




U.S. Small Business Administration
Washington, D.C. 20416

OFFICE OF
INSPECTOR GENERAL

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TO: Fred C. Armendariz
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FROM: Mark R. Woods 
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SUBJECT: Program Vulnerability Memorandum 3-09
Pro-Net Registrant Data Integrity Warnings and Certification

Recent allegations received by the Washington Field Office and Agency personnel have raised concerns regarding the small-business status of companies listed in SBA's Pro-Net data base. Pro-Net is described by SBA as a gateway of procurement information for and about small businesses. Pro-Net is open to all small firms seeking Federal, state and private contracts. It serves as a search engine for government contracting officers and a marketing tool for small firms. According to the SBA website, Pro-Net contains information on approximately 150,000 small, disadvantaged, 8(a), HUBZone, and women-owned businesses. It has been alleged that certain firms listed in Pro-Net are not small and are improperly reaping the marketing benefits of being listed in the SBA database.

We are providing this memorandum to advise you of our concerns relating to the integrity of information on Pro-Net and to provide our recommendations to ensure a process is implemented by which firms utilizing Pro-Net will be more clearly advised of the requirements that they must meet specific size standards and of the civil, criminal, and administrative penalties for providing false information when registering to be listed on this database. Additionally, we recommend an annual review of Pro-Net listees to verify their current and continuing eligibility.

BACKGROUND

In September of 2002, this office was advised that various firms may have entered false information in the Pro-Net data base. It was alleged that, as a result of these false

statements, these firms may have received small business set-aside contracts. Upon contacting your staff, we were advised that similar allegations had been provided to your office. We were then contacted by the U.S. Attorney's Office for the District of Columbia and members of Congress regarding the same issues. Based on the information received, we opened a criminal investigation to address the allegations.

In working with your staff, we identified various regulatory issues that may, in part, have caused many of the firms to consider themselves as small, when, in fact, they did not meet the size standards to qualify as small. These issues involve the ambiguity of appropriate size eligibility definitions, and the lack of appropriate North American Industry Classifications System (NAICS) codes for many new businesses. In addition, the GSA regulations relating to the contractors on their schedule have caused additional confusion. We further understand that the GSA is currently considering changes to their regulations which would require periodic certification regarding size. SBA is also considering periodic size certifications relating to Pro-Net participants. If implemented, these changes would partly address the regulatory issues.

We were further advised by your staff that the recent consolidation of the Pro-Net with the Central Contracting Registration (CCR) database may create an additional layer between the registrant and SBA and result in an additional need to advise firms of the regulations and the importance of providing accurate and truthful information regarding their size.

Our investigation confirmed that one of the firms listed in Pro-Net had previously operated under a different company name. The original firm had bid on, and was selected for, a small business set-aside contract. As a result of a size protest, SBA determined this firm was other than small, and the contract was subsequently awarded to another bidder. After the notification of size determination in 2001, the firm changed its name and registered in Pro-Net as a small business. According to the Federal Procurement Data System (FPDS), this firm subsequently obtained a small business contract. Our investigation determined, however, that the contract was originally awarded in 1997 and the entry in the FPDS was a modification to reflect their new name. This matter was referred to the U.S. Attorney's Office for the District of Columbia for prosecutive consideration and was declined in light of the administrative remedies being considered by the Agency.

This firm's current status was also reviewed by your office. The firm was subsequently advised that they were not small and they were removed from Pro-Net. Your office is continuing to review other firms listed on Pro-Net that are alleged to be other than small, due to their affiliation with a large company or their actual size. We have been advised that if it is determined that these firms are not small, they will be notified and removed from Pro-Net. Additionally, if it is determined that contracts were awarded based upon such assertions a referral will be made to this office.

SYSTEMIC REGISTRATION OF FIRMS DEFICIENCY

A review of the Pro-Net database website revealed that the firms: (1) do not receive sufficient information regarding the requirement that the firm be small in

accordance with SBA size standards, (2) receive no advisement of the criminal statutes, penalties and/or regulations that apply to the submission of false information to the U.S. Government, (3) are not required to recertify their qualifications for participation in the cited programs. (4) Additionally, contracting officers are provided no information regarding requirements to obtain independent certification relative to size eligibility.

Further, with the implementation of the CCR/Pro-Net consolidation, Pro-Net registrants are immediately transferred to the CCR database to input the information. It is our understanding the CCR does not elaborate on the statutes, regulations and penalties for false statements. Once a registrant in CCR indicates that they are small, the information is forwarded to Pro-Net, thus eliminating the opportunity for SBA to alert the registrants to these considerations.

RECOMMENDATIONS TO CORRECT DEFICIENCY

We have been coordinating with members of your staff on this issue and have discussed ways to address the cited deficiencies. We recommend the following actions be taken:

- 1) A certification statement should be incorporated into the Pro-Net website. Note: A draft certification/warnings statement was prepared by your staff and has been reviewed by this office.
- 2) Additional procedures must be considered to address the problem of CCR and Pro-Net consolidation. One possibility would be to have the entry of a new registrant in Pro-net automatically trigger an e-mail to the firm outlining the criminal statutes, regulations, and the resulting penalties. Consideration might also be given to using the notification procedures used by the HUBZone on-line application.
- 3) Warnings regarding regulations and penalties involved in making a false statement need to be incorporated into the certification and warnings.
- 4) The website needs to include guidance to government contracting officers relative to the proper use of Pro-Net and requirements for independent certifications relative to size and other issues.
- 5) The Agency should implement a requirement that each firm annually certify to their qualifications. This could be accomplished by causing the system to annually trigger an e-mail to the firms to respond to a statement regarding their qualifications and an acknowledgement of the applicable statute, regulations and penalties for falsifying information or an annual requirement that the company reenter their data. This recommendation could provide a way to address firms who have already registered and were not provided the original advisement.
- 6) All of the forgoing recommendations should be coordinated with the CCR website.

The recommendations in this memorandum are subject to review and implementation of corrective action by your office in accordance with the existing Agency procedures for audit follow-up. Please provide your management decision for

the recommendation to our office within 30 days of the date of this report using the attached SBA Forms 1824, Recommendation and Action Sheet.

We are aware that your office is already taking steps, with the Department of Defense, to implement some of these recommendations. We are available to work with your staff to address any of these issues. If you have any questions, please contact me.