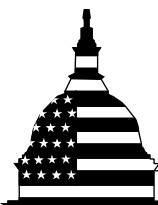Report to Congressional Requesters

January 2013

VETERAN-OWNED SMALL BUSINESSES

Planning and Data System for VA's Verification Program Need Improvement

G A O

Accountability ★ Integrity ★ Reliability

VETERAN-OWNED SMALL BUSINESSES

Planning and Data System for VA's Verification Program Need Improvement

Why GAO Did This Study

VA is required to give contracting preference to service-disabled and other veteran-owned small businesses. It must also verify the ownership and control of these firms to confirm eligibility. Prior reports by GAO and VA's Office of Inspector General identified weaknesses in VA's processes and controls that allowed ineligible firms to be verified. GAO was asked to review the verification program. For this report, GAO assessed (1) VA's progress in establishing a program for verifying firms' eligibility on a timely and consistent basis and (2) key operational and policy issues that VA would have to address should its verification program be implemented government-wide. GAO reviewed VA's policies and procedures; compared its initial strategic planning effort with previously identified leading strategic planning practices; interviewed VA officials and veterans' organizations; and analyzed government-wide contracting databases.

What GAO Recommends

To improve the long-term effectiveness of the program, VA should (1) refine and implement a strategic plan with outcome-oriented long-term goals and performance measures, and (2) integrate its efforts to modify or replace the program's data system with a broader strategic planning effort to ensure that the system addresses the program's short- and long-term needs. VA concurred with both recommendations.

View GAO-13-95. For more information, contact William B.Shear at (202) 512-8678 or shearw@gao.gov.

What GAO Found

The Department of Veterans Affairs (VA) has made significant changes to its verification processes for service-disabled and other veteran-owned small businesses to improve operations and address program weaknesses, but continues to face challenges in establishing a stable and efficient program to verify firms on a timely and consistent basis. Since December 2011, VA has instituted a number of significant operational changes, including revising standard operating procedures and enhancing quality assurance protocols for its verification program. However, GAO found that VA did not have a comprehensive, long-term strategic plan for the program and had prioritized addressing immediate operational challenges, contributing to programmatic inefficiencies. In response to this observation, VA's Office of Small and Disadvantaged Business Utilization (OSDBU) initiated action in late October 2012 to compile a strategic planning document that encompassed the verification program. VA's OSDBU appears to have partially applied key leading strategic planning practices in its initial planning effort. But the plan lacks performance measures to assess whether the desired outcomes are being achieved and has a short-term focus that is not typically associated with a strategic plan. VA also has not shared the plan with key stakeholders, including congressional staff. Further, the verification program's data system has shortcomings that have hindered VA's ability to operate, oversee, and monitor the program. Among other things, the system does not collect important data and has limited reporting and workflow management capabilities. VA plans to modify or replace the system, but has not directly tied this effort into its long-term strategic planning efforts to ensure that the new system meets the verification program's long-term information needs.

Expanding VA's verification program to support the government-wide contracting program for service-disabled, veteran-owned small businesses would require VA to improve its verification process and address a number of operational and policy issues. GAO estimated that between about 3,600 and 16,400 currently self-certified firms could seek verification under an expanded program, but VA has experienced ongoing challenges verifying the volume of firms currently participating in the program. GAO's prior and current work indicates that VA would need to further reduce its program's vulnerability to fraud and abuse, demonstrate whether recent operational changes have improved performance, have in place effective methods for educating applicants, and address the limitations of the program's data system in order to expand successfully. Also, VA has begun a process to revise the verification program's regulations, partly in response to concerns about VA's eligibility standards being too stringent. However, any changes to VA's verification requirements could create or widen differences between the various government-wide small business contracting programs' requirements and VA's, a consideration that would likely be of even greater importance if VA's verification program were expanded. Addressing these issues for its own program—or ultimately for a government-wide program—requires weighing tradeoffs between reducing the burden of verification on eligible firms and providing reasonable assurance that contracting preferences reach their intended beneficiaries.

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Figures

Abbreviations

CCR	Central Contractor Registration database
CVE	Center for Veterans Enterprise
FPDS-NG	Federal Procurement Data System-Next Generation
FTE	full-time equivalent
GPRA	Government Performance and Results Act of 1993
GPRAMA	GPRA Modernization Act of 2010
HUBZone	historically underutilized business zone
IT	information technology
OIG	Office of Inspector General
OI&T	Office of Information and Technology
OSDBU	Office of Small and Disadvantaged Business Utilization
SAM	System for Award Management
SBA	Small Business Administration
SDVOSB	service-disabled veteran-owned small business
SOP	Standard Operating Procedures
VA	Department of Veterans Affairs
VCMS	Verification Case Management System
VIP	Vendor Information Pages
VOSB	veteran-owned small business

United States Government Accountability Office
Washington, DC 20548

January 14, 2013

Congressional Requesters

The Department of Veterans Affairs (VA) has dramatically increased its contracting with small businesses owned by veterans, including service-disabled veterans, since 2006—from $616 million in obligations in fiscal year 2006 to $3.6 billion in fiscal year 2011. VA's success in contracting with veteran-owned small businesses (VOSB), including service-disabled veteran-owned small businesses (SDVOSB), stems from its Veterans First Contracting program, established in response to the Veterans Benefits, Health Care, and Information Technology Act of 2006 (2006 Act).[1] The 2006 Act requires VA to give preference in its small business contracting to SDVOSBs and VOSBs. It also gives the agency unique authority to make noncompetitive (sole-source) awards to these firms and to restrict competition for awards to them (set-asides). Along with establishing VA's contracting preferences, the 2006 Act makes VA responsible for maintaining a database of SDVOSBs and other VOSBs. The act requires VA to verify that all firms entered in the database are actually owned and controlled by one or more veterans and to confirm the status of any owner who indicates a service-connected disability.

Sustaining its high levels of contracting with SDVOSBs and VOSBs and ensuring the integrity of the Veterans First program requires VA to verify a pool of firms eligible to receive contracts and to correctly disqualify ineligible firms. Yet since VA launched its verification program in 2008, we and VA's Office of Inspector General (OIG) have reported on weaknesses, such as in VA's efforts to define an organizational structure to manage the program, establish and monitor verification operations, and

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[1]Pub. L. No. 109-461, § 502, 120 Stat. 3403, 3431 - 3435 (codified as amended at 38 U.S.C. § 8127).

GAO-13-95 VA Verification Program

institute effective controls to prevent and detect fraud by ineligible firms.[2] At the same time, some veteran small business owners and their advocates have complained that the verification process has been slow and burdensome and have questioned VA's rationale for denying some firms' verification applications.

The government-wide SDVOSB contracting program, which is administered by the Small Business Administration (SBA), authorizes other federal agencies to award set-aside or sole-source contracts to firms that self-certify as SDVOSBs.[3] As such, the program risks awarding contracts to firms that are ineligible or deliberately misrepresenting their SDVOSB status. We and the Department of Defense Inspector General have identified several instances in which agencies awarded contracts under the government-wide SDVOSB program to ineligible firms.[4]

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[2]See, for example: GAO, *Service-Disabled Veteran-Owned Small Business Program: Additional Improvements to Fraud Prevention Controls Are Needed,* GAO-12-152R (Washington, D.C.: Oct. 26, 2011); VA Office of Inspector General, *Department of Veterans Affairs: Audit of Veteran-Owned and Service-Disabled Veteran-Owned Small Business Programs,* 10-02436-234 (Washington, D.C.: July 25, 2011); *Department of Veterans Affairs: Agency Has Exceeded Contracting Goals for Veteran-Owned Small Businesses, but It Faces Challenges with Its Verification Program,* GAO-10-458 (Washington, D.C.: May 28, 2010); and *Service-Disabled Veteran-Owned Small Business Program: Case Studies Show Fraud and Abuse Allowed Ineligible Firms to Obtain Millions of Dollars in Contracts,* GAO-10-306T (Washington, D.C.: Dec. 16, 2009).

[3]The Veterans Benefits Act of 2003 authorized agencies to set contracts aside and make sole-source awards of up to $3 million (since adjusted for inflation to $3.5 million) and $5 million for manufacturing (since adjusted for inflation to $6 million) for SDVOSBs (but not other VOSBs). However, an agency can make a sole-source award to an SDVOSB only if the contracting officer expects just one SDVOSB to submit a reasonable offer. Pub. L. No. 108-183, § 308, 117 Stat. 2651, 2662 (codified at 15 U.S.C. § 657f). By contrast, VA's authorities under the 2006 Act apply to SDVOSBs and VOSBs, and VA is required to set aside contracts for SDVOSBs or other VOSBs (unless a sole-source award is used) if the contracting officer expects two or more such firms to submit offers and the award can be made at a fair and reasonable price that offers the best value to the United States. 38 U.S.C. § 8127(d). VA may make sole-source awards of up to $5 million, without a determination that only one SDVOSB or VOSB is available. 38 U.S.C. § 8127(c).

[4]See for example, GAO, *Service-Disabled Veteran-Owned Small Business Program: Vulnerability to Fraud and Abuse Remains,* GAO-12-697 (Washington, D.C.: Aug. 1, 2012); Department of Defense Inspector General, *Inadequate Controls Over the DoD Service-Disabled Veteran-Owned Small Business Set-Aside Program Allow Ineligible Contractors to Receive Contracts,* 2012-059 (Feb. 29, 2012); and GAO, *Service-Disabled Veteran-Owned Small Business Program: Case Studies Show Fraud and Abuse Allowed Ineligible Firms to Obtain Millions of Dollars in Contracts,* GAO-10-108 (Washington, D.C.: Oct. 23, 2009).

Accordingly, we have previously suggested that a government-wide SDVOSB verification program should be considered.[5]

We were asked to review VA's verification program and assess the steps that would be necessary to implement it government-wide. Because VA was introducing significant changes to its procedures and operations at the time of our study, we determined that evaluating VA's compliance with its past procedures would be of limited value and that testing the effectiveness of verification procedures that were still evolving would be premature. We focused instead on issues related to planning for and designing the verification program and on changes in its management and operations. Accordingly, in this report, we (1) describe and assess the progress that VA has made in establishing a program to verify the eligibility of SDVOSBs and VOSBs on a timely and consistent basis, and (2) describe the key operational and policy issues that VA would have to address should its verification program be implemented government-wide.

To describe and assess the progress VA has made in establishing a program to allow it to verify the eligibility of SDVOSBs and VOSBs on a timely and consistent basis, we reviewed relevant statutes, regulations, and procedures for the verification program, as well as planning and organizational documents. We compared the strategic planning document that the Office of Small and Disadvantaged Business Utilization (OSDBU) compiled in 2012 in response to our study to six leading practices that we had previously identified as being relevant to agencies' initial strategic planning efforts.[6] We also interviewed VA officials and representatives from three veteran service organizations and a technical assistance association that were participating in an outreach program VA had launched to assist applicant firms. To describe the key operational and policy issues that VA would need to address should its verification program be implemented government-wide, we developed rough order of magnitude estimates of how many more SDVOSBs—beyond those that VA had already verified or was in the process of verifying as of September 30, 2012—might seek verification if it were required

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[5]GAO-10-108.

[6]Because VA prepared the initial strategic planning document as we were completing our draft report, we did not conduct a comprehensive review of the strategic plan, the supporting documents that VA provided, or the process that VA undertook to develop these documents.

government-wide. Specifically, our estimation method relied on the number of SDVOSBs listed in the Central Contractor Registration (CCR) database that had not been verified by VA and were not in the process of being verified. Next, we determined whether or not these self-certified SDVOSBs received contracts from agencies other than VA in fiscal years 2010 or 2011 using the Federal Procurement Data System-Next Generation (FPDS-NG). These estimates do not take into account the number of firms that would seek verification under VA's existing program regardless of whether a government-wide program were adopted nor the number that actually would be motivated to seek verification if it were adopted. We assessed these data by interviewing VA officials knowledgeable about the VA data, reviewing documentation related to all of the data systems, and checking the data for illogical values or obvious errors and found them to be sufficiently reliable for the purpose of illustrating the potential scale of a government-wide verification program. We also reviewed our prior work on the verification program and that of the VA OIG. Further, because of SBA's role administering the government-wide SDVOSB program, we reviewed SBA documents and interviewed SBA staff for their views on a potential government-wide verification program. However, SBA staff said that it would be inappropriate for them to comment on VA's or SBA's potential roles or other considerations in implementing a potential program. Appendix I offers a fuller description of our objectives, scope, and methodology.

We conducted this performance audit from February 2012 to January 2013 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.

Background

The 2006 Act requires VA to establish annual contracting goals for SDVOSBs and other nonservice-disabled VOSBs; the goal for SDVOSBs must at least match the government-wide SDVOSB contracting goal of 3 percent of federal contract dollars.[7] VA set its goals at 3 percent for SDVOSBs and 7 percent for all VOSBs (SDVOSBs and other VOSBs) for fiscal years 2006 and 2007, and subsequently has set and achieved increasing contracting goals for VOSBs and SDVOSBs, as shown in figure 1.[8] VA's total contracting awards to VOSBs increased from $616 million (including $356 million to SDVOSBs) in fiscal year 2006 to $3.6 billion (including $3.2 billion to SDVOSBs) in fiscal year 2011.

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[7]Pub. L. No. 109-461, § 502 (2006). The Small Business Reauthorization Act of 1997, Pub. L. No. 105-135 § 603 (1997), sets a government-wide goal for small business participation of not less than 23 percent of the total value of all prime contract awards—contracts that are awarded directly by an agency—for each fiscal year. This act also sets goals for participation by specific types of small businesses. The 3 percent goal for SDVOSBs was included in the Veterans Entrepreneurship and Small Business Development Act of 1999, Pub. L. No. 106-50 (1999). There is no government-wide contracting goal for VOSBs.

[8]In practice, VA sets a goal for SDVOSBs and a goal for all VOSBs that is inclusive of its goal for SDVOSBs as well as for nonservice-disabled VOSBs.

Figure 1: VA's Percentage of Eligible Contract Dollars Awarded to Veteran-Owned Small Businesses (VOSB) and Service-Disabled Veteran-Owned Small Businesses (SDVOSB), Fiscal Years 2006 through 2011

VOSB (including SDVOSB)

Percentage of eligible contract dollars[a]

Fiscal year	Actual	Goal
2006	6.2%	~7
2007	10.4%	~7
2008	14.9%	~10
2009	20.0%	~10
2010	23.1%	~12
2011	20.5%	~12

SDVOSB

Percentage of eligible contract dollars[a]

Fiscal year	Actual	Goal
2006	3.6%	~3
2007	7.1%	~3
2008	11.8%	~7
2009	17.0%	~7
2010	20.0%	~10
2011	18.2%	~10
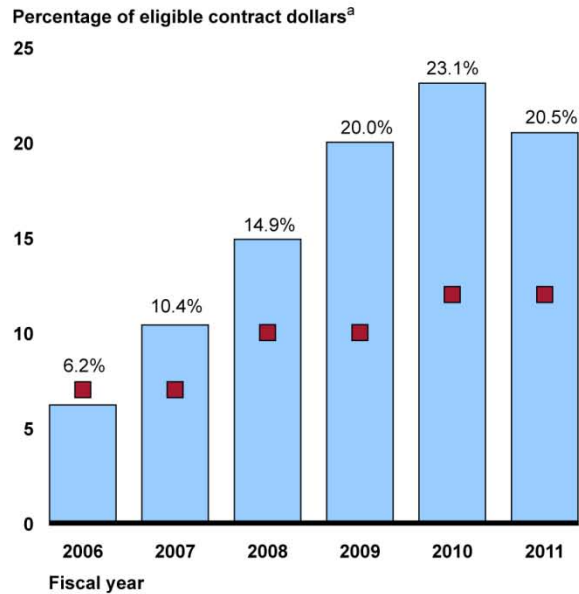
Legend: ☐ Actual   ■ Goal
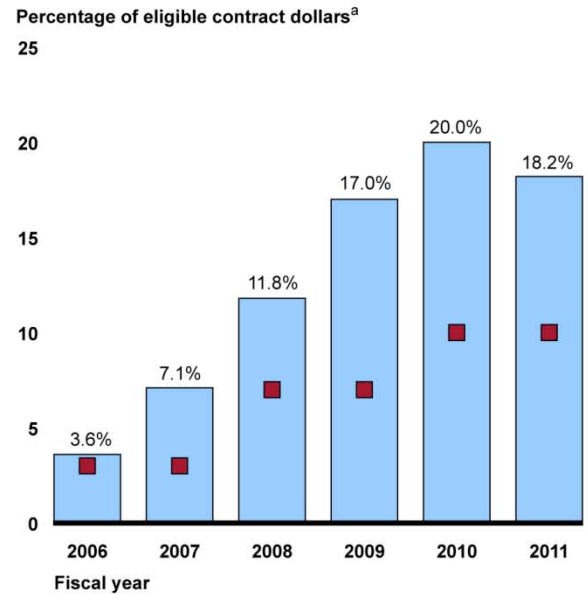
Source: GAO analysis of Federal Procurement Data System-Next Generation Small Business Goaling Reports.

Notes: The goals and actual percentages in this figure are based on contracts awarded to self-certified and VA-verified VOSBs and SDVOSBs registered in the Central Contractor Registration database, not just VA-verified VOSBs and SDVOSBs.

[a]Eligible contract dollars are the total value of all prime contract awards made in a fiscal year minus any awards that are covered by exclusions. Among other things, the eligible dollars exclude contracts performed overseas, acquisitions on behalf of foreign governments, building leases, electric utilities, prison industry contracts, and contracts awarded to designated nonprofit agencies that employ blind or severely disabled people.

VA's OSDBU has overall responsibility for the SDVOSB/VOSB verification program.[9] Within OSDBU, the Center for Veterans Enterprise (CVE), maintains a database of eligible SDVOSBs and VOSBs and is

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[9]VA's OSDBU develops department-wide policies, programs, and practices related to small businesses, monitors VA's implementation and execution of its small business contracting goals program, and provides outreach and liaison support to businesses (small and large) and other members of the public and private sectors concerning small business acquisition issues.

responsible for verification operations, such as processing applications.[10] To implement the requirements of the 2006 Act, VA began verifying businesses in May 2008 under interim final rules, which the agency did not finalize until February 2010.[11] (For a timeline of major events affecting the verification program, see fig. 2.) To be eligible for verification under VA's rules

- the small business concern must be unconditionally owned and controlled by one or more eligible parties (veterans, service-disabled veterans, or surviving spouses);

- the owners of the small business must have good character (any small business owner or concern that has been debarred or suspended is ineligible);

- the applicant cannot knowingly make false statements in the application process;

- the firm and its eligible owners must not have significant financial obligations owed to the federal government; and

- the firm must not have been found ineligible due to an SBA protest decision.[12]

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[10]Other staff and offices within the OSDBU and VA, such as the Office of Small Business Utilization and VA's Office of General Counsel, also support the verification program.

[11]The final rule for the verification program, with changes, became effective February 8, 2010. 75 Fed. Reg. 6098 (Feb. 8, 2010). VA amended the final rule in January 2011. 76 Fed. Reg. 3017 (Jan. 19, 2011).

[12]38 C.F.R §74.2. VA defines ownership as a firm having at least 51 percent unconditional and direct ownership by one or more eligible parties. Control is defined as both the day-to-day management and long-term decision-making authority for the firm.

Figure 2: Major Events Affecting VA's Verification Program, 2006 through June 2012
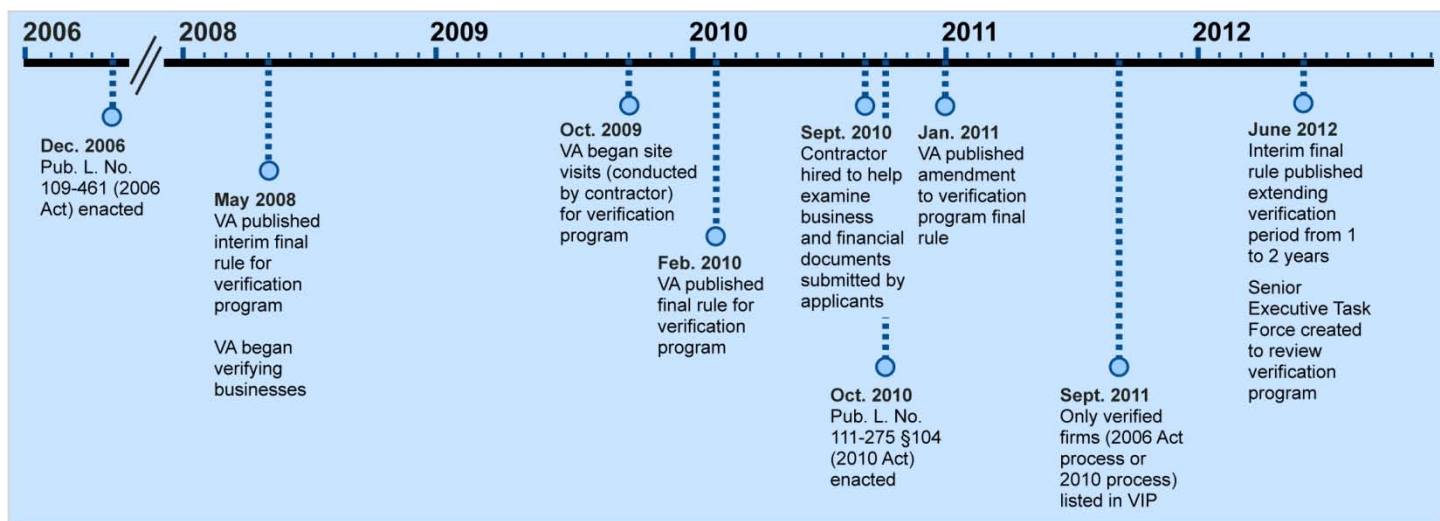
Source: GAO analysis.

VA launched its verification process under the 2006 Act in 2008 and shifted to a more robust process in 2010. VA's verification process under the 2006 Act (2006 process) initially consisted of (1) checking VA databases to confirm veteran status and, if applicable, service-disability status; and (2) reviewing publicly available, primarily self-reported information about control and ownership for all businesses that applied for verification. Beginning in September 2008, VA also adopted a risk-based approach to conducting site visits or other means, such as additional document reviews and telephone interviews, to further investigate selected high-risk businesses. VA adopted a more thorough verification process in 2010 (2010 process), which included reviewing and analyzing a standardized set of documents that each applicant is required to submit. VA refined the 2010 process over time so that, as of October 2012, the verification process consisted of four phases—initiation, examination, evaluation, and determination. Denied applicant firms are able to request a reconsideration of the denial decision.

- Initiation: CVE employees are to confirm that applicants meet minimum requirements for the program by, among other things, verifying the owners' veteran and service-disability status and determining that they have submitted all of the required documents or

adequate explanations for missing documents.[13] Employees are also to check the Excluded Parties List System to ensure that the applicant business and all owners are not on the list.

- Examination: Contractors are to review completed applications to determine whether firms meet the eligibility requirements and make an initial recommendation for approval, denial, or additional review (i.e., a site visit).

- Evaluation: Contractors and staff are to review the initial recommendations to ensure that the screening has met quality standards and that firms have received an appropriate recommendation. They may decide as well that a site visit is necessary. Contractors are to conduct site visits if they are recommended, and CVE employees are to recommend approval or denial.

- Determination: CVE supervisors are to review staff recommendations and issue eligibility decisions. A determination letter is to be emailed to the applicant, and approved companies appear as verified in the Vendor Information Pages (VIP) database.

- Request for Reconsideration: Through an optional Request for Reconsideration process, denied applicants can remedy the issue(s) that caused their applications to be initially denied. Based on a review by staff from VA's Office of General Counsel, VA may approve the application, deny it on the same grounds as the original decision, or deny it on other grounds. If VA denies a request for reconsideration solely on issues not raised in the initial denial, the applicant may ask for reconsideration as if it were an initial denial. Denied applicants can also request a legal review if they believe their application was denied in error.

VA's database of SDVOSBs and VOSBs previously listed unverified and verified firms, but currently is required to list only verified firms, as a result of the Veterans Small Business Verification Act (2010 Act), part of the Veterans' Benefits Act of 2010.[14] After the verification program began in 2008, VA modified its VIP database of self-certified SDVOSBs and

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[13]Until May 2012, the determination of a complete application was part of the Examination phase.

[14]Pub. L. No. 111-275 § 104, 124 Stat. 2864, 2867-2868 (amending 38 U.S.C. § 8127).

VOSBs to receive verification applications and publicly display names of verified firms.[15] Once VA approved a business, the business name appeared with a verified logo in VIP, but the database continued to display self-certified firms as well. The 2010 Act requires that no new applicant appear in the VIP database unless it has been verified by VA as owned and controlled by a veteran or service-disabled veteran. The 2010 Act also required VA, within 60 days of enactment, to notify all unverified (self-certified) firms in VIP about the verification requirement and also required firms to apply for verification within 90 days or be removed from the database. VA officials reported that by September 2011, the agency had removed from the VIP database all firms that had self-certified so that the database would include only verified firms. As of October 2012, the database included both firms verified under the 2006 Act process and the 2010 process.

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[15]VA first launched VIP in 2003 as a searchable database of self-certified SDVOSBs and VOSBs, available to businesses, contracting officers, and the public through a web-based portal known as VetBiz. To carry out the verification program, VA modified the database to allow firms to electronically submit a verification application form (VA Form 0877) through VIP.

VA Has Made Changes to Improve Its Verification Program, but Continues to Face Challenges in Its Strategic Planning Efforts and Information Technology Infrastructure

VA has made significant changes to its verification processes in an effort to improve its operations and address program weaknesses, but continues to face challenges in establishing a stable and efficient program to verify firms on a timely and consistent basis. Since December 2011, VA has instituted a number of significant operational changes, including revising standard operating procedures and enhancing quality assurance protocols.[16] However, it has not had a comprehensive, long-term strategic plan for the verification program and has consistently prioritized addressing immediate operational challenges, contributing to programmatic inefficiencies. In response to our observations, VA's OSDBU initiated action in late October 2012 to compile a strategic planning document that encompasses the verification program. OSDBU appears to have at least partially applied key leading strategic planning practices in its initial planning effort. But the plan lacked performance measures to assess whether the desired outcomes are being achieved and had a shorter-term focus than typically associated with a strategic plan. Furthermore, VA had not shared the plan with key stakeholders, such as veteran support organizations and business associations or congressional staff. In addition, the verification program's information technology (IT) system has shortcomings that have hindered VA's ability to operate, oversee, and monitor the program. VA is planning to modify or replace the system, but has not directly tied this effort into its long-term strategic planning efforts to ensure that the new system meets the verification program's long-term information needs.

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[16]VA hired a new CVE director in December 2011. In addition, nearly all of CVE's senior staff members were hired in 2012 because of turnover and the creation of new positions. Rather than expecting these staff to provide detailed information about changes that occurred before their tenures, we focused on changes that CVE instituted after December 2011.

VA Has Adopted Changes to Improve Verification Operations and Address Some Identified Weaknesses and Concerns

As of September 30, 2012, the VIP database listed 6,257 firms that had been verified as VOSBs or SDVOSBs. Of these, VA reported that 1,733 were verified under the initial 2006 Act process and 4,524 under the more rigorous 2010 process. VA's database also listed a substantial number of pending cases at that time: 691 new applications for verification, 131 firms seeking reverification to remain in VIP, and 165 requests for reconsideration from firms that were denied verification. [17] See appendix II for additional data on the verification program as of September 30, 2012.

Despite VA's adoption of a more robust verification process in 2010 with stronger fraud prevention elements, we previously reported that the verification program had some remaining vulnerabilities to fraud and abuse.[18] In our August 2012 report, we found that VA had made progress but had not fully implemented seven of our recommendations made in October 2011 related to vulnerabilities in the verification process. For example, it had not provided regular fraud awareness training to CVE and VA contracting personnel or developed procedures to assess verified firms' compliance with program rules after verification. Such procedures could include unannounced site visits to contract performance locations, interviews with contracting officials, and risk-based periodic reviews of verified firms receiving contracts.[19] As of January 4, 2013, we were reviewing documentation provided by VA in December 2012 to determine if VA's actions taken to address some of our prior recommendations are sufficient to consider them implemented. We will also continue to review documentation provided by VA in the future to assess whether the remaining recommendations have been implemented. In addition, we noted that as of mid-July 2012 some 2,355 firms in the VIP database had been verified only under the less rigorous 2006 Act process. We found that the presence of firms that had been subject only to the less-stringent

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[17]According to VA, as of September 30, 2012, VA's publicly available VIP database listed only those firms that were either verified or in the reverification process, not those with pending initial applications or requests for reconsideration.

[18]GAO-12-697.

[19]VA also had not implemented recommendations (1) related to the Debarment Committee's criteria, processes, and guidelines; (2) for removing SDVOSB contracts from ineligible firms; and (3) for advertising debarments and prosecutions of firms that misrepresented their eligibility. VA's Debarment Committee, which VA instituted in September 2010, debars or suspends companies that misrepresent their status in the application process or during the verification eligibility period, denying the applicant further contracting opportunities with the federal government.

process that VA previously used represented a continuing vulnerability. By September 30, 2012, VA had reverified or removed from the VIP database 622 of the firms that were originally verified under the 2006 Act process, but had yet to reverify the remaining 1,733 firms, according to VA's inventory of verified firms.[20] The inventory indicated that the 2-year verification period for 1,159 of these remaining firms expired on or before September 30, 2012, so they were not eligible to receive VA contracts after that date and were due to be removed from the database.[21] VA officials said that firms whose 2-year verification period had not yet expired would be removed from the database upon expiration if they had not been verified under the 2010 process. According to VA, fewer than 120 companies that were verified under the 2006 process remained in VIP as of December 1, 2012.

In interviews with us between April 2012 and June 2012, veterans' organizations cited applicant concerns about other aspects of the verification program, such as the rationale for determinations and the time it took VA to make determinations, as the following examples illustrate.[22]

- We observed several outreach sessions that VA conducted in May and June 2012 with veterans' organizations and an association of organizations that provided technical assistance with procurement. In these sessions and in our follow-up interviews with participants, the organizations stated that VA's guidance for applicants did not always adequately explain how VA interpreted some of the subjective eligibility standards in its regulations, such as the requirements that owners have good character. They also said that they and applicants

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[20]VA's database does not flag whether a firm was verified under the 2006 Act process or the 2010 process, but VA developed an inventory of verified firms, which it uses to manually track when firms were last verified and which process was used.

[21]In June 2012, VA adopted a class deviation to its acquisition regulation providing that, at the time of submission of an offer, previously verified SDVOSBs or VOSBs identified by CVE as currently undergoing the reverification process were eligible to be reverified on an expedited basis. Contracting officers could not make an award until the reverification was complete. The class deviation expired on September 30, 2012. According to VA officials, firms whose 2-year verification period had expired were removed from VIP, were no longer eligible for expedited processing, and could not receive contracts until they were verified again.

[22]We did not independently corroborate the applicant concerns that veterans' organizations cited in interviews with us, and CVE only recently started to informally track the customer service requests it receives.

sometimes found the rationale for denial to be unclear or inconsistent.[23]

- Representatives from two of the veteran service organizations that we interviewed also raised concerns about the length of time it could take to process an application. According to VA officials, it took on average more than 130 days after receiving a complete application to make a determination in July 2011. As of October 2012, it took approximately 85 days.[24]

With the hiring of a new CVE director in December 2011, CVE conducted a review of the verification process to identify ways to increase its efficiency and began adopting changes to the verification process to improve its operations and address program weaknesses and applicants' concerns.[25] For example, as a result of this review, CVE did the following:

- CVE revised its Standard Operating Procedures (SOP) to reflect current practices and help ensure greater consistency in its verification processes. These procedures describe the purpose, scope, statutory references, staff roles, and implementation steps.

- CVE instituted a more robust quality assurance process to ensure that staff adhered to the approved procedures. For example, CVE

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[23]According to VA, since the initial outreach sessions VA has begun including counselors from these organizations in training conducted for CVE evaluation and examination staff in an effort to ensure consistency in interpreting the program's regulations.

[24]VA's goals, set out in the verification program regulations, are to (1) advise an applicant within 30 days after receiving an initial verification application whether it is complete and, if not, what additional information or clarification is required and (2) make an initial determination within 60 days of receiving a complete application, if practicable. 38 C.F.R. §74.11. In addition, VA's goal is to decide a request for reconsideration within 60 days after receipt, if practicable. 38 C.F.R. §74.13. However, VA officials said that, in practice, the agency uses an interim goal of making a determination within 90 days of receiving a complete application because, according to the officials, the 60-day goal is not practicable at this time. In calculating whether it meets these goals, VA excludes any time spent waiting for additional information it asks firms to supply to complete the application or during the examination. Thus, even if VA meets its goals for processing applications, the actual time from submission to approval or denial may be much longer, depending on how quickly the firm responds to any requests for additional documentation.

[25]Because CVE implemented these changes during the course of our work, not enough time had passed for us to assess their effectiveness.

employees and contractors are now subject to both scheduled and spot audits and must resolve any major deficiencies within 10 days.

- CVE hired its first training officer and revised its training program with the goals of ensuring that CVE staff were properly trained and qualified to perform their duties, achieved high performance, and were responsive to changing business requirements, among other things. The training officer is responsible for coordinating training for staff (including contractors), including weekly training on the verification program and customer service, as well as monthly fraud education.

- CVE added specific methods of communicating with applicant firms, with the goal of ensuring that applicants receive an email from VA at least every 30 days with an update on the status of their application.

- CVE began using the initiation phase, rather than the examination phase, to determine whether an application was complete, so that any missing documentation or inadequate explanations can be addressed before the examination process begins.

- CVE began tracking staff productivity levels and more closely monitoring the quality of their work. For example, beginning in the spring of 2012, CVE started setting targets for the numbers of cases that individual staff members should review each day. Also, in September and October 2012, CVE's evaluation team reviewed the results of contractors' examinations to identify cases that had not been properly completed or in which the recommended finding should be overturned.[26] Contractor staff with the most rejected cases were recommended for additional training.

VA has also revised the organizational structure for the verification program, but VA officials said that human capital challenges remained. In general, CVE is structured so that a federal employee oversees a team of

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[26]According to a CVE report on this effort, out of 439 examinations reviewed, 46 (10 percent) were not properly completed (e.g., the evaluation team identified additional issues or the draft decision letter was not properly formatted) and 10 (2 percent) were overturned.

contractors.[27] VA uses a mix of federal employees and contractors to complete verifications because contractors have greater flexibility to adjust staffing levels in response to variations in the number of applications submitted, according to VA officials. Between December 2011 and October 2012, VA adopted changes to the verification program's organizational structure to make it more efficient, increase oversight of federal staff and contractors, and strengthen functions that did not previously have dedicated staff, such as training. VA officials (1) reorganized and increased the number of employees and contractors assigned to the verification process and (2) created several new teams including quality assurance, training, records management, and customer service. During this period, VA added about 3 full-time equivalent staff and 64 contractors to the verification program.[28] (See app. III for the verification program's organization charts as of December 2011 and October 2012.) However, VA officials said that the verification program faces ongoing human capital challenges. For example, 5 of the verification program's 27 full-time federal positions were vacant as of November 2012. As of early November 2012, CVE was developing a business case to justify the staff organization necessary to support verification operations, including revised federal employee labor categories and modifications to contractor support.

VA has also sought to improve outreach to applicants through additional online resources and a new Verification Counseling program. In November 2011, VA began posting on its website verification assistance briefs intended to clarify aspects of the program's rules. These briefs cover topics that VA officials have determined cause the majority of denials, such as full-time control and transfer restrictions.[29] In addition, VA launched a self-assessment tool in June 2012 to help applicants

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[27]In some instances CVE is almost entirely dependent upon contractor support to perform some aspects of the verification process. For example, of the 52 total staff involved with initiations and examinations, 48 are contractors. Similarly, 49 of the 51 staff in risk management/quality control who conduct the site visits are contractors.

[28]As of October 2012, the verification program had about 28 full-time equivalent government employees and 174 contractors. In addition, five staff from VA's Office of General Counsel were assigned to the verification program to review requests for reconsideration and provide legal review.

[29]Under program regulations, a veteran owner must have total unconditional control (full decision-making authority) over the applicant business and ownership must be direct and unconditional, meaning that the veteran owners must be able to transfer his or her ownership interest to anyone at any time, without restriction.

understand the rules, regulations, eligibility criteria, and review process for verification.[30] Recognizing that some applicants needed additional support, VA launched a Verification Counseling program in June 2012. According to VA, this program integrates the Verification Assistance Partner counselors (initially, selected veterans' support organizations and business associations and Procurement Technical Assistance Centers) into the regular training provided to CVE examination and evaluation staff. These counselors in turn provide counseling to firms interested in becoming verified.[31] The program is intended to increase understanding of the verification program's eligibility requirements so that ineligible firms would be less likely to apply and eligible firms would be more likely to submit the materials necessary for them to succeed in their initial applications.[32]

To mitigate an anticipated increase in its workflow over time, VA initiated two efforts in early 2012 to modify its approach to reverifying firms' eligibility. VA's verification regulations issued in May 2008 limited the term of the verification status of a firm to a 1-year time period. However, as growing numbers of firms verified under the 2010 process began to require reverification in early 2012, VA recognized that it would face a mounting workload over time if it reverified firms annually using its full

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[30]The tool also includes a set of frequently asked questions, the rationale for requested documents, and examples of common reasons for denial and ways to mitigate them, among other things. Department of Veterans Affairs, "Verification Self Assessment Tool," (Washington, D.C.: Department of Veterans Affairs, 2012), accessed December 5, 2012, https://www.research.net/s/Verification_Assessment_Tool.

[31]Program participants as of October 2012 included the Association of Procurement Technical Assistance Centers, the National Veteran Small Business Coalition, VETForce, VETS Group, and the American Legion. Congress created the Procurement Technical Assistance Program, which includes the Procurement Technical Assistance Centers, to help businesses seeking to compete successfully in federal, state, and local government contracting. The centers are funded through cooperative agreements between the Department of Defense and state/local entities.

[32]At the outset of the counseling program, OSDBU and CVE officials said that the decision to have independent organizations rather than CVE staff counsel firms through the verification process was intended to mitigate potential conflicts of interest that could arise if staff were responsible for verifying the eligibility of firms they had assisted. When CVE was initially formed in 2001, it helped veterans interested in forming or expanding their own small businesses, and it continued advocating for SDVOSBs and VOSBs when it first assumed responsibility for implementing VA's verification program. Over time, however, OSDBU eliminated CVE's advocacy responsibilities to mitigate potential conflicts of interest. By the time we began our work in February 2012, CVE's operations focused exclusively on the verification program.

examination procedures. As a result, VA began to develop procedures for a simplified reverification process, which it introduced in early June 2012.[33] VA also began the process of modifying the verification program regulations to extend the verification period from 1 year to 2 years and published an interim final rule to this effect in late June 2012.[34] As a result of the rule change, additional firms eligible for simplified reverification will not begin reaching the expiration of their verification period until February 2013.[35] In late October 2012, VA determined that a firm would be eligible for simplified reverification one time before again requiring full examination (i.e., once every 4 years).

Despite the steps that VA had taken since December 2011, the Secretary of Veterans Affairs acknowledged ongoing concerns about the program and announced the creation of a senior executive task force to review the verification program and determine whether it had sufficient resources and support. The task force, created in June 2012, was initially charged with reporting back within 60 days with suggested changes that would help streamline the verification process. In August 2012, the task force adopted a charter stating that its purpose was to review all aspects of the verification program, including processes, operating policies, management information systems, staffing, and resources. The task force presented its preliminary findings to the VA Chief of Staff in early November 2012. The review results and recommendations of the task force were expected to be provided to the Office of the Secretary for final approval during the second quarter of fiscal year 2013.

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[33]According to VA officials, under these procedures, certifying firms that had been verified under the 2010 Act process (but not the 2006 Act process) could be reverified after (1) certifying that there been no changes to the business since their full document examination, or (2) if there were changes, certifying those changes and submitting any changed document. CVE would examine only the changed documentation to determine its effect on eligibility. All firms reverified under the simplified process would be subject to random or risk-based audits, and any firm found not to be in compliance after they certified that there were no changes would be considered to have misrepresented its status and subject to potential debarment or suspension. A firm could go through the simplified process once before it had to go through a full verification.

[34]77 Fed. Reg. 38181 (June 27, 2012). VA applied this extension retroactively to previously verified firms.

[35]According to VA officials, VA processed 194 applications for simplified reverification that were submitted before the interim final rule extended the verification period to 2 years. VA notifies firms of the need to be reverified 120 days before their verification period expires, so VA officials said that they expected to begin processing new applications for simplified reverification as early as December 2012.

OSDBU's Initial Strategic Planning Effort Applied Some Best Practices, but Stakeholder Involvement, Performance Metrics, and Long-term Focus Could Be Improved

During the period covered by our review, VA had not created a formal strategic plan for the verification program. However, in response to our inquiries, OSDBU compiled a strategic planning document in late October 2012 that covered the verification program. This plan was based on a series of planning documents that were initially developed between June and December 2011 for internal discussions and conversations with congressional staff. This initial strategic planning effort appears to have at least partially followed key leading federal strategic planning practices, but additional progress is needed to improve the usefulness of the plan. We have previously reported that agency-wide strategic planning practices required under the Government Performance and Results Act of 1993 (GPRA)—which was amended by the GPRA Modernization Act of 2010 (GPRAMA)[36]—can also serve as leading practices for planning at lower levels within federal agencies, such as individual programs or initiatives.[37] We have also previously identified six leading practices in federal strategic planning that are most relevant to initial strategic planning efforts: (1) defining the mission and goal; (2) defining strategies that address management challenges and identifying resources needed to achieve goals; (3) ensuring leadership involvement and accountability; (4) involving stakeholders; (5) coordinating with other federal agencies; and (6) developing and using performance measures.[38] For a description of each of these practices, see appendix I.

According to OSDBU and CVE officials, VA did not develop a formal strategic plan when it was initially developing the verification program because the primary concern at the time was to develop and implement initial verification procedures and program regulations. Once the program was launched in 2008, CVE continued to make its immediate operational challenges a higher priority than long-range strategic planning. Although VA's focus on getting the verification program running and reacting to

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[36]Pub. L. No. 103-62, 107 Stat. 285 (1993); Pub. L. No. 111-352, 124 Stat. 3866 (2011). GPRAMA provides federal agencies with an approach to focusing on results and improving government performance by, among other things, developing strategic plans. Examples of GPRAMA plan components include a mission statement; general goals and objectives, including outcome-oriented goals; and a description of how the goals and objectives are to be achieved, including the processes and resources required.

[37]For example, see GAO, *Environmental Justice: EPA Needs to Take Additional Actions to Help Ensure Effective Implementation,* GAO-12-77 (Washington, D.C.: Oct. 6, 2011).

[38]GAO-12-77. These practices were selected from among GPRA, Office of Management and Budget guidance, and prior GAO work.

legislative change may have seemed reasonable at the time, its failure to develop a comprehensive strategic plan contributed to programmatic inefficiencies. For example, as discussed in greater detail later, VA developed the data system for the verification program without fully considering its long-term information needs. Resulting shortcomings of the system have required CVE to develop inefficient workarounds to operate and oversee the program.

After the new OSDBU executive director started in April 2011, OSDBU began developing planning documents for 2011 through 2012 that covered OSDBU and its three mission areas—the verification program, strategic outreach, and acquisition support.[39] After we asked VA about the lack of a strategic plan for the verification program, OSDBU officials compiled the separate OSDBU planning documents into a single document and updated them to include some milestones, tasks, and metrics for 2013. VA officials said that they considered this document to be the strategic plan for OSDBU and the foundation of its efforts for fiscal year 2013, and found that the compiled document could serve as a more comprehensive basis for future planning.

Based on our review of the strategic plan and the six documents OSDBU drew upon to compile it, as well as OSDBU officials' description of the process they undertook to develop these documents, OSDBU appears to have at least partially applied the six leading federal strategic planning practices that we previously identified, as described below.[40]

- *Defining the mission and goals.* The plan provides OSDBU's primary mission and alludes to the components of the mission for the verification program (verifying eligible firms and preventing ineligible firms from being verified), but does not explicitly describe the

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[39]Strategic outreach includes activities such as a National Veteran Small Business Conference, vendor outreach events, and providing federal contracting information and assistance to SDVOSBs. Acquisition support includes activities such as supporting VA's small business goal achievement, maintaining VA's Forecast of Contracting Opportunities, and training VA acquisition staff on small business-related rules and processes.

[40]Because VA prepared the initial strategic planning document as we were completing our draft report, we did not conduct a comprehensive review of the strategic plan, the supporting documents that VA provided, or the process that VA undertook to develop these documents.

verification program's mission.[41] The plan identifies broad, long-term goals for OSDBU, which according to OSDBU officials were initially intended to be achieved by 2012. These goals include achieving a sustainable organizational structure to support its mission and ensuring compliance with all statutory requirements. Long-term objectives for the verification program include, among other things, meeting all regulatory requirements, providing quality customer experience, certifying CVE's processes and staff, and preventing ineligible firms from being verified through rigorous quality control. As we have previously reported, goals in strategic plans should ideally explain what results are expected and when to expect those results. Thus, such goals are an outgrowth of the mission and are often results-oriented.[42] However, based on the broad wording of some of the goals and objectives for the verification program, assessing whether they have been accomplished and the results achieved would be difficult.

- *Defining strategies that address management challenges and identify resources needed to achieve goals.* The planning documents identify management challenges that affect the verification program, such as human capital and technology. For example, the planning documents note that verification staff need training on the verification requirements. While the compiled strategic plan does not identify the specific resources necessary to overcome these challenges, it lays out strategies with more specific tasks to address them, such as developing and conducting staff training for verification.

- *Ensuring leadership involvement and accountability.* According to OSDBU officials, more senior VA officials were aware of OSDBU's long-term goals, and OSDBU regularly briefed VA's Chief of Staff and other senior VA officials on its plans and progress. However, while OSDBU compiled the strategic plan itself in late October 2012, it had

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[41]OSDBU's primary mission, as articulated in VA's agency-wide strategic plan for 2011-2015, is to "expand small business participation in federal procurement opportunities through aggressive OSDBU outreach, enhanced verification, analysis, outreach, training, program modernization, and IT enhancements." The draft interim report of the senior executive task force reviewing the verification program states that the mission of the verification program is to "implement [the verification program regulation], enabling eligible veteran owned small businesses (VOSB) to gain access to the VA Veterans First program while preventing ineligible firms from doing so."

[42]GAO, *Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review,* GAO/GGD-10.1.16 (Washington, D.C.: May 1997).

not yet been reviewed or approved outside of OSDBU as of early November 2012, and we could not assess whether or how senior VA leaders would be involved in monitoring its implementation.[43] To help hold managers accountable for elements in the plan, OSDBU officials said that the Executive Director met regularly with staff to discuss their plans and performance. For example, the officials said that OSDBU and CVE officials hold weekly meetings to discuss the status of the verification program and applications reviewed.

- *Involving stakeholders.* OSDBU officials said that they had briefed stakeholders, including congressional staff and committees, while developing the initial planning documents for 2011 and 2012 that formed the basis for OSDBU's strategic plan. The officials said that OSDBU's planning was informed by extensive feedback on the verification program from the VA acquisition community, congressional staff and committees, veteran support organizations and business associations, and veteran-oriented media, as well as through direct contact with applicants. However, since the strategic plan was only recently compiled in response to our review, VA had not shared the plan with key stakeholders, thus missing an opportunity to promote transparency of the verification program's plans and priorities and to facilitate continued stakeholder involvement.

- *Coordinating with other federal agencies.* OSDBU officials said that they met with officials from other agencies' OSDBUs prior to the development of the planning documents to discuss the verification program, in particular the program's potential government-wide expansion.[44] An official said that they did not coordinate with SBA— which administers the government-wide SDVOSB contracting program and certifies the eligibility of firms for other government-wide contracting programs—when they were developing the planning documents.[45]

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[43]According to VA officials, the agency is developing a schedule to brief VA senior leaders and other key stakeholders when the plan is completed.

[44]All federal agencies with procurement authority are required by law to have an OSDBU that works specifically on contracting issues for these businesses. 15 U.S.C. § 644(k).

[45]VA and SBA officials have met to discuss the alignment of regulations and interpretations.

- *Developing and using performance measures.* The strategic plan that OSDBU compiled contained "metrics" related to the verification program that consisted of a combination of output, efficiency, and customer service measures but lacked quality and outcome measures aligned with long-term goals.[46] Over 80 percent of the metrics in the plan (31 of 38 items) related to the implementation of a specific task rather than whether the desired outcomes are being achieved.[47] For example, the verification-related metrics for 2013 include "provid[ing] improved training of CVE staff" and "review[ing] fraud training program with OIG," in support of a strategy to improve the capability of CVE staff to perform accurate and timely evaluation of applications and detect misrepresentation and fraud. But the plan does not identify measures that could be used to assess the impact of the identified long-term goals and strategies, such as a reduction in the number of examinations that are not properly completed. As previously discussed, CVE has begun tracking staff productivity levels and more closely monitoring the quality of their work, but these measures are not included in the strategic plan.[48] Recognizing some of the

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[46]We have previously defined various types of measures as: performance measures that tell us how many things we produce or services we provide (output measures); performance measures that tell us if we are operating efficiently (efficiency measures); performance measures that tell us whether or not we are satisfying our customers (customer service measures); performance measures that tell us about the quality of the products or services we provide (quality measures); and performance measures that would demonstrate to someone outside of our agency whether or not we are achieving our intended results (outcome measures). See GAO, *Results-Oriented Government: GPRA has Established a Solid Foundation for Achieving Greater Results,* GAO-04-38 (Washington, D.C.: Mar. 10, 2004).

[47]We have previously reported that performance measures should demonstrate results, provide useful information for decision making, and be aligned with an agency's goals and mission. See GAO, *Tax Administration: IRS Needs to Further Refine Its Tax Filing Season Performance Measures,* GAO-03-143 (Washington, D.C.: Nov. 22, 2002). In addition to measures contained in the OSDBU Strategic Plan, the VA strategic plan identifies two formal evaluative metrics that relate to the verification program: the percent of initial verification applications in the VIP database that are processed and decided within 90 days of receipt, and the percent of renewal verification applications that are processed within 60 days.

[48]While the strategic plan does not identify all of these measures, VA staff track the status of individual applications, staff productivity levels, and some programwide statistics, such as the number of requests for reconsideration; applications approved, denied, withdrawn, or open; applications that exceed goals for processing times; and site visits conducted. VA officials told us, however, that data limitations prevented them from obtaining accurate measures of processing times directly from the data system and instead staff must use spreadsheets to manually track the processing time for each application to calculate these metrics.

challenges with its existing measures, VA has undertaken a recent initiative with a university to improve OSDBU's performance measures. OSDBU officials expected to incorporate these measures into future planning efforts.

Lastly, OSDBU's initial strategic planning effort was more short-range than long-range in focus. GPRAMA requires that agency-level strategic plans cover at least a 4-year period.[49] The planning documents that OSDBU developed in 2011 only covered 2011 through 2012 because they expected the program to have achieved its initial long-term goals within that time, according to OSDBU officials. In compiling the strategic plan to respond to our enquiries, OSDBU officials told us that they recognized the value of expanding the coverage of the plan to include strategies and metrics for activities to be completed in 2013. But the plan did not include strategies and metrics beyond 2013. The longer-term focus of a strategic plan is one of the key distinctions from a performance plan that focuses on annual goals and measures. Without a longer-term perspective, the current strategic plan serves as more of a short-term management plan rather than as a longer-term guide to help frame the needs and direction of the verification program.

Information Technology Limitations Have Hampered VA's Ability to Manage the Verification Program

The verification program's current data system lacks certain data fields and reporting and workflow management capabilities needed to provide key information for program management. We have previously reported that an agency must have relevant, reliable information to run and control its operations.[50] More specifically, we have noted that pertinent information should be identified, captured, and distributed to the right people in sufficient detail, in the right form, and at the appropriate time to enable them to carry out their duties and responsibilities efficiently and effectively.

Since the verification program began in 2008, VA has relied on data systems that it developed on an incremental, ad hoc basis in response to immediate needs, without an overarching plan or vision, and without centralized oversight by VA's Office of Information and Technology

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[49]Pub. L. No. 111-352 § 2 (codified at 5 U.S.C. 306(b)).

[50]GAO, *Internal Control Management and Evaluation Tool*, GAO-01-1008G (Washington, D.C.: August 2001).

(OI&T). As stated earlier, VA initially did not develop a strategic plan that might have provided a framework for envisioning the verification program's information needs from the outset. Rather, VA initially modified its existing VIP database to address only its immediate need to accept firms' application forms and identify verified firms. VA staff also created a separate database to track the results of checks that it used to verify that firms met its basic eligibility requirements, such as veteran and service-disability status.[51] When VA began requiring firms to submit a standardized set of documents under the 2010 process, these documents were collected in a variety of formats, and paper copies had to be manually uploaded to CVE secure servers, according to VA officials.[52] According to VA, in some cases documentation was shredded to protect confidential information without first being uploaded to the server. In response to these problems, VA hired a contractor to develop the Verification Case Management System (VCMS), which went online in 2011. VCMS was integrated with VIP to enable VA to better track and retrieve documents and manage the verification process. According to VA officials, the project was managed by the program office because VIP and VCMS were funded by VA's Supply Fund, and not through appropriated information technology funds, which are overseen by OI&T.[53]

The resulting VIP/VCMS system aids in performing some tasks. For example, VIP/VCMS allows applicants to upload documents directly into the web-based system, and applicants and VA to track applicants' broad phase of review (i.e., initiation, examination, or evaluation). VA staff and contractors can also use VIP/VCMS to send and maintain a record of emails to the applicant to, for example, request additional documentation, provide status updates, or send the determination letter. The system also allows VA officials to run some reports, such as the number of initial applications and requests for reconsideration that have been approved,

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[51]Under the 2006 Act process VA generally only collected information related to the ownership and veteran status of applicant firms; it did not systematically collect business documents from firms.

[52]When VA began accepting documents, applicants could submit their information through faxes, mail, and compact discs.

[53]CVE, and its IT resources, are funded through the Supply Fund, which is funded with nonappropriated dollars. The Supply Fund is a revolving fund that supports VA's mission by the operation and maintenance of a supply system, including procurement of supplies, equipment, personal services, and the repair and reclamation of used, spent, or excess personal property.

denied, withdrawn or completed by year as well as the open applications that have been in the system for more than 90 days.

However, VIP/VCMS has significant shortcomings that could have been avoided with better planning for and oversight of the system's development. Specific areas with remaining shortcomings include the following:

- *Data fields.* VA officials said that, because of the need to get a system in place quickly, the responsible staff at the time did not consider all of the data elements that would be useful for monitoring program trends and staff performance and did not plan for future phases that would add more data fields. For example, VCMS did not include data fields to track the reasons for denial (i.e., specific eligibility, ownership, or control issues); the basis for requests for reconsideration and their outcomes; and the incidence and reasons for applications being returned to a lower level of the process for rework or for a reversal of a contractor or staff member's recommendation to approve or deny an application. VCMS also lacks fields to facilitate monitoring the reasons for and results of customer service inquiries.

- *Reporting.* VCMS currently also allows only limited reporting, and users cannot always customize their search criteria to obtain data in the form they need to monitor the program. We noted in our August 2012 report that VCMS's limited reporting capabilities, and the lack of certain data within the system, resulted in inconsistent aggregate reporting and made tracking the inventory of firms difficult for VA.[54] In response, VA conducted a laborious process to develop a manual inventory of firms that have been verified under the 2006 and 2010 Act processes and the dates that those firms were verified, which VA staff could not obtain directly from VCMS.

- *Workflow management.* VCMS has the capability to track which broad phase of the verification process an application is in and to record which staff completed certain actions in the system, but it does not meet VA staff or contractors' needs for assigning and monitoring the progress of applications. As a result, the contractor that initially examines applications relies on a workflow management system outside of VCMS to assign and track applications as they move

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[54]GAO-12-697.

through the steps of the examination phase. Similarly, each of the team supervisors that we talked to has created spreadsheets to track the status of applications as their team reviews them. The reliance on these other systems is inefficient and increases the risk that data will not be completely or accurately recorded across systems.

In addition, VCMS experienced periodic outages following its initial launch in 2011 and after its most recent modification. According to VA officials, VCMS crashed almost immediately after its launch in May 2011 because it could not handle the volume of data that VA began receiving. The system was also off-line for a month in September 2011 following another modification. During these outages, firms that had a contract pending and needed to be verified in order to receive the contract could be manually processed on a case-by-case basis.[55] More recently, VCMS was unavailable from May 9 to June 6, 2012, during which time applicants could not submit new applications, and staff could not request additional documentation through the system. This outage was caused by a security problem that was identified in routine testing by OI&T as VA was preparing to launch a modification to the system.[56]

VA is in the process of planning to either modify or replace the current version of VCMS to address the identified shortcomings, but this planning effort has not been tied to broader long-term strategic planning for the verification program. VA officials have identified elements that the next iteration of VCMS should include. For example, the officials would like the program to automate some aspects of the background company research and generally make the verification process less burdensome on veterans. Following the program outage in May 2012, verification program officials began reaching out to OI&T for assistance in overseeing both the current system and a potential modification or replacement. These discussions received further emphasis through the previously discussed senior executive task force, which included representatives of OI&T. As a result of an expected recommendation by the task force, OI&T assigned staff in July 2012 to begin formally planning for either a modification or a replacement system, a process that OI&T will manage. VA is considering

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[55]While VCMS was not operating, CVE staff worked manually to process the backlog of applications that had been previously submitted.

[56]While OI&T did not manage the development of VCMS, VA officials said that the system has been subject to mandatory information security testing before the system and any modifications became operational.

short- and long-term information needs as it defines the business requirements for the system. But, as we have seen, the initial strategic plan that OSDBU developed in late October 2012 does not specify longer-term goals for the verification program or define program strategies and activities beyond 2013. Without tying the effort to modify or replace the verification program's data system to more comprehensive, long-term strategic planning, the resulting system risks again failing to meet the verification program's long-term needs and goals.

Expanding Its Verification Program Government-wide Would Require VA to Improve the Program and Address Policy Issues

Expanding VA's verification program to support the government-wide SDVOSB contracting program would require VA to increase the scale of its program to verify potentially thousands of additional firms. VA has faced ongoing challenges implementing its verification program, and it would need to continue to stabilize and improve its verification operations by addressing remaining vulnerabilities to fraud and abuse, demonstrating whether recent operational changes have resulted in improved performance and whether new methods for educating applicants are effective, and addressing data system limitations.[57] Also, as VA revises its verification program regulation, it is considering policy issues that would impact a government-wide verification program.

VA has not formally projected how many firms it might need to verify under a government-wide SDVOSB verification program, and a number of factors make such a projection difficult. For example, the scale of a program would depend on whether firms would be required to obtain verification to bid on contracts or only to receive contract awards, how likely firms that are already self-certified as SDVOSBs would be to seek verification if it were required, and how many new or existing SDVOSBs that have not yet self-certified might seek verification in the future.

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[57]In 2009, we suggested that Congress consider providing VA with the authority and resources necessary to expand its SDVOSB eligibility verification process to all contractors seeking to bid on SDVOSB contracts government-wide (see GAO-10-108). Such an action is supported by the fact that VA maintains the database identifying service-disabled veterans and is consistent with VA's mission of service to veterans. For purposes of this report, we were asked to consider steps necessary for VA to expand its verification program government-wide. Accordingly, we did not evaluate whether another agency, such as SBA, could or should assume responsibility for such a program. Also, we focused on the potential for a government-wide verification program that would apply only to SDVOSBs (not all VOSBs), because they are the subject of government-wide contracting goals and preferences and because a recent legislative proposal for a government-wide verification program would have applied only to SDVOSBs.

Nonetheless, we developed rough order of magnitude estimates of how many more SDVOSBs—beyond those that VA has already verified or was in the process of verifying as of September 30, 2012—might seek verification if it were required government-wide, as follows.[58]

- We estimated that about 3,600 self-certified SDVOSBs with recent federal contracts with agencies other than VA would be the most likely to seek verification in order to continue to seek or win federal contracts.[59]

- We also estimated that nearly 12,800 self-certified SDVOSBs without recent contract obligations might also apply for verification.[60] However, we could not determine how many of these firms had been actively seeking contracts or how likely they would be to do so in the

[58]Some of the firms included in our estimates might seek verification under VA's existing program regardless of whether a government-wide program were adopted, so our estimates are presented only as a snapshot based on the current scale of VA's program. In developing our estimates of the additional number of firms that VA might need to verify under a potential government-wide program, we excluded 4,519 verified SDVOSBs in the VIP database and 479 SDVOSBs with pending applications for initial verification or reverification or requests for reconsideration as of September 30, 2012. We did not exclude from our estimates firms that VA has already denied verification, because they generally would be eligible to reapply for verification after 6 months under VA's current regulations.

[59]The estimate of 3,600 firms is based on the number of self-certified SDVOSBs (i.e., registered in CCR but not yet under review or verified by VA as of September 30, 2012) that received contract obligations from agencies other than VA in fiscal years 2010 or 2011 (the last full fiscal year available), according to FPDS-NG. About 1,300 additional SDVOSBs received contract obligations from VA in fiscal years 2010 or 2011 but were not verified or under review as of September 30, 2012. (VA did not require firms to be verified prior to receiving a contract award until Jan. 1, 2012). If a government-wide program were adopted and these 1,300 firms had not yet been verified in order to continue to receive VA contracts, they might also seek verification in order to obtain other federal contracts.

[60]The estimate of 12,800 firms is based on the number of self-certified SDVOSBs (i.e., registered in CCR but not yet verified by VA as of Sept. 30, 2012) that did not receive contract obligations in fiscal years 2010 or 2011 (the last full fiscal year available), according to FPDS-NG.

future. As a result, predicting how many would actually be motivated to seek verification if it were required is difficult.[61]

- Beyond firms that have already registered as prospective federal contractors, thousands of existing or new SDVOSBs could eventually register and seek verification if it were required. We did not identify a current estimate of the number of SDVOSBs in the United States. However, an SBA analysis of data from the Census Bureau's 2007 Survey of Business Owners found that there were around 200,000 service-disabled veteran-owned businesses (of any size) at that time.[62]

Considering the additional operational challenges that VA would face in preparing to verify potentially thousands of additional firms, VA would need to continue to address existing program weaknesses to stabilize and improve its verification program. Our prior and current work indicates that several aspects of VA's current verification program, specified below, would have to be addressed before the program could be effectively implemented government-wide.

- *Internal controls and fraud prevention and detection.* In August 2012, we suggested that expanding the verification program government-wide should not be considered until VA demonstrates that it has reduced its own program's vulnerability to fraud and abuse.[63] We reported that VA had taken some positive action to enhance its fraud prevention efforts by establishing processes in response to 6 of 13 recommendations we issued in October 2011, including conducting unannounced site visits to high-risk firms and developing procedures for referring suspicious SDVOSB applications to the OIG. However, the remaining 7 prior recommendations, including removing contracts from ineligible firms and formalizing procedures to advertise

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[61]As discussed, we focused our analysis on a potential government-wide SDVOSB verification program. If a government-wide verification program also required other (nonservice-disabled) VOSBs to be verified, we estimated that an additional 12,500 other self-certified VOSBs with federal contract obligations in fiscal years 2010 or 2011 and 24,100 other self-certified VOSBs without contract obligations in those years might also apply for verification.

[62]U.S. Small Business Administration, Office of Advocacy, *Veteran-owned Businesses and their Owners—Data from the Census Bureau's Survey of Business Owners (*Washington, D.C.: March 2012). SBA reported that there were more than 2.1 million nonservice-disabled veteran-owned businesses (of any size) in 2007.

[63]GAO-12-697.

debarments and prosecutions of firms found to be misrepresenting their SDVOSB status, had not been implemented. As of January 4, 2013, we were reviewing documentation that VA had recently provided to determine whether VA's actions are sufficient to consider some of the recommendations implemented.

- *Operations.* A major expansion of the verification program would have a greater chance at success if its priorities and operations were more stable and if the recent changes that VA adopted were shown to have improved the program's performance. For example, the steps VA has taken to standardize its procedures and make them more efficient, improve its quality assurance process, and enhance training of CVE employees and contractors are promising. However, it is too soon for us to test the effectiveness of these evolving procedures, and it is not clear whether VA will adopt further significant changes as a result of the recommendations of the senior executive task force reviewing the verification program.

- *Applicant Education.* Because a government-wide program would potentially affect thousands of additional firms, VA would need to have in place effective methods for educating business owners about the program and for obtaining and responding to their feedback. VA officials suggested that the agency's recent efforts to clarify online guidance for applicants and to partner with organizations to better educate applicants about the verification requirements were intended to help firms understand the rationale for the required documentation and explain how VA interprets the documents submitted in making its determinations. The officials described plans for collecting the data they would need to evaluate these efforts, which included assessing whether denial rates differed for firms that used the online guidance or received assistance from a partner organization and those that did not.

- *Information technology.* As we noted earlier, the limitations of the verification program's information system (VIP/VCMS) have hampered VA's ability to effectively manage, monitor, and report on the program's operations and results. Addressing these limitations by, for example, ensuring that the information system collects the data needed to monitor the consistency and accuracy of VA's determinations, allows customized reporting to meet managers' needs, and supports efficient workflow management would also help position VA to manage an expanded government-wide program. Furthermore, CVE and OI&T officials said that, in planning to modify or replace VIP/VCMS, they were factoring in the potential need for the system to have the capacity and flexibility to expand to a government-

wide scale and to be adapted for automated interagency information sharing. For example, the officials said they were planning to consider how to enable contracting officers from other agencies to determine whether an SDVOSB was verified without having to manually search for the firm in VIP.

In addition, VA has begun a process to revise the verification program's regulations, which would likely serve as the starting point if VA were charged with implementing a government-wide verification program. VA officials said that they were planning to revise the regulations partly in response to applicants' and veterans' organizations concerns about VA's eligibility standards. For example, two veterans' organizations questioned VA's regulatory requirement that veteran owners be able to transfer their ownership interest without restriction by nonveteran owners, effectively suggesting that VA's standard for establishing control of a firm is too strict. The organizations stated that because nonveteran owners might reasonably expect to have a say in such transfers, the requirement limited the ability of SDVOSBs and VOSBs with nonveteran minority owners to participate in the Veterans First program. VA officials said that they would weigh this and other concerns as they developed proposed revisions to the regulation, a process that they expected to result in a final rule by mid-2014.

Any changes to VA's verification requirements could create or widen differences between the various government-wide small business contracting programs' requirements and VA's, a consideration that would likely be of even greater importance if VA's verification program were expanded. In addition to the government-wide SDVOSB program, federal contracting preference programs give federal agencies the authority to set aside contracts for small business concerns and specific types of small businesses: women-owned small businesses, businesses located in historically underutilized business zones (HUBZone), and socially and economically disadvantaged small businesses participating in SBA's 8(a) program. While the SDVOSB and women-owned small business programs allow firms to self-certify their eligibility, SBA reviews supporting documentation to certify HUBZone and 8(a) firms, with the 8(a) program requiring more extensive documentation similar to what is required under VA's verification program. (See app. IV for a description of these programs and their verification requirements.) Some veterans' organizations and others with whom we spoke have cited perceived differences between VA's eligibility standards and SBA's standards for the government-wide SDVOSB program and the 8(a) program, whose certification process is most similar to VA's verification program.

However, VA and SBA officials worked together to compare the three programs' regulations and VA's and the 8(a) program's documentation requirements. Initially, VA and SBA officials told us that they did not find major differences in the programs' regulatory eligibility requirements, the agencies' interpretation of them, or the documentation requirements for verification. In commenting on a draft of this report, SBA subsequently stated that, while the wording of the regulations pertaining to eligibility requirements was comparable, there was a distinction regarding ownership by spouses of disabled veterans.[64] SBA also stated in its comment letter that there were some key differences in how the agencies interpreted the regulations and that the agencies were consulting with one another to determine whether those differences could or should be resolved. Going forward, if VA adopts unilateral changes to its verification policies and procedures, these changes could have the effect of making it more difficult to align the programs. VA officials told us that the tension between competing calls for VA to ease its requirements and to be consistent with the government-wide SDVOSB and 8(a) programs would be a major consideration as VA considered changes to its regulations—particularly considering the potential for a government-wide SDVOSB verification program. Accordingly, the officials said that they were consulting with SBA as they began to develop proposed changes to VA's verification program regulation.

Conclusions

The opportunity to receive set-aside or sole-source contract awards under the Veterans First program is a significant benefit that provides billions of dollars in contracts annually to SDVOSBs and VOSBs. As a result, the program warrants strong internal controls to provide reasonable assurance that the contracts VA enters into are awarded to eligible firms. At the same time, an inherent tension exists between the need for effective internal controls and the Veterans First program's goal of increasing contracting opportunities for SDVOSBs. If VA fails to correctly verify eligible firms, or if firms' concerns about the verification process deter them from applying, VA's ability to sustain its high levels of contracting with SDVOSBs and VOSBs could ultimately be at risk. VA has made progress toward reducing its vulnerability to fraud and abuse, and CVE's new management team has initiated a variety of operational

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[64]By statute, firms owned and controlled by surviving spouses of deceased veterans may be eligible for verification by VA (38 U.S.C. § 8127(h)), but they are not eligible under SBA's regulations for the SDVOSB program.

changes in an effort to improve the program. VA has also initiated efforts to develop a comprehensive strategic plan for the verification program. This initial strategic planning effort represents a positive step that appears to have at least partially applied key leading federal strategic planning practices. However, the initial plan includes only goals intended to be met within 2 years, and many of the performance measures focus on the implementation rather than the outcomes of activities. Additionally, VA has not shared the plan with key stakeholders. As it continues to develop and refine its strategic plan, VA could strengthen its effort by ensuring that the plan articulates results-oriented, long-term goals and objectives for the verification program, that the metrics are focused on outcome measurements that can be used to monitor the verification program's performance and demonstrate results, and that key stakeholders are involved in evaluating the plan.

The initial lack of a comprehensive strategic plan for the verification program has also contributed to the development of a data system that has proven to be inadequate. The system does not collect data for monitoring program trends and staff performance, has limited reporting and workflow management capabilities, and has been unable to accept applications for extended periods, hindering VA's ability to operate and monitor the verification program. VA has started taking steps to address the shortcomings in the data system by shifting responsibility for developing plans to enhance or replace VCMS from CVE to OI&T. But without tying that effort to long-term strategic planning, VA risks failing to meet the program's information needs going forward.

As VA revises its verification program regulations and considers the relationship between its policies and those of other federal small business contracting preference programs, the agency faces a tension between competing calls to reduce the burden on applicants and to be vigilant in preventing and detecting fraud. This tension would underlie a government-wide SDVOSB verification program as well. Addressing these policy issues for its own program—or ultimately for a government-wide verification program—will require VA to weigh certain tradeoffs. These include deciding how to reduce the administrative burden that the verification process places on eligible firms and maintain sufficient fraud prevention and detection controls to provide reasonable assurance that the billions of VA contract dollars set aside for SDVOSBs and VOSBs reach their intended beneficiaries.

Recommendations for Executive Action

To improve the management and oversight of VA's SDVOSB and VOSB verification program, we recommend that the Secretary of Veterans Affairs take the following two actions:

- Direct OSDBU to continue to develop, refine, and implement a formal strategic plan to provide a comprehensive framework to guide, integrate, and monitor the verification program's activities over time. As OSDBU refines the strategic plan, it should incorporate longer-term goals and objectives for the verification program. The plan should also incorporate outcome measures that OSDBU can use to better monitor the verification program's progress and demonstrate its results. OSDBU should also share the plan with key stakeholders.

- Direct OSDBU and OI&T, as they modify or replace the verification program's data system, to integrate their efforts with OSDBU's broader strategic planning effort for the verification program to ensure that the new system not only addresses the short-term needs of the program but also can be readily adapted to meet longer-term needs.

Agency Comments and Our Evaluation

We provided a draft of this report to the Department of Veterans Affairs and the Small Business Administration for comment. In its written comments, VA generally agreed with GAO's conclusions and concurred with the two recommendations. VA stated that it had actions under way that would address each recommendation. VA indicated that it anticipated submitting a strategic plan to the Office of the Secretary in fiscal year 2013 and would develop a schedule to brief VA senior leaders and other key stakeholders once the plan is approved. VA also provided additional information about its efforts to replace the verification program's data system. VA noted that it had begun the process of replacing the existing system and had developed a work statement for the replacement system. VA also provided technical comments that we incorporated as appropriate into the report. In its technical comments, VA disagreed with the status of some of the prior GAO recommendations that we noted had not been fully implemented, including the provision of regular fraud awareness training and unannounced random and risk-based audits of verified firms to ensure compliance with the program rules. We have revised the report to indicate that, as of January 4, 2013, we were reviewing documentation provided by VA in December 2012 to determine if VA's actions taken to address some of our prior recommendations are sufficient to consider them implemented. We also noted that we will continue to review documentation provided by VA in the future to assess whether the remaining recommendations have been implemented.

In its written comments, SBA provided additional information on its views on eligibility requirements for VA's Veterans First Contracting Program, the government-wide SDVOSB contracting program, and the 8(a) program. In particular, SBA stated that a statement in our draft report was not accurate—specifically, our comment that VA and SBA did not find major differences in the programs' eligibility requirements, the agencies' interpretation of the requirements, or the documentation required for verification. SBA noted that, statutorily, surviving spouses of disabled veterans might be eligible for VA verification but that they were not eligible under SBA's regulations for the government-wide SDVOSB program. SBA also noted that it provided an avenue of appeal through its SDVOSB status protest and 8(a) eligibility processes but that VA did not have a similar appellate procedure. Finally, SBA stated that the wording of the regulations pertaining to VA's and SBA's eligibility requirements was similar but that there were some key differences in interpretation that the two agencies were reviewing. We have revised our discussion of VA's and SBA's effort to compare the programs' eligibility and documentation requirements, citing the difference noted by SBA with respect to the eligibility of surviving spouses and noting that the agencies were consulting with each other to determine whether differences of interpretation could or needed to be resolved. We also added clarifying language in appendix I describing how we obtained information on VA and SBA efforts to compare program regulations. In addition, we clarified the differences between SBA's and VA's status protest mechanisms in appendix IV. VA's and SBA's comments are reprinted in appendixes V and VI.

We are sending copies of this report to the appropriate congressional committees, the Administrator of SBA, the Secretary of Veterans Affairs, and other interested parties. In addition, the report will be available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VII.

William B. Shear
Director
Financial Markets and Community Investment

The Honorable Patty Murray
Chairman
Committee on Veterans' Affairs
United States Senate

The Honorable Claire McCaskill
Chairman
Ad Hoc Subcommittee on Contracting Oversight
Committee on Homeland Security
   and Governmental Affairs
United States Senate

The Honorable Maria Cantwell
United States Senate

The Honorable Bernard Sanders
United States Senate

Appendix I: Scope and Methodology

Our objectives were to (1) describe and assess the progress that the Department of Veterans Affairs (VA) has made in establishing a program to verify the eligibility of service-disabled veteran-owned small businesses (SDVOSB) and veteran-owned small businesses (VOSB) on a timely and consistent basis, and (2) describe the key operational and policy issues that VA would need to address should its verification program be implemented government-wide. Because VA was introducing significant changes to its procedures and operations at the time of our study, we determined that evaluating VA's compliance with its past procedures would be of limited value and that testing the effectiveness of verification procedures that were still evolving would be premature. We focused instead on issues related to planning for and designing the verification program and on changes in its management and operations that the Center for Veterans Enterprise (CVE) instituted since December 2011.[1]

To describe and assess the progress VA has made in establishing a program to allow it to verify the eligibility of SDVOSBs and VOSBs on a timely and consistent basis, we reviewed relevant statutes, regulations, and procedures for the verification program. The reviewed regulations and procedures included the verification program regulations issued in February 2010, an interim final rule issued in June 2012, and the Standard Operating Procedures that CVE had adopted as of August 2012.[2] We also reviewed planning and organizational documents, such as organizational charts and sample reports from the Verification Case Management System (VCMS). We reviewed VA guidance available online for applicants, such as an applicant guide, frequently asked questions, Verification Assistance Briefs, and an online self-assessment tool for prospective applicants. In May and June 2012, we observed three training sessions held by VA for the participants in its Verification Counseling program, an outreach program that VA launched to assist applicant firms. To determine the volume of completed and pending applications and their status (pending, withdrawn, approved, or denied), we reviewed VCMS data on applications submitted to VA between

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[1]VA hired a new Executive Director of the Office of Small and Disadvantaged Business Utilization (OSDBU) in April 2011 and a new Director of CVE in December 2011, and—because of turnover and the creation of new positions—nearly all of CVE's senior staff members were hired in 2012. Rather than expecting these staff to provide detailed information about changes that occurred before their tenures, we focused on changes that CVE instituted since December 2011.

[2]75 Fed. Reg. 6098 (Feb. 8, 2010); 77 Fed. Reg. 38181 (June 27, 2012).

November 1, 2011, and September 30, 2012, and VA's Verification Master Inventory List, a manually maintained inventory of all verified firms that VA uses to supplement VCMS.[3] We assessed the data by interviewing knowledgeable VA officials, reviewing related documentation, and checking the data for illogical values or obvious errors and found them to be sufficiently reliable for the purpose of illustrating general characteristics of the verification program. We also interviewed officials from three of the contractors who perform aspects of the verification process—GCC Technologies, LLC; HeiTech Services, Inc.; and Addx Corporation—to understand their roles in the verification program, and representatives from three veteran service organizations and a technical assistance association that were participating in the Verification Counseling program–VETForce, American Legion, National Veteran Small Business Coalition, and Association of Procurement Technical Assistance Centers—to discuss their views on the verification program and their expectations of the Verification Counseling program.

As part of our assessment of the progress VA has made in establishing a program to allow it to verify the eligibility of SDVOSBs and VOSBs on a timely and consistent basis, we assessed whether VA had used federal strategic planning practices in developing the verification program. We have previously reported that agency-wide strategic planning practices required under the Government Performance and Results Act of 1993 (GPRA)—which was amended by the GPRA Modernization Act of 2010 (GPRAMA)[4]—can also serve as leading practices for planning at lower levels within federal agencies, such as individual programs or initiatives.[5] To evaluate the extent to which VA was following leading strategic planning practices in relation to the verification program, we selected six

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[3]We chose this period because fiscal year 2012 roughly coincided with the December 2011 to November 2012 period that was the focus of our work. Fiscal year 2012 began on October 1, 2011, but because VCMS was not available for part of the month of October 2011, VA officials recommended that we exclude from our analysis data on applications submitted in October 2011.

[4]Pub. L. No. 103-62 (August 3, 1993); Pub. L. No. 111-352 (Jan. 4, 2011). GPRAMA provides federal agencies with an approach to focusing on results and improving government performance by, among other things, developing strategic plans. Examples of GPRAMA plan components include a mission statement; general goals and objectives, including outcome-oriented goals; and a description of how the goals and objectives are to be achieved, including the processes and resources required.

[5]For example, see GAO, *Environmental Justice: EPA Needs to Take Additional Actions to Help Ensure Effective Implementation,* GAO-12-77 (Washington, D.C.: Oct. 6, 2011).

leading practices that we had previously identified as being relevant to agencies' initial strategic planning efforts.[6] We reviewed a strategic planning document that OSDBU compiled in 2012 in response to our study, and six planning documents prepared between June 2011 and December 2011 that OSDBU officials said provided the basis for the strategic plan. We compared these documents, and the planning activities associated with them, to the six leading practices, as shown in table 1. Because VA prepared the initial strategic planning document as we were completing our draft report, we did not conduct a comprehensive review of the strategic plan, the supporting documents that VA provided, or the process that VA undertook to develop these documents.

Table 1: Selected Leading Practices in Federal Strategic Planning

Selected leading practice	Characteristics
Define the mission and goals	A mission statement explains why the agency—or a specific program—exists, what it does, and how it does it.
	Strategic goals explain the purpose of agency programs and the results—including outcomes—that they intend to achieve.
Define strategies that address management challenges and identify resources needed to achieve goals	Strategies should address management challenges that threaten an agency's ability to meet its long-term strategic goals.
	Strategies should include a description of the resources needed to meet established goals.
Ensure leadership involvement and accountability	Only an agency's senior leadership can ensure that strategic planning becomes the basis for day-to-day operations.
	Successful organizations use formal and informal practices to hold managers accountable and create incentives for working to achieve the agency's goals.
Involve stakeholders	Successful organizations involve stakeholders in developing their mission, goals, and strategies to help ensure that they target the highest priorities.
	Stakeholders can influence success or failure of agencies' programs.
	Stakeholders include: Congress and the administration; state and local governments; agency staff; agency customers; interest groups; and the public.
Coordinate with other federal agencies	Agencies can coordinate in defining their mission, goals, and strategies to ensure that programs contributing to similar results are mutually reinforcing and efficiently employing federal funds.
Develop and use performance measures	Performance measures allow an agency to track the progress it is making toward its mission and goals, provide managers information on which to base their organizational and management decisions, and create powerful incentives to influence organizational and individual behavior.

Source: GAO-12-77.

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[6]GAO-12-77.

We also assessed the extent to which the verification program's data system provided the information needed to run and control the verification program's operations, a key standard for effective internal controls.[7] In particular, we focused on the timely availability of pertinent information sufficient to enable people to carry out their duties efficiently and effectively, a factor that we previously identified as important in assessing this standard.[8] We reviewed data system documentation and reports that the system produces and interviewed officials from VA and the contractors that perform aspects of the verification process to determine how the data system was developed and how VA uses it, and to identify the capabilities and limitations of the data system.

To describe the key operational and policy issues that VA would need to address if its verification program were to be implemented government-wide, we developed rough order of magnitude estimates of how many more SDVOSBs—beyond those that VA had already verified or was in the process of verifying as of September 30, 2012—might seek verification if it were required government-wide. Specifically, our rough estimates were based on the number of self-certified SDVOSBs listed in the Central Contractor Registration (CCR) database as of March 2012 that had not yet been verified and were not in the verification process based on information in VA's database as of September 30, 2012.[9] To estimate the number of self-certified SDVOSBs with recent federal contracts with agencies other than VA that would be the most likely to seek verification in order to continue to seek or win federal contracts, we used the number of these self-certified SDVOSBs that received contract obligations from agencies other than VA in fiscal years 2010 or 2011 (the last full fiscal year available) using the Federal Procurement Data System-Next Generation (FPDS-NG). To estimate the number of self-certified SDVOSBs without recent contract obligations that might also apply for verification, we used the number of self-certified SDVOSBs that did not receive contract obligations in fiscal years 2010 or 2011, according to FPDS-NG. These are rough estimates since some of the firms included in our estimates might seek verification

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[7]GAO-01-1008G.

[8]GAO-01-1008G.

[9]For verified SDVOSBs that did not appear as self-certified in CCR as of March 2012, we cross-referenced the Small Business Administration's (SBA) Dynamic Small Business Search, which includes supplemental information on registered firms that meet SBA's size standard for the firms' industries.

under VA's existing program regardless of whether a government-wide program was adopted. In addition, we could not determine how many of these firms have been actively seeking contracts or how likely they would be to do so in the future, making it difficult to predict how many would actually be motivated to seek verification if it were required. We assessed these data by interviewing VA officials knowledgeable about the VA data, reviewing documentation related to all of the data systems, and checking the data for illogical values or obvious errors and found them to be sufficiently reliable for the purpose of illustrating the potential scale of a government-wide verification program. We also reviewed our prior work on the verification program and that of the VA Office of Inspector General, as well as our assessment of the current status of the program, to identify issues that VA would need to address in implementing a government-wide program. Because of the Small Business Administration's (SBA) role administering the government-wide SDVOSB program, we also interviewed VA and SBA staff about how the statutory and regulatory provisions implemented by the two agencies compare. In addition, we reviewed SBA documents and interviewed SBA staff for their views on a potential government-wide verification program.[10] However, the SBA staff said that it would be inappropriate for them to comment on VA's or SBA's potential roles or other considerations in implementing a potential program.

For both objectives we interviewed officials in VA's Office of Small and Disadvantaged Business Utilization (OSDBU), CVE, Office of the General Counsel, and the Office of Information and Technology to understand their historical, current, and expected roles in the verification program. We also reviewed prior GAO reports and a VA Office of Inspector General report on the verification program and testimonies from congressional hearings on the government-wide SDVOSB program and VA's verification program.

We conducted this performance audit from February 2012 to January 2013 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.

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[10]SBA administers the government-wide SDVOSB program, including deciding protests that a successful offeror or awardee is not owned and controlled by a service-disabled veteran.

Appendix II: Verification Program Data as of September 30, 2012

We reviewed VA's database known as the Verification Case Management System (VCMS) to obtain data on the status of initial applications, requests for reconsideration, and applications for reverification submitted to VA between November 1, 2011, and September 30, 2012. We chose this period because fiscal year 2012 roughly coincided with the December 2011 to November 2012 period that was the focus of our work.[1] Because we were primarily interested in the progress that VA had made processing applications that were submitted during the period that was the focus of our work, we excluded from our analysis applications VA processed during the period but that were submitted prior to November 1, 2011. We used these data to determine the volume of applications that VA received between November 1, 2011, and September 30, 2012, and their status (pending, withdrawn, approved, or denied) as of September 30, 2012. Because our analysis included applications that had been submitted less than 90 days ago, we expected a significant number of the cases to be pending as of September 30, 2012.

Based on our analysis of VCMS data, VA received approximately 4,900 initial applications between November 2011 and September 2012. The monthly volume of initial applications fluctuated during this period, with VA receiving an average of about 450 initial applications per month. As shown in figure 3, approximately 14 percent of the 4,900 initial applications submitted during the period were pending a determination as of September 30, 2012, and another 43 percent had been withdrawn.[2] The remaining 43 percent of applications had received a determination and, of these, 61 percent were approved and 39 percent were denied.

[1]Fiscal year 2012 began on October 1, 2011, but because VCMS was not available for part of the month of October 2011, VA officials recommended that we exclude from our analysis data on applications submitted in October 2011.

[2]Applicants can withdraw their applications at any time, or VA can withdraw an application if the applicant does not respond to requests to provide missing or additional requested documentation within 30 days.
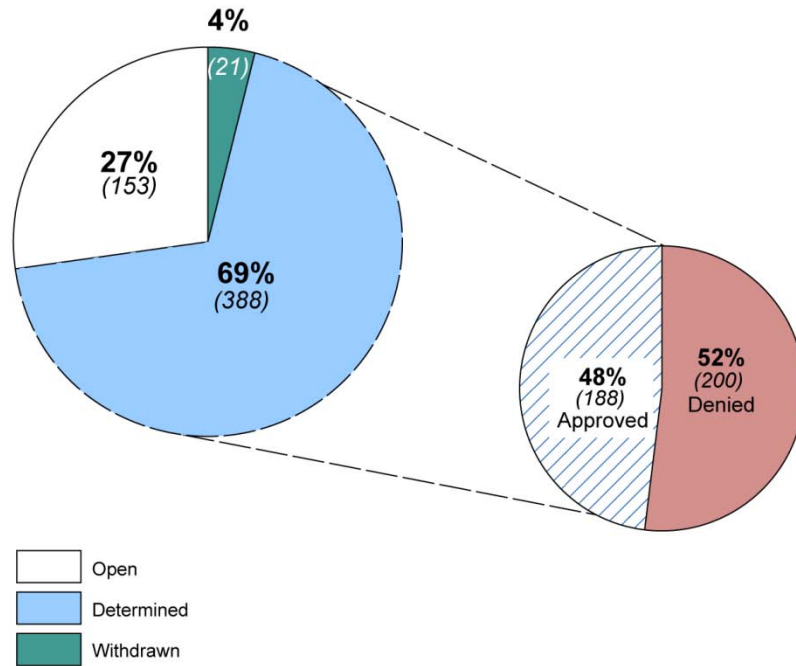
**Figure 3: Status of Initial Applications Submitted between November 2011 and
September 2012, as of September 30, 2012**

	Open
	Determined
	Withdrawn
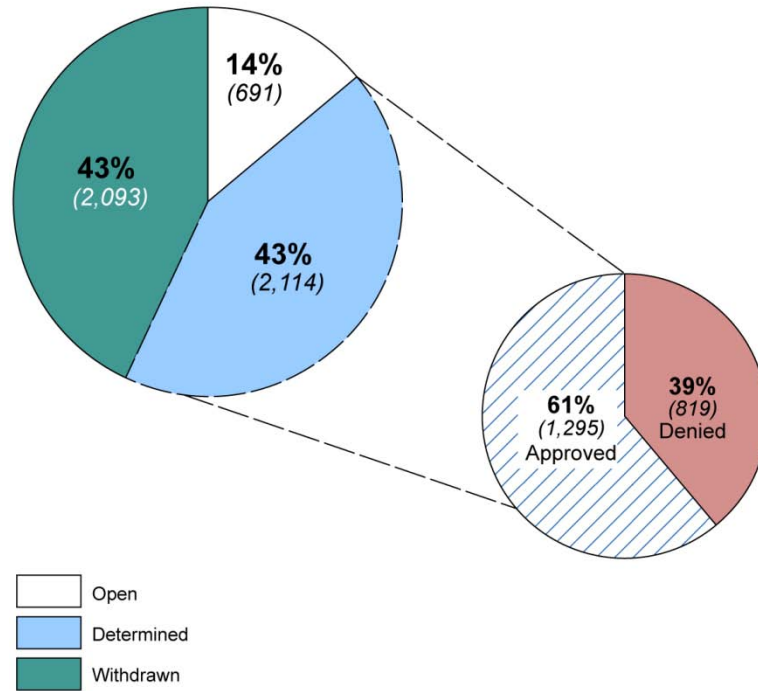
Source: GAO analysis of VCMS data.

VA received approximately 560 requests for reconsideration during the
period, according to VCMS data. As shown in figure 4, 27 percent of the
requests for reconsideration submitted during the period were pending as
of September 30, 2012, and 4 percent were withdrawn. The remaining 69
percent of requests for reconsideration had received a determination and,
of these, 52 percent were again denied, while 48 percent were approved
based on revisions the applicant made in response to the initial
determination.

Figure 4: Status of Requests for Reconsideration Submitted between November 2011 and September 2012, as of September 30, 2012

Open
Determined
Withdrawn

Source: GAO analysis of VCMS data.

VA received about 690 applications for reverification during the period, according to VCMS data. As shown in figure 5, 19 percent of the applications for reverification submitted during the period were pending as of September 30, 2012, and 11 percent had been withdrawn. The remaining 70 percent of applications for reverification submitted during the period had been determined as of September 30, 2012, of which almost 80 percent were approved.

Figure 5: Status of Applications for Reverification Submitted between November 2011 and September 2012, as of September 30, 2012

11%
(73)

19%
(131)

70%
(487)

22%
(109)
Denied

78%
(378)
Approved

Open

Determined

Withdrawn
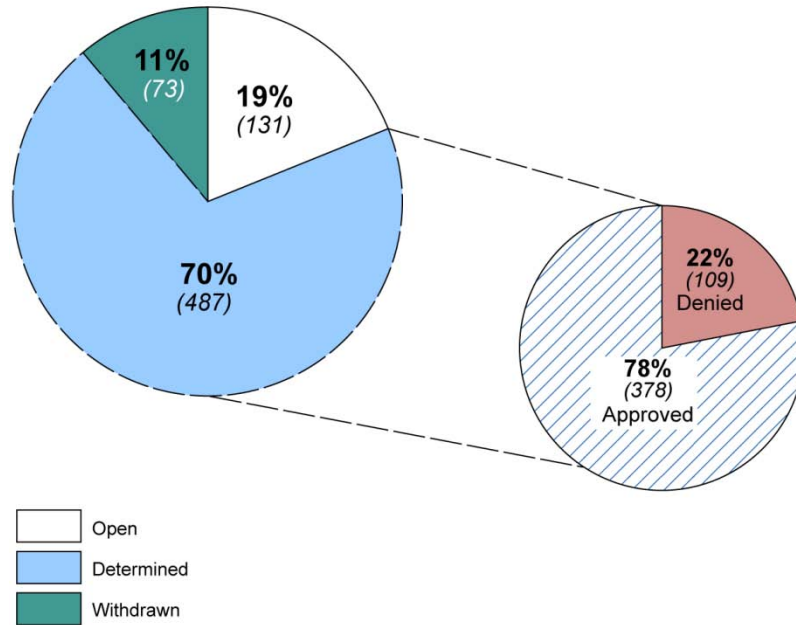
Source: GAO analysis of VCMS data.

Appendix III: Verification Program Organizational Structure, December 2011 and October 2012

Between December 2011 and October 2012, VA revised the organizational structure for the verification program. As shown in figures 6 and 7, VA officials (1) reorganized and increased the number of employees and contractors assigned to the verification process and (2) created several new teams including quality assurance, training, records management, and customer service. As of October 2012, the verification program had about 28 full-time equivalent federal employees and 174 contractors, an increase of about 3 full-time equivalent staff and 64 contractors to the verification program since December 2011.[1]

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[1]In addition, five staff from VA's Office of General Counsel were also assigned to the verification program to review requests for reconsideration and provide legal review.

Figure 6: Verification Program Organizational Chart as of December 2011

Executive Director,
Small and Veteran
Business Programs
(OSDBU)
1 Government/
(0) Contract

Program Specialist
0.85 Government/
(0) Contract

Budget and Human
Resources
1.10 Government/
(0) Contract

Contract Officer's
Representative
1 Government/
(2) Contract

Verification Support/
Communications
2 Government/
(0) Contract

Director, Center for
Veterans Enterprise
(CVE)
1 Government/
(0) Contract

Operations and
Technology
7 Government/
(15) Contract

Evaluation
6 Government/
(52) Contract

Risk
Management
5 Government/
(41) Contract

Total government FTE = 24.95 and contract FTE = *(110)*

Source: GAO analysis of VA organization charts.

Note: The chart shows authorized positions. Of the government full-time equivalents (FTE), 12 were vacant as of December 2011.

Figure 7: Verification Program Organizational Chart as of October 2012
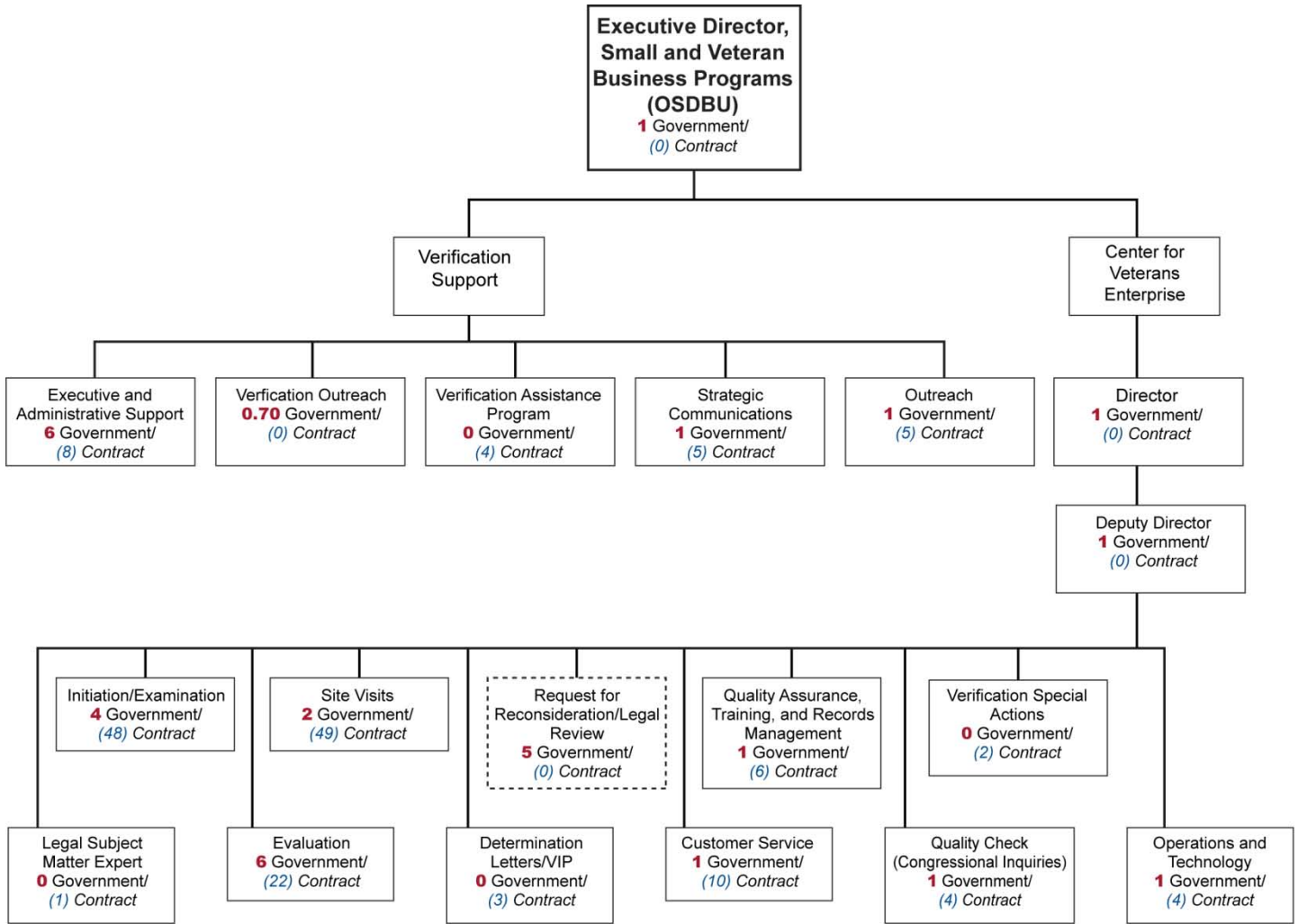
Support provided by VA Office of General Counsel (OGC)

Total government FTE = 27.7, OGC government employees FTE = 5, and contract FTE = *(174)*

Source: GAO analysis of VA organization charts.

Note: The chart shows authorized positions. Of the government full-time equivalents (FTE), five were vacant as of October 2012.

Appendix IV: Verification or Certification Requirements Associated with Federal Small Business Contracting Preference Programs

All federal agencies have the authority to set aside contracts for small business concerns and for several specific types of small businesses: SDVOSBs, women-owned small businesses, businesses located in historically underutilized business zones (HUBZone), and socially and economically disadvantaged small businesses participating in SBA's 8(a) program (table 2). Some programs are also authorized to make sole-source awards to these groups. For the government-wide SDVOSB program, business owners are required only to certify their eligibility online in the System for Award Management (SAM) and do not need to submit any supporting documentation. SBA does not verify the eligibility of these firms.[1] Women-owned small businesses may obtain certification by an entity approved by SBA or self-certify their eligibility online in SAM; in either case, the firms must upload supporting documents to SBA's online Women-Owned Small Business Program Repository for potential review by contracting officers or SBA. In contrast with these self-certification programs, SBA must certify firms' eligibility to receive contracts under the HUBZone and 8(a) programs. SBA reviews supporting documentation to certify HUBZone and 8(a) firms, with the 8(a) program requiring more extensive documentation that is similar to that required by CVE for its verification program. For each of the government-wide small business contracting preference programs except for the 8(a) program, SBA provides a "status protest" mechanism for interested parties to a contract award to protest if they feel a firm misrepresented its eligibility in its bid submission.[2] SBA's status protest mechanism for the SDVOSB and women-owned small business programs and its certification process for the 8(a) program also provide interested parties with an avenue of appeal to SBA's Office of Hearings and Appeals.[3] However, VA's OSDBU decides any SDVOSB or VOSB

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[1]SAM consolidated and replaced the Central Contractor Registration (a required point of registration for contractors and grantees wishing to do business with the government), Online Representations and Certifications Application (a system that allows vendors to enter representations and certifications for federal contracts), and the Excluded Parties List System (a database listing parties excluded from receiving federal contracts and certain subcontracts, as well as certain types of federal financial and nonfinancial assistance).

[2]In the 8(a) program, a firm's size may be protested in connection with an 8(a) set-aside contract, or reviewed in connection with a sole-source contract, but a firm's 8(a) status may not be protested. Anyone with credible information calling into question the eligibility of an 8(a) concern may bring that to SBA's attention.

[3]13 C.F.R. §§ 124.206, 125.28, and 127.605. For the HUBZone program, status protest decisions may be appealed to the Associate Administrator, Office of Government Contracting and Business Development. 13. C.F.R. §126.805.

status protests arising from a VA solicitation.[4] VA does not provide an appellate procedure for such decisions.

Table 2: Verification or Certification Requirements Associated with Federal Small Business Contracting Preference Programs

Small business contracting preference program	Description	Certification requirement
Service-disabled veteran-owned small businesses	Contracts may be set-aside or awarded on a sole-source basis to small businesses that are majority-owned and whose management and daily business are controlled by one or more service-disabled veterans.	Self-certification with no supporting documentation required. Contracting officers may accept self-certification in the absence of a protest or other credible information calling a firm's eligibility into question. SBA does not determine a firm's eligibility except for a protest challenging the size, ownership and control, or service-disability status of a firm in connection with a specific contract.
Women-owned small businesses	Contracts may be set-aside for small businesses in SBA-designated industries that are majority-owned and whose management and daily business are controlled by one or more women.	Third-party certification by a federal agency, state government, or national certifying entity approved by SBA *or* Self-certification with supporting documentation submitted to an online repository in accordance with standards set by SBA. Contracting officers may accept third-party certification or self-certification in the absence of a protest or other credible information calling a firm's eligibility (size or ownership and control) into question. SBA does not determine eligibility except for a status protest in connection with a specific contract or an eligibility examination based on allegations or random selection.
8(a) Minority Small Business and Capital Ownership Development Program	Contracts may be set-aside or awarded on a sole-source basis to small businesses that are majority-owned and whose management and daily business are controlled by one or more socially or economically disadvantaged individuals and have demonstrated potential for success (generally in operation for at least 2 years)	SBA certification based on an evaluation of required documents submitted by the firm. Prior to award, SBA reviews the size of certified firms in connection with specific contracts, and size may be protested, or a size determination may be requested in connection with specific contracts.
Businesses located in historically underutilized business zones (HUBZone)	Contracts may be set-aside or awarded on a sole-source basis to small businesses owned and controlled by individuals operating in qualified HUBZones. Principal office must be located within a HUBZone and at least 35 percent of the business' employees must reside in a HUBZone.	SBA certification based on an evaluation of required documents submitted by the firm. The certification process may also include a site visit to the firm's purported principal office. SBA also reviews eligibility for certified firms for size or status protests in connection with specific contracts.

Source: GAO analysis of relevant statutes, regulations, and program documents.

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[4]Any SDVOSB or VOSB status protest arising out of a VA solicitation, whether raised by the contracting officer or an offerer, will be decided by the Executive Director of VA's OSDBU, whose decision will be final. This process will remain in place until VA and SBA execute an agreement to allow SBA to decide these protests. 48 C.F.R. § 819.307.SBA's Office of Hearings and Appeals has confirmed VA's jurisdiction. *Size Appeal of HAL-PE Associates Engineering Services, Inc.,* SBA No. SIZ-5391 (2012); *Matter of Airborne Construction Services, LLC,* SBA No. VET-203 (2010); *Matter of Reese Goel JV,* SBA No. VET-199 (2010).

Appendix V: Comments from the Department of Veterans Affairs

DEPARTMENT OF VETERANS AFFAIRS
Washington DC 20420

December 28, 2012

Mr. William B. Shear
Director, Financial Markets
  and Community Investment
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Shear:

      The Department of Veterans Affairs (VA) has reviewed the Government Accountability Office's (GAO) draft report, *"VETERAN-OWNED SMALL BUSINESSES: Planning and Data System for VA's Verification Program Need Improvement"* (GAO-13-95). VA generally agrees with GAO's conclusions and concurs with GAO's recommendations to the Department.

      The enclosure specifically addresses GAO's recommendations and provides technical comments to the draft report. VA appreciates the opportunity to comment on your draft report.

                             Sincerely,

                             John R. Gingrich
                             Chief of Staff

Enclosures

Department of Veterans Affairs (VA) Comments to
Government Accountability Office (GAO) Draft Report
"VETERAN-OWNED SMALL BUSINESSES: Planning and Data System for VA's
Verification Program Need Improvement"
(GAO-13-95)

GAO Recommendation 1: **Direct OSDBU to continue to develop, refine, and
implement a formal strategic plan to provide a comprehensive framework to
guide, integrate, and monitor the verification program's activities over time. As
OSDBU refines the strategic plan, it should incorporate longer-term goals and
objectives for the verification program. The plan should also incorporate
outcome measures that OSDBU can use to better monitor the verification
program's progress and demonstrate its results. OSDBU should also share the
plan with key stakeholders.**

VA Response: Concur. VA believes the proper development of a longer-term
strategic plan is an iterative process. Version 2 was shared with GAO prior to the
issuance of the draft report. The verification program is incorporated into the Office of
Small and Disadvantaged Business Utilization (OSDBU) Strategic Plan 2013-2016 and
updates and revisions to Version 2 have been developed in collaboration with affected
elements of the Department. The draft plan is under review by the Verification Review
Task Force established by the Secretary of VA "to review all aspects of the VA Veteran-
Owned Small Businesses verification program to include processes, operating policies,
management-information systems, staffing and other resources." The review and
recommendations of the task force will be provided to the Office of the Secretary for
final approval during the second quarter fiscal year (FY) 2013.

OSDBU will provide an update regarding the approval of the strategic plan with the 60-
day update, as well as a tentative schedule for briefing key stakeholders on the plan.

GAO Recommendation 2: **Direct OSDBU and OI&T, as they modify or replace the
verification program's data system, to integrate their efforts with OSDBU's
broader strategic planning effort for the verification program to ensure that the
new system not only addresses the short-term needs of the program but also can
be readily adapted to meet longer-term needs.**

VA Response: Concur. The replacement system is the Next Generation Verification
Case Management System (NexGen VCMS). The NexGen VCMS will be developed on
a modular and open system architecture that leverages best-in-class, commercial off-
the-shelf software. The system incorporates built-in system intelligence that supports
customizable business rules.

The development of the NexGen VCMS will be in two phases using modular
approaches. This approach will allow OSDBU to refine the strategic plan to include the
long-term goals and objectives for the verification program. Phase I will be to build the
prototype, analyze feedback from users' focus groups, and develop the system

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Enclosure

Department of Veterans Affairs (VA) Comments to
Government Accountability Office (GAO) Draft Report
"VETERAN-OWNED SMALL BUSINESSES: Planning and Data System for VA's
Verification Program Need Improvement"
(GAO-13-95)

documentation and "To-Be" Architecture. Phase II will be for production, using the increment-based contracting approach.

VA has begun the process of replacing the Verification Case Management System (VCMS). The business requirements document was previously provided. We now also provide the Performance Work Statement (Attachment A) and the Request for Task Execution Plan (Attachment B) from the Transformation Twenty-One Total Technology contract.

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

December 6, 2012

William B. Shear
U.S. Government Accountability Office
Director, Financial Markets and Community Investment
Washington, DC 20548

Mr. Shear:

Thank you for providing the U.S. Small Business Administration (SBA) with a draft copy of the GAO's report entitled "Veteran-Owned Small Businesses: Planning and Data System for VA's Verification Program needs Improvement" for review.

After reviewing the report SBA has identified a section that does not accurately reflect the current state of the various programs. Specifically the paragraph on page 41 states that, "(t)hey did not find major differences in the programs eligibility requirements, the agencies' interpretation of them, or the documentation required for verification." This is not an accurate statement and the assertion that the programs are nearly identical is not accurate.

Statutorily, firms owned and controlled by the spouses of disabled veterans may be eligible for the Department of Veterans Affairs' (VA's) Center for Veterans Enterprise certification, but are not eligible under the SBA's Service-Disabled Veteran-Owned small business (SDVO) regulations. Procedurally, SBA's SDVO protest and 8(a) eligibility processes provide interested parties with an avenue of appeal to the SBA's Office of Hearings and Appeals where the standard of review is whether the determination of eligibility was based on a clear error of fact or law or whether the decision was arbitrary, capricious or contrary to law. The VA has no such appellate procedure. Finally, while it is true that the wording of the regulations pertaining to the VA's and SBA's eligibly requirements is similar, there are some key differences in interpretations.

SBA and the VA are in the process of reviewing those interpretations, and consulting with each other to determine whether those differences can or need to be resolved.

Thank you again for the opportunity to comment on the draft report. If you have any question, please contact Mr. Shawn McKeehan in the SBA's Office of Congressional and Legislative Affairs, at (202) 205-7229.

Sincerely,

Ali John Shoraka
Associate Administrator,
Office of Government Contracting and Business Development

Appendix VII: GAO Contact and Staff Acknowledgments

GAO Contact

William B. Shear, (202) 512-8678 or shearw@gao.gov

Staff Acknowledgments

In addition to the contact named above, Harry Medina (Assistant Director), Emily Chalmers, Pamela Davidson, Julianne Dieterich, Julia Kennon, Cory Marzullo, John McGrail, Daniel Newman, Jena Sinkfield, James Sweetman, and William Woods made key contributions to this report.