

Congress of the United States  
U.S. House of Representatives  
Committee on Small Business  
2361 Rayburn House Office Building  
Washington, DC 20515-6515

To: Members, Subcommittee on Contracting and Workforce  
From: Committee Staff  
Date: February 27, 2017  
Re: Hearing: “Learning from History: Ideas to Strengthen and Modernize the HUBZone Program”

---

On Thursday, March 2, 2017 at 10:00 a.m., the Subcommittee on Contracting and Workforce will meet in Room 2360 of the Rayburn House Office Building for the purpose of continuing oversight of the United States Small Business Administration’s (SBA) Historically Underutilized Business Zones (HUBZone Program or Program), which seeks to provide federal contracting opportunities to small businesses in economically distressed areas. This is the first in a series of hearings, which will systematically assess the HUBZone Program.

### **I. Introduction to the HUBZone Program**

Authorized in 1997,<sup>1</sup> the HUBZone Program was charged with stimulating economic development by increasing employment and capital investment through the use of federal contracting preferences to small businesses operating in economically distressed areas.<sup>2</sup> When introduced, the sponsor of the legislation, Senator Kit Bond (R-MO), described it as a “bold undertaking” that would “create more hope for inner cities with high unemployment, distressed rural communities where poverty and joblessness rein and have too long been ignored.”<sup>3</sup> In addition to creating hope for economically distressed communities, the HUBZone Program was “designed to cut through Government red tape, while stressing a streamlined effort to place Government contracts and new jobs in economically distressed communities.”<sup>4</sup> In sum, the Program was established to spur economic development and job creation by creating federal contracting incentives for small businesses to operate and hire employees in America’s most economically distressed communities.<sup>5</sup>

---

<sup>1</sup> The Program was officially established by SBA on March 22, 1999. HUBZone Act of 1997; Small Business Reauthorization Act of 1997, Pub. L. No. 105-135, § 601-07, 111 Stat. 2627-36 (1997).

<sup>2</sup> S. REP. NO. 105-62, at 26 (1997), available at <https://www.congress.gov/congressional-report/105/senate-report/62>.

<sup>3</sup> 105 CONG. REC. S730-34 (daily ed. Jan. 28, 1887) (statement of Sen. Bond).

<sup>4</sup> *Id.* at S731.

<sup>5</sup> *Id.*

HUBZone areas are designated by statute, using criteria and information determined by other agencies. SBA largely has no discretion in designation.<sup>6</sup> The HUBZone Program originally included qualified census tracts (QCTs),<sup>7</sup> nonmetropolitan counties,<sup>8</sup> and Indian reservations.<sup>9</sup> Since then, the program expanded to include difficult development areas (DDAs),<sup>10</sup> base realignment closure areas (BRACs),<sup>11</sup> major disasters<sup>12</sup> and catastrophic incidents,<sup>13</sup> and redesignated areas.<sup>14</sup>

Small businesses located in designated areas may apply for HUBZone certification through the SBA. To certify, a business must: (1) be small by SBA standards; (2) locate their principal office within a HUBZone; (3) be at least 51 percent owned by United States citizens; and (4) have at least 35 percent of their employees reside in a HUBZone.<sup>15</sup> A HUBZone-certified small business must recertify every 3 years through the System for Award Management (SAM), and qualify at the time of a contract offer and award.<sup>16</sup> Additionally, certified small businesses must notify SBA of changes affecting their eligibility.<sup>17</sup>

The HUBZone Program utilizes set-aside contracts, sole-source awards, and contract price preferences targeting contracts to HUBZone small businesses. Set-aside federal contracts can be awarded if two or more HUBZone firms are expected to make a fair and reasonable offer.<sup>18</sup> Sole-source awards are permitted for goods and services federal contracts below \$4

---

<sup>6</sup> The agencies responsible for designating HUBZones are: Census Bureau, Bureau of Indian Affairs, Bureau of Labor Statistics, Department of Defense, Department of Housing and Urban Development (HUD), and the Internal Revenue Service. HENRY BEALE AND NICOLA DEAS, MICROECONOMIC APPLICATIONS, INC., PREPARED FOR THE SBA, OFFICE OF ADVOCACY, THE HUBZONE PROGRAM REPORT i (2008), at <https://www.sba.gov/sites/default/files/rs325tot.pdf>.

<sup>7</sup> 13 C.F.R. §126.103 and 26 U.S.C. §42(d)(5)(B)(ii)(I). The Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA) of 2016 added 516 new HUBZones in Puerto Rico by removing a 20 percent limitation on QCTs. PROMESA also mandated the Government Accountability Office (GAO) assess and make recommendations regarding SBA's implementation and impact of the removal of the cap on job creation. Pub. L. No. 114-187, codified at 15 U.S.C. § 632(p)(4)(A)(ii).

<sup>8</sup> 13 C.F.R. §126.103.

<sup>9</sup> Beale, *supra* note 6.

<sup>10</sup> DDAs are areas designated by the Secretary of HUD and have characteristics making economic development particularly difficult and costly. DDAs currently apply to Alaska, Hawaii, American Samoa, Guam, the Northern Mariana Islands, Puerto Rico, and the Virgin Islands. 15 U.S.C. § 632(p)(4)(B).

<sup>11</sup> BRACs are areas where a military installation had closed through a privatization process and includes surrounding areas. P.L. 108-447, the Consolidated Appropriations Act, 2005.

<sup>12</sup> Major disasters are declared by the President under section 401 of the Robert T. Stafford Disaster Relief and Emergency Assistance Act and can include natural catastrophes and fires, floods, or explosions regardless of cause which warrant major disaster assistance. 42 U.S.C. § 5170.

<sup>13</sup> A catastrophic incident can be natural or manmade resulting in extraordinary levels of casualties, damage, or disruption to the population, infrastructure, environment, economy, national morale, and/or government functions. FEMA, NATIONAL RESPONSE FRAMEWORK (2016), [https://www.fema.gov/media-library-data/1466014682982-9bcf8245ba4c60c120aa915abe74e15d/National\\_Response\\_Framework3rd.pdf](https://www.fema.gov/media-library-data/1466014682982-9bcf8245ba4c60c120aa915abe74e15d/National_Response_Framework3rd.pdf); National Defense Authorization Act for Fiscal Year 2016, § 866, 129 Stat. 929 [hereinafter 2016 NDAA].

<sup>14</sup> Redesignated areas are areas that previously qualified as QCTs or qualified nonmetropolitan counties, but have lost designation due to changes in data or improved economic status. 15 U.S.C. § 632(p)(4)(C).

<sup>15</sup> 15 U.S.C. § 632(p)(5).

<sup>16</sup> 13 C.F.R. § 126.300-309.

<sup>17</sup> 13 C.F.R. § 126.501.

<sup>18</sup> Set-aside federal contracts are reserved exclusively for certain eligible vendors to bid. 48 C.F.R. § 19.1305-1307.

million.<sup>19</sup> A 10 percent price evaluation adjustment is granted when bidding on full and open federal contracts; if a HUBZone firm's bid is up to 10 percent higher than a non-small business's bid, it is deemed lower. There is a statutory goal of awarding 3 percent of prime and 3 percent of subcontract dollars to HUBZone firms.<sup>20</sup> In fiscal year 2016, the federal government met 1.67 percent of its goal, totaling \$6,864,452,294.54.<sup>21</sup> About 6,000 HUBZone-certified small businesses currently exist.<sup>22</sup>

## **II. Government Watchdogs Have Consistently Documented SBA's Management of and Oversight of the HUBZone Program**

The Government Accountability Office (GAO) and the SBA Office of Inspector General (OIG) have issued 8 reports on the HUBZone Program since 2001, in addition to supporting letters and testimony statements. GAO and OIG documented the evolution of the HUBZone Program since inception, with recurring themes emerging from these reports. These themes will be discussed in brief.

### *a. SBA Technological and Communication Issues*

Deficiencies in technology are hampering SBA's ability to properly manage the HUBZone Program. The HUBZone Map is SBA's primary interface with the public, communicating HUBZone designated area locations.<sup>23</sup> Firms are responsible for maintaining their eligibility requirements and rely on the Map to make those determinations.<sup>24</sup> In 2008, GAO found the Map inaccurate and out-of-date.<sup>25</sup> As a result, ineligible firms participated in the program while eligible firms did not.<sup>26</sup> Similarly, in 2013, the OIG found discrepancies in historical map data.<sup>27</sup> SBA acknowledged these issues and suggested small businesses contact their local district office for current HUBZone area information, manually kept on a series of excel spreadsheets.<sup>28</sup> SBA is now working on a technological solution to resolve these issues and has engaged a vendor to streamline the certification process and update the HUBZone Map.<sup>29</sup>

---

<sup>19</sup> Sole-source federal contracts are awarded to only one vendor. The threshold for sole-source awards for manufacturing contracts is \$6.5 million. *Id.*

<sup>20</sup> 15 U.S.C. § 644(g)(1).

<sup>21</sup> U.S. GENERAL SERV. ADMIN., FEDERAL PROCUREMENT DATA SYSTEM – NEXT GENERATION, SMALL BUSINESS GOALING REPORT, available at <https://www.fpds.gov> (last accessed February 17, 2017).

<sup>22</sup> SBA, DYNAMIC SMALL BUSINESS SEARCH, available at [http://dsbs.sba.gov/dsbs/search/dsp\\_dsbs.cfm](http://dsbs.sba.gov/dsbs/search/dsp_dsbs.cfm) (last accessed February 17, 2017).

<sup>23</sup> ADDITIONAL ACTIONS ARE NEEDED TO CERTIFY AND MONITOR HUBZONE BUSINESSES AND ASSESS PROGRAM RESULTS 16 (GAO-08-643) (2008) [hereinafter 2008 GAO Report].

<sup>24</sup> Both the principal place of business and workforce requirements require that these elements are fulfilled in HUBZone designated areas. The Map informs the public as to where those designated areas are located.

<sup>25</sup> 2008 GAO Report, *supra* note 23, at 3.

<sup>26</sup> *Id.* at 10.

<sup>27</sup> SBA, OPPORTUNITIES EXIST TO FURTHER IMPROVE QUALITY AND TIMELINESS OF HUBZONE CERTIFICATIONS 7-8 (SBA-14-03) (2013) [hereinafter 2013 OIG Report].

<sup>28</sup> *Ensuring Opportunities: Oversight of the HUBZone Program: Hearing Before the H. Comm. on Small Bus.*, 114th Cong. (2016).

<sup>29</sup> *Id.*

SBA also uses email newsletters to communicate programmatic changes to HUBZone participants, including redesignations. GAO found that all HUBZone firms were not receiving SBA's communications. Therefore, firms that may not have been informed could lose eligibility.<sup>30</sup> SBA began informing newly approved firms of programmatic changes, but failed to inform all currently certified firms.<sup>31</sup> SBA has since hired an employee to manage the email distribution list.<sup>32</sup>

SBA relies heavily on other agency systems in addition to its own.<sup>33</sup> According to the OIG, HUBZone firm information was inconsistently transmitted between the Dynamic Small Business Search (DSBS) and the System for Award Management (SAM) systems.<sup>34</sup> As a result, federal agencies over-reported HUBZone dollars spent. Firms were missing or displayed incorrect information in DSBS.<sup>35</sup> The General Services Administration maintains and releases regular system updates to SAM.<sup>36</sup> SBA maintains DSBS, which refreshes small business data daily, but has not had a technology system upgrade since 2004.<sup>37</sup>

*b. Diffusion of Benefits and Underutilization of Designated Areas May Be Undermining the Purpose of the HUBZone Program*

The expanding number of HUBZone designated areas could provide economic benefits to new areas, but there are concerns about whether benefits are flowing to those most in need. This is referred to as “diffusion.”<sup>38</sup> In 2016, SBA eliminated the 20 percent limitation on QCTs, adding 2,031 QCTs nationwide, including 651 in Puerto Rico.<sup>39</sup> GAO is currently examining diffusion in Puerto Rico.<sup>40</sup>

Some HUBZone designated areas contain few or no HUBZone firms. This can be referred to as “underutilization.” Low area population and difficulties complying with eligibility requirements may be contributing factors.<sup>41</sup> SBA indicated legislative changes enhancing consistency for firms may help maximize the business potential in these areas.<sup>42</sup>

---

<sup>30</sup> GAO, SMALL BUSINESS CONTRACTING: OPPORTUNITIES EXIST TO FURTHER IMPROVE HUBZONE OVERSIGHT 11-13 (GAO-15-234) (2015), [hereinafter 2015 GAO Report].

<sup>31</sup> *Id.*

<sup>32</sup> SBA is also considering creating a new list. GAO, HUBZone Program, Opportunities Exist to Further Improve Oversight 5 (GAO-1-866T) (2016), [hereinafter 2016 GAO Testimony].

<sup>33</sup> SBA sources data from: Department of Housing and Urban Development, Bureau of Labor Statistics, Census Bureau, Bureau of Indian Affairs, Department of Defense, Dynamic Small Business Search, System for Award Management, and Federal Procurement Data System – Next Gen; 2013 OIG Report, *supra* note 27 at 2.

<sup>34</sup> Issues regarding DSBS are outside the scope of this memorandum.

<sup>35</sup> SBA, EVALUATION OF SELECT 8(A) BUSINESS DEVELOPMENT AND HUBZONE CONTRACT AWARDS (SBA-14-18) (2014).

<sup>36</sup> The latest update was made on December 22, 2016. U.S. GENERAL SERVICES. ADMIN, SYSTEM FOR AWARD MANAGEMENT, available at [https://www.sam.gov/sam/transcript/SAM\\_Release\\_Notes\\_2016\\_12\\_22.pdf](https://www.sam.gov/sam/transcript/SAM_Release_Notes_2016_12_22.pdf)

<sup>37</sup> *Supra* note 28.

<sup>38</sup> 2008 GAO Report, *supra* note 23, at 3-4.

<sup>39</sup> Numbers provided by SBA on January 17, 2017.

<sup>40</sup> See Introduction. 651 QCTs were added in Puerto Rico resulting from removal of the 20 percent limitation.

<sup>41</sup> *Supra* note 28.

<sup>42</sup> *Id.*

*c. The HUBZone Program Continues to Lack Performance Metrics*

Lack of data hampers SBA's ability to provide Congress with a full picture of the HUBZone Program's effectiveness. In 2001, GAO could not conclusively determine whether actual achievements materialized due to data flaws and insufficient reporting guidance.<sup>43</sup> The Office of Management and Budget (OMB) stated in 2005 that SBA needed to develop outcome-oriented, baseline measures for its HUBZone Program to better evaluate its results.<sup>44</sup> Following up in 2008, GAO found SBA did track measures, but they were indirectly linked to the program's mission.<sup>45</sup> Both OMB and GAO found SBA recognized the need to assess the economic effect of the program, but did not devote resources to this end.<sup>46</sup>

The HUBZone small business goal is most commonly used to assess the federal government's utilization of the program. Federal agencies work with SBA annually to determine individual goals representing the "maximum practicable opportunity" for each category of small businesses.<sup>47</sup> Currently, 3 percent of all prime federal contracting dollars must be awarded to HUBZone-certified small businesses.<sup>48</sup> SBA annually reports the results via the SBA Scorecard. Scorecards since 2006 show the 3 percent HUBZone goal has not been met. Total prime contracting dollars awarded decreased from \$11.9 billion in fiscal year 2009 to \$6.8 billion in fiscal year 2016.<sup>49</sup>

Additionally, the OIG found federal agencies receiving credit towards their small business goals may have over-reported their HUBZone dollars in FY 2013 by as much as \$219.4 million.<sup>50</sup> Scorecard data must be examined with skepticism; however, the general trend remains true—government-wide spending on HUBZone contracts has significantly decreased.

*d. Lacking Internal Controls, the HUBZone Program Has Been Vulnerable to Fraud*

Early GAO and OIG investigations testing SBA's internal controls found these controls inadequate. Internal control standards require agencies collect and maintain documentation and verify information to support their programs.<sup>51</sup> In 2003, the OIG confirmed 11 out of 15 firms investigated as ineligible for HUBZone certification.<sup>52</sup> Similarly, GAO's 2008 and 2009 fraud investigations found 29 ineligible firms located in and outside of the Washington, DC metro

---

<sup>43</sup> GAO, HUBZONE PROGRAM SUFFERS FROM REPORTING AND IMPLEMENTATION DIFFICULTIES (GAO-02-57) (2001) [hereinafter 2001 GAO Report].

<sup>44</sup> *Id.* at 17.

<sup>45</sup> GAO, ADDITIONAL ACTIONS ARE NEEDED TO CERTIFY AND MONITOR HUBZONE BUSINESSES AND ASSESS PROGRAM RESULTS (GAO-08-975T) (2008).

<sup>46</sup> 2001 GAO Report, *supra* note 43, at 5.

<sup>47</sup> Section 15(a) of the Small Business Act (the Act), 15 U.S.C. § 644(g)(1)(B).

<sup>48</sup> *Id.*

<sup>49</sup> *Supra* note 21.

<sup>50</sup> The OIG found 27 of 246 HUBZone contract actions incorrectly credited towards HUBZone goals. 2013 OIG Report, *supra* note 27, at 9.

<sup>51</sup> GAO, INTERNAL CONTROL MANAGEMENT AND EVALUATION TOOL (GAO-01-1008G) (2001).

<sup>52</sup> SBA, AUDIT OF THE ELIGIBILITY OF 15 HUBZONE COMPANIES AND A REVIEW OF THE HUBZONE EMPOWERMENT CONTRACTING PROGRAM'S INTERNAL CONTROLS (SBA-03-05) (2003) [hereinafter 2003 OIG Report].

area. Federal agencies obligated over \$135 million to firms identified in the 2008 and 2009 reports, not including the millions potentially obligated via subcontract awards.<sup>53</sup> In 2009, GAO stated SBA did not have an effective fraud prevention model in place.<sup>54</sup> This resulted in a number of oversight-based recommendations, including improving internal control processes, risk mitigation strategies, and evaluating compliance with all requirements.<sup>55</sup>

*e. SBA Improved the HUBZone Program's Certification and Decertification Processes, But the Recertification Processes Need Strengthening*

SBA considerably improved its HUBZone certification process, but room for improvement remains. Early GAO and the OIG investigations found HUBZone firms essentially self-reported information on their certification applications. SBA took minimal action in validating this information.<sup>56</sup> Both agencies recommended SBA develop and implement guidance ensuring adequate and routine verification of certification data.<sup>57</sup> Follow-up investigations showed SBA moved away from self-certification to a full document review,<sup>58</sup> including a 3-tiered approval system.<sup>59</sup> Although this new process alleviated some concerns, new issues were found. Outdated SBA standard operating procedures (SOPs) led to errors and certification processing times grew, averaging 116 days.<sup>60</sup> HUBZone firms lost opportunities to compete and win federal contracts. The OIG recommended SBA update their SOPs and improve business processes to quickly process new applications.<sup>61</sup> SBA is currently implementing a new technology solution to expedite applications.<sup>62</sup>

In early reports, GAO and OIG found inadequate guidance for the decertification process. Both recommended SBA develop and implement such guidance.<sup>63</sup> In 2015, GAO found SBA took action and implemented a 3-option decertification process.<sup>64</sup>

Although SBA strengthened some processes, weaknesses in recertification persist due to the agency's efforts to balance competing interests. In 2008, GAO found deficiencies in SBA's recertification process and an extensive backlog.<sup>65</sup> Ineligible firms continued to participate in the program and compete for federal contracts. SBA eliminated its backlog in 2008, but failed to

---

<sup>53</sup> GAO, SBA'S CONTROL WEAKNESSES EXPOSED THE GOVERNMENT TO FRAUD AND ABUSE (GAO-08-964T) (2008); GAO, HUBZONE PROGRAM, FRAUD AND ABUSE IDENTIFIED IN FOUR METROPOLITAN AREAS (GAO-09-440) (2009) [hereinafter 2009 GAO Report].

<sup>54</sup> *Id.* at 16-19.

<sup>55</sup> GAO found firms subcontracted a substantial majority of HUBZone contract work to non-HUBZone companies, undermining the Program's stated purpose as well as evading program eligibility requirements. *Id.* at 25.

<sup>56</sup> 2003 OIG Report, *supra* note 51, at 4-5; 2008 GAO Report, *supra* note 23, at 3-4.

<sup>57</sup> 2008 GAO Report, *supra* note 23, at 5, 28, 44-45.

<sup>58</sup> 2015 GAO Report, *supra* note 30.

<sup>59</sup> 2013 OIG Report, *supra* note 27.

<sup>60</sup> *Id.* at 11.

<sup>61</sup> *Id.* at 13.

<sup>62</sup> *Supra* note 28.

<sup>63</sup> 2008 GAO Report, *supra* note 23 at 4-5, 28, 44-45; 2003 OIG Report, *supra* note 51.

<sup>64</sup> The 3-step decertification options are: (1) SBA could decertify firms found ineligible through a notification process, (2) firms may voluntarily decertify, or (3) SBA may immediately decertify during the protest process if the firm is found ineligible. 2015 GAO Report, *supra* note 30 at 18.

<sup>65</sup> 2008 GAO Report, *supra* note 23, at 5, 44-45.

implement procedures ensuring timely recertification.<sup>66</sup> Citing resource constraints, SBA had a 1-year backlog in 2014.<sup>67</sup> In addition to the backlog, weaknesses in information validation during SBA’s recertification process left open opportunities for fraud. SBA policy requires program examinations, which are full document reviews used to validate eligibility information HUBZone firms submit to SBA.<sup>68</sup> Both GAO in 2008 and the OIG in 2003 found SBA conducted program examinations on only 4 to 5 percent of certified firms per year, again citing resource constraints.<sup>69</sup>

GAO suggested SBA use a “risk-based approach” to conduct better oversight, mindful of SBA’s limited resources.<sup>70</sup> SBA now issues ongoing alerts to firms due for recertification, but still relies primarily on site visits and status protests to mitigate risk.<sup>71</sup> GAO’s recommendations remain unmet, essentially allowing firms to self-recertify.<sup>72</sup> In addition to citing resource constraints, SBA chose not to implement recertification recommendations due to its policy of inclusion. SBA contends the program should be as user-friendly as possible, balancing the goals of reducing fraud and encouraging applicants by reducing overly burdensome requirements.<sup>73</sup>

*f. SBA Relies on the Threat of Prosecution, Site Visits, and Status Protests to Mitigate Fraud*

SBA often cites the threat of criminal punishment as a deterrent to fraud.<sup>74</sup> In 2009, GAO noted SBA’s lack of suspension and debarment proceedings sent a message that there are no consequences for committing fraud or abusing the program.<sup>75</sup> SBA initiated some debarment proceedings following that study,<sup>76</sup> but still relied on the threat of criminal punishment to deter potential wrongdoers. SBA claimed GAO’s use of false affidavits in its 2010 undercover testing was unfair as the threat of prosecution would have deterred a real applicant.<sup>77</sup>

SBA relies on unannounced site visits as a risk mitigation strategy, targeting firms based on the level of risk posed to the government. Those firms most recently receiving the largest share of HUBZone contracting dollars are prioritized.<sup>78</sup> The rate of site visits grew from 5

---

<sup>66</sup> 2009 GAO Report, *supra* note 52, at 17.

<sup>67</sup> 2015 GAO Report, *supra* note 30, at 21-22.

<sup>68</sup> 2003 OIG Report, *supra* note 51, at 2; 2008 GAO Report, *supra* note 23, at 4.

<sup>69</sup> *Id.*

<sup>70</sup> *Id.* at 26.

<sup>71</sup> 2008 GAO Report, *supra* note 23, at 27; GAO, HUBZONE PROGRAM: ACTIONS TAKEN ON FEBRUARY 2015 GAO RECOMMENDATIONS (GAO-16-423R) (2016) [hereinafter 2016 GAO Report].

<sup>72</sup> 2016 GAO Testimony, *supra* note 32; 2015 GAO Report, *supra* note 30, at 25.

<sup>73</sup> *Supra* note 28.

<sup>74</sup> During the certification and recertification process, firms attest under threat of fines, imprisonment, and penalties that the information submitted is correct.

<sup>75</sup> 2009 GAO Report, *supra* note 52, at 19.

<sup>76</sup> GAO, UNDERCOVER TESTS SHOW HUBZONE PROGRAM REMAINS VULNERABLE TO FRAUD AND ABUSE (GAO-10-920T) (2010).

<sup>77</sup> GAO, SMALL BUSINESS ADMINISTRATION, UNDERCOVER TESTS SHOW HUBZONE PROGRAM REMAINS VULNERABLE TO FRAUD AND ABUSE (GAO-10-759) (2010) [hereinafter 2010 GAO Report].

<sup>78</sup> Distance may also be a factor in site visit selection. 2016 GAO Report, *supra* note 70, at 6.

percent<sup>79</sup> to 10 percent<sup>80</sup> of HUBZone contract recipients,<sup>81</sup> however, GAO still held that SBA's reliance on site visits alone does not mitigate recertification weaknesses.<sup>82</sup> GAO suggested low-cost solutions (i.e., a simple internet search) as a method to validate information.<sup>83</sup>

SBA also relies on HUBZone small businesses to police themselves using the status protest function.<sup>84</sup> In certain circumstances, competing firms are permitted to file a protest putting to question the awarded firm's HUBZone status.<sup>85</sup> While some bad actors might be removed, many HUBZone small business owners are unprepared, with little knowledge about the process or their competitors, and lack the resources to engage in this protest process.

### **III. Issues Before the Subcommittee**

During the hearing, the Subcommittee expects to hear from GAO, the OIG, and the HUBZone Council, a non-profit trade association, on the issues raised in this memorandum. Specifically, all panelists will be asked to identify issues they perceive as critical to the effectiveness of the HUBZone Program, solutions regarding the diffusion and underutilization issue, and input regarding the collection of performance measures. All panelists will be asked if further legislative changes are necessary or desirable.

### **IV. Conclusion**

The HUBZone Program was created to encourage economic growth and job creation in economically distressed rural and urban communities. The main objective of the program remains as relevant today as it was two decades ago. Significant improvements to the Program have been made responding to challenges identified by government watchdogs. However, additional action and continued oversight is needed to ensure the Program operates as intended by Congress, and that benefits are flowing to the intended recipients. The resulting information should help Congress and the Administration better develop policies and procedures that enhance opportunities for eligible small businesses to compete for federal contracts, thereby promoting small business job creation and increasing economic development in economically depressed and underemployed areas of the United States.

---

<sup>79</sup> GAO found as few as 5 percent of site visits or less were made since 2004. 2008 GAO Report, *supra* note 23.

<sup>80</sup> 2016 GAO Report, *supra* note 70, at 3.

<sup>81</sup> SBA increased site visits in response to GAO's 2008 recommendations. 2015 GAO Report, *supra* note 30, at 17.

<sup>82</sup> 2016 GAO Report, *supra* note 70, at 6.

<sup>83</sup> 2010 GAO Report, *supra* note 76, at 18.

<sup>84</sup> 2008 GAO Report, *supra* note 23, at 27; *Supra* note 28.

<sup>85</sup> SBA, UNDERSTANDING HUBZONE PROTEST: HUBZONE MINI-PRIMER #3 (2015) available at: [https://www.sba.gov/sites/default/files/HZ3\\_workbook.pdf](https://www.sba.gov/sites/default/files/HZ3_workbook.pdf).