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Highlights

Highlights of [GAO-08-964T](#), a testimony before the Committee on Small Business, House of Representatives

Why GAO Did This Study

The Historically Underutilized Business Zone (HUBZone) program is intended to provide federal contracting opportunities to qualified small business firms in order to stimulate development in economically distressed areas. As manager of the HUBZone program, the Small Business Administration (SBA) is responsible for certifying whether firms meet HUBZone program requirements. To participate in the HUBZone program, small business firms must certify that their principal office (i.e., the location where the greatest number of employees work) is located in a HUBZone and that at least 35 percent of the firm's employees live in HUBZones.

Given the Committee's concern over fraud and abuse in the HUBZone program, GAO was asked to (1) proactively test whether SBA's controls over the HUBZone application process were operating effectively to limit program certification to eligible firms and (2) identify examples of selected firms that participate in the HUBZone program even though they do not meet eligibility requirements.

To perform its proactive testing, GAO created four bogus businesses with fictitious owners and employees and applied for HUBZone certification. GAO also selected 17 HUBZone firms based on certain criteria, such as receipt of HUBZone contracts, and investigated whether they met key program eligibility requirements.

To view the full product, including the scope and methodology, click on [GAO-08-964T](#). For more information, contact Gregory Kutz at (202) 512-6722 or kutzg@gao.gov.

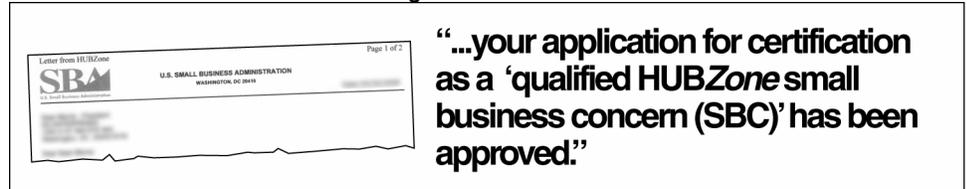
HUBZONE PROGRAM

SBA's Control Weaknesses Exposed the Government to Fraud and Abuse

What GAO Found

GAO identified substantial vulnerabilities in SBA's application and monitoring process, clearly demonstrating that the HUBZone program is vulnerable to fraud and abuse. Considering the findings of a related report and testimony issued today, GAO's work shows that these vulnerabilities exist because SBA does not have an effective fraud-prevention program in place. Using fictitious employee information and fabricated documentation, GAO easily obtained HUBZone certification for four bogus firms. For example, to support one HUBZone application, GAO claimed that its principal office was the same address as a Starbucks coffee store that happened to be located in a HUBZone. If SBA had performed a simple Internet search on the address, it would have been alerted to this fact. Further, two of GAO's applications used leased mailboxes from retail postal services centers. A post office box clearly does not meet SBA's principal office requirement. See the graphic below for an example of a HUBZone certification letter GAO received for one of its bogus firms.

HUBZone Certification from SBA for Bogus Firm



Source: SBA.

We were also able to identify 10 firms from the Washington, D.C., metro area that were participating in the HUBZone program even though they clearly did not meet eligibility requirements. Since 2006, federal agencies have obligated a total of more than \$105 million to these 10 firms for performance as the prime contractor on federal contracts. Of the 10 firms, 6 did not meet both principal office and employee residency requirements while 4 met the principal office requirements but significantly failed the employee residency requirement. For example, one firm that failed both principal office and employee residency requirements had initially qualified for the HUBZone program using the address of a small room above a dentist's office. GAO's site visit to this room found only a computer and filing cabinet. No employees were present, and the building owner told GAO investigators that nobody had worked there "for some time." During its investigation, GAO also found that some HUBZone firms used virtual office suites to fulfill SBA's principal office requirement. GAO investigated two of these virtual office suites and identified examples of firms that could not possibly meet principal office requirements given the nature of their leases. For example, one firm continued to certify it was a HUBZone firm even though its lease only provided mail forwarding services at the virtual office suite.