

SBA points to progress combating abuse of HUBZone program

By Robert Brodsky rbrodsky@govexec.com July 30, 2009

The Small Business Administration has made significant progress in identifying fraud and abuse in an often-criticized program that helps companies in low-income regions win federal contracts, agency administrator Karen Mills said on Wednesday.

Testifying for the first time before the House Small Business Committee, Mills said SBA has stepped up oversight of the Historically Underutilized Business Zone program, by increasing the number of site visits to participating companies and hiring an outside firm to revamp its certification process.

"We need to get this program to a better outcome," she said.

Twice in the past year, the Government Accountability Office has discovered widespread fraud and mismanagement of the HUBZone program.

In a [July 2008 report](#), GAO investigators used fictitious names, bogus principal addresses and fake employee information to create four HUBZone firms. In all four instances, the companies, including one that listed a Starbucks coffee shop as its address, were approved for the program.

In a follow-up March 2009 report, [GAO found](#) that 19 ineligible firms had received \$30 million through the program in fiscal 2006 and fiscal 2007 combined. To qualify for the program, firms must be located in an economically distressed region and at least 35 percent of their full-time employees must live within the zone.

One major problem, the report said, was that companies could gain entry into the HUBZone program with very little documentation of residency and SBA officials rarely, if ever, visited firms to verify their information. At the time of the March 26 hearing, agency officials had visited only seven HUBZone companies since the beginning of 2009.

Committee Chairwoman Nydia Velázquez, D-N.Y., threatened to shut down the program unless immediate changes were implemented.

Mills, who was sworn in as administrator in April, said Wednesday that in the four months since the GAO report, SBA has conducted more than 600 site visits to HUBZone firms nationwide. Agency officials are reviewing the information gained from those visits, SBA spokesman Jonathan Swain said.

According to Swain, officials are paying site visits to recent recipients of HUBZone contracts and randomly selected HUBZone companies that operate within 50 miles of SBA district offices.

The agency has also hired a consultant, Diamond Information Systems of Sterling, Va., to reengineer the certification process for entry into the program. The company, which is being paid \$158,000 for work performed during a four month period ending on Sept. 30, also will focus on improving the recertification and verification process for firms already participating.

Consultants will examine where the greatest risk exposure is for the program and what red flags the agency should look for that could point to fraud or ineligibility, Swain said. "All of this is aimed at strengthening oversight and our ability to identify any instances or opportunities for fraud," he said.

Meanwhile, of the 19 firms GAO cited in the March report, seven have been decertified, five voluntarily withdrew, one was found to be in compliance with the program and six have provided documentation to fight their proposed decertification, Mills said. Officials will make final determinations by Sept. 30 on the six that are protesting decertification.

SBA has forwarded five of the fraud cases to suspension and debarment officials and another to the agency's inspector general office.