why he or she overturned a lower-level decision that an applicant was ineligible prior to admitting an applicant into the 8(a) program to promote transparency and consistency. We addressed this by recommending in the prior report that SBA update policy to require the AA/BD and OCE's director to clearly document their justification for approving or denying applicants into the 8(a) program, particularly when those decisions differed from lower-level recommendations.

## **Recommendations**

To ensure that the 8(a) program admits only eligible applicants into the program, we recommend that the Associate Administrator for the Office of Government Contracting and Business Development:

1. Conduct continuing eligibility reviews for the 10 firms we identified with unresolved eligibility concerns.
2. Develop specific measurements to monitor the performance and compliance of applicants admitted to the 8(a) program in which there was a discrepancy between the approver and reviewer.
3. Based on the information collected in Recommendation 2, adjust eligibility criteria as necessary.

## **Analysis of Agency Response**

SBA management provided formal comments, which are included in their entirety in Appendix II. SBA management agreed to implement Recommendation 1 but nonconcurrent with Recommendations 2 and 3. Additionally, SBA requested that OIG amend the report to state that there was no finding of intentional or actual impropriety by anyone within GCBD, including, but not limited to, the AA/BD.

Regarding SBA's request to add language to the report referencing, we found no evidence of impropriety. We conducted this audit in accordance with Government auditing standards, which require that we conduct an assessment to determine the presence of fraud indicators. Through this assessment and fieldwork analysis, we did not identify the presence of those indicators for the 30 firms we reviewed.

### **Summary of Actions Necessary to Close the Report**

The following provides the status of the recommendations and the necessary action to close them.

1. **Resolved.** The Associate Administrator for the AA/GCBD concurred with our recommendation and agreed to conduct annual continuing eligibility reviews on the subject 10 firms no later than June 2018. This recommendation can be closed when SBA provides evidence that they conducted eligibility reviews on the subject 10 firms.
2. **Resolved.** While SBA initially agreed with this recommendation, it did not concur in its final response. The AA/GCBD stated that OBD currently notates a statement of difference in BDMIS. In addition, the AA/GCBD stated that it will strengthen its review of this practice and amend the current SOP to require a written statement of difference for each application when the AA/BD makes a final decision that was different from the recommendation of OCE's director. The AA/GCBD further noted that OCE's director is the third-level reviewer of each 8(a) application and is responsible for ensuring that the recommendation to approve or decline was done by applying the appropriate rules and regulations. The director also is authorized to contact the applicant for additional information or documentation as necessary.

Although SBA did not concur with Recommendations 2 and 3, we believe SBA's proposed actions meet the intent of resolving the finding. This recommendation can be closed when SBA provides evidence that it amended its SOP requiring a written statement of difference for each application when the AA/BD makes a final decision that was different from the recommendation of OCE's director.

We maintain that the AA/GCBD should still consider developing specific measurements to monitor the performance and compliance of applicants admitted into the 8(a) program in which there was a discrepancy between the approver and the lower-level reviewers. We believe that by doing so, GCBD can begin to monitor its decision-making process over time and change regulations or its SOP as necessary.

3. **Resolved.** The AA/GCBD did not concur with our recommendation and referred to its response to Recommendation 2. We addressed this recommendation in our response to Recommendation 2.

## **Appendix I: Objective, Scope, and Methodology**

---

At the request of SBA's former Deputy Administrator, we conducted this follow-on audit to determine whether SBA resolved eligibility concerns for the 30 firms. To answer our objective, we reviewed Section 8(a) of the Small Business Act, the Code of Federal Regulations Title 13, the Federal Acquisition Regulation Part 19, and SBA's Standard Operating Procedure 80 05 3.<sup>6</sup> We obtained additional previously requested documentation and appropriate access to BDMIS, which OBD uses to process applications. Finally, we reinterviewed SBA officials responsible for the 8(a) program. For this report, we reviewed the additional information and developed follow-up questions and document requests for the AA/BD.

We conducted this performance 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 objectives.

### **Use of Computer-Processed Data**

We relied on data we obtained from BDMIS to select our sample of 8(a) participants for review. We corroborated this information by reviewing the approval history for each approved applicant during the time period. Throughout our work, we looked for errors in data but did not have any issues that called into question the validity of information contained in BDMIS. We believe the information is reliable for the purposes of this audit.

### **Review of Internal Controls**

SBA's internal control systems' Standard Operating Procedure provides guidance on implementing and maintaining effective internal control systems, as required by OMB Circular A-123.<sup>7</sup> OMB Circular A-123 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.<sup>8</sup>

To assess internal controls during the audit, we reviewed OCE's internal guidance. During our audit, we found weaknesses in SBA's review process. Specifically, OCE's director and the AA/BD did not consistently provide justification for approving firms into the 8(a) program after the firm was denied during lower-level reviews. We believe this is an internal control weakness because we cannot verify if firms met all eligibility requirements of the 8(a) program at the time of approval, as required.<sup>9</sup>

---

<sup>6</sup> SOP 80 05 3, *8(a) Business Development* (Version A, effective April 11, 2008).

<sup>7</sup> SOP 00 02, *Internal Control Systems* (January 1986).

<sup>8</sup> OMB Circular A-123, *Management's Responsibility for Internal Control* (December 21, 2004).

<sup>9</sup> 13 CFR 124.203.

**SBA**

**ASSOCIATE ADMINISTRATOR, OFFICE OF  
GOVERNMENT CONTRACTING AND  
BUSINESS DEVELOPMENT'S**

**RESPONSE TO AUDIT REPORT**



**U.S. SMALL BUSINESS ADMINISTRATION  
WASHINGTON, D.C. 20416**

DATE: June 26, 2017

TO: Hannibal M. Ware, Acting Inspector General  
Office of Inspector General (OIG)

FROM: Robb Wong, Associate Administrator  
Office of Government Contracting & Business Development (GCBD)

SUBJECT: OIG Project Number: 15012A "Reassessment of Eligibility Requirements  
for 30 Firms in SBA's 8(a) Business Development Program"

Thank you for the opportunity to respond to your draft report of April 2017, on the subject noted above. I take each recommendation seriously, and understand the importance of the work you do to support risk mitigation for the Agency. While we do not agree with each element of your recommendations – we will work to implement and continue them into our current and future processes moving forward to help ensure public trust in SBA/GCBD certifications, as well as the integrity of our office.

We would respectfully request that your report be amended to include the following please:

- 1) There is no finding of intentional impropriety by anyone within GCBD including but not limited to the AA/GCBD.
- 2) There is no finding of actual impropriety by anyone within GCBD including but not limited to the AA/GCBD.

**SBA Responses to OIG's Recommendations**

**Recommendation 1:** Conduct continuing eligibility reviews for the 10 firms we identified with unresolved eligibility concerns.

**GCBD's Response to Recommendation 1: (Concur)** The SBA will add the subject 10 firms to our high risk continuing eligibility reviews for FY 17. Our review will be completed no later than June 30, 2018.

**Recommendation 2:** Develop specific measurements to monitor the performance and compliance of applicants admitted to the 8(a) program in which there was a discrepancy

between the approver and reviewer. This task will be completed no later than June 30, 2018.

**G CBD's Response to Recommendation 2: (Non-Concur)** Currently, the Office of Business Development notates an statement of difference in BDMIS, BD's current application and approval system, when the Associate Administrator (AA/BD), who has the final authority to approve or decline an 8(a) applicant. While we acknowledge that your review found 10 applications where a formal statement of difference was not located, we agree to strengthen our review of this practice and document the requirement by amending our current SOP to delineate the requirement of a written statement of difference in the review notes of each application when the AA/BD makes a final decision that is different from the recommendation of the Director of the Office of Continued Eligibility (OCE).

It is noted that the Director/OCE is the third level reviewer of each 8(a) application. The primary function of the Director/OCE in this process is to ensure that the recommendation to approve or decline was done so by applying the appropriate rules and regulations. The Director/OCE, during his or her review, is authorized to contact the applicant for additional information or documentation as necessary. The Director/OCE then forwards the recommendation to approve or decline to the Associate Administrator of BD.

**Recommendation 3:** Based on the information collected in Recommendation 2, adjust eligibility criteria as necessary.

**G CBD's Response to Recommendation 3: (Non-Concur)** See G CBD's response to Recommendation 2.