



Highlights of [GAO-08-643](#), a report to the Chairwoman, Committee on Small Business, House of Representatives

Why GAO Did This Study

The Small Business Administration's (SBA) Historically Underutilized Business Zone (HUBZone) program provides federal contracting assistance to small firms located in economically distressed areas, with the intent of stimulating economic development. Questions have been raised about whether the program is targeting the locations and businesses that Congress intended to assist. GAO was asked to examine (1) the criteria and process that SBA uses to identify and map HUBZone areas and the economic characteristics of such areas, (2) the mechanisms SBA uses to ensure that only eligible small businesses participate in the program, and (3) the actions SBA has taken to assess the results of the program and the extent to which federal agencies have met their HUBZone contracting goals. To address these objectives, GAO analyzed statutory provisions, as well as SBA, census, and contracting data, and interviewed SBA and other federal and local officials.

What GAO Recommends

GAO recommends that the SBA Administrator take steps to ensure that only eligible firms participate in the HUBZone program and to further assess the effectiveness of the program. In responding to a draft of this report, SBA agreed with these recommendations and outlined steps that it plans to take to address them.

To view the full product, including the scope and methodology, click on [GAO-08-643](#). For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

SMALL BUSINESS ADMINISTRATION

Additional Actions Are Needed to Certify and Monitor HUBZone Businesses and Assess Program Results

What GAO Found

SBA relies on federal law to identify qualified HUBZone areas based on provisions such as median income in census tracts, but the map it uses to publicize HUBZone areas is inaccurate, and the economic characteristics of designated areas vary widely. To help firms determine if they are located in a HUBZone area, SBA publishes a map on its Web site. However, the map contains areas that are not eligible for the program and excludes some eligible areas. As a result, ineligible small businesses have been able to participate in the program, and eligible businesses have not been able to participate. Revisions to the statutory definition of HUBZone areas (such as allowing continued inclusion of areas that ceased to be qualified) have nearly doubled the number of areas and created areas that are less economically distressed than areas designated under the original criteria. Such an expansion could diffuse the benefits to be derived from steering businesses to economically distressed areas.

The mechanisms that SBA uses to certify and monitor firms provide limited assurance that only eligible firms participate in the program. Although internal control standards state that agencies should verify information they collect, SBA verifies the information reported by firms on their application or during recertification—its process for monitoring firms—in limited instances and does not follow its own policy of recertifying all firms every 3 years. GAO found that more than 4,600 firms that had been in the program for at least 3 years went unmonitored. Further, SBA lacks a formal policy on how quickly it needs to make a final determination on decertifying firms that may no longer be eligible for the program. Of the more than 3,600 firms proposed for decertification in fiscal years 2006 and 2007, more than 1,400 were not processed within 60 days—SBA's unwritten target. As a result of these weaknesses, there is an increased risk that ineligible firms have participated in the program and had opportunities to receive federal contracts based on their HUBZone certification.

SBA has taken limited steps to assess the effectiveness of the HUBZone program, and from 2003 to 2006 federal agencies did not meet the government-wide contracting goal for the HUBZone program. While SBA has some measures to assess the results of the HUBZone program, they are not directly linked to the program's mission, and the agency has not implemented its plans to conduct an evaluation of the program based on variables tied to the program's goals. Consequently, SBA lacks key information to manage the program and assess performance. Contracting dollars awarded to HUBZone firms increased from fiscal year 2003 to 2006, but consistently fell short of the government-wide goal of awarding 3 percent of annual contracting dollars to HUBZone firms. According to contracting officials GAO interviewed, factors such as conflicting guidance on how to consider the various small business programs when awarding contracts and a lack of HUBZone firms in certain industries may have affected the ability of federal agencies to meet their HUBZone goals.