

August 2012

**SERVICE-DISABLED
VETERAN-OWNED
SMALL BUSINESS
PROGRAM**

**Vulnerability to Fraud
and Abuse Remains**



G A O

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Why GAO Did This Study

The SDVOSB program provides federal contracting opportunities to business-owning veterans who incurred or aggravated disabilities in the line of duty. SBA administers the government-wide program, while VA maintains databases of veterans and SDVOSBs and oversees its own contracts. GAO has reported several times since 2009 that both programs were vulnerable to fraud and abuse and recommended improvements. In October 2010, Congress passed the Veterans Small Business Verification Act (2010 Act), part of the Veterans' Benefits Act of 2010, to provide tools to VA to more-thoroughly validate firms' eligibility before listing them in VetBiz, the database used by VA contracting officials to award SDVOSB contracts.

GAO was asked to assess (1) VA's progress in addressing remaining vulnerabilities to fraud and abuse in its SDVOSB program and (2) actions taken by SBA or other federal agencies to improve government-wide SDVOSB fraud-prevention controls. GAO reviewed agency documentation and interviewed agency officials. GAO also investigated cases of alleged fraud and abuse. GAO did not project the extent of fraud and abuse in the program.

What GAO Recommends

GAO recommends that VA take steps to ensure that all firms within VetBiz have undergone the 2010 Act verification process. VA generally concurred with the recommendation but expressed concern about how specific report language characterized its program. GAO made some changes to the report but continues to believe that the program remains vulnerable to fraud and abuse.

View [GAO-12-697](#). For more information, contact Richard J. Hillman at (202) 512-6722 or hillmanr@gao.gov.

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SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS PROGRAM

Vulnerability to Fraud and Abuse Remains

What GAO Found

The Department of Veterans Affairs (VA) Service-Disabled Veteran-Owned Small Business (SDVOSB) program remains vulnerable to fraud and abuse. VA has made inconsistent statements about its progress verifying firms listed in VetBiz using the more-thorough process the agency implemented in response to the Veterans Small Business Verification Act (2010 Act). In one communication, VA stated that as of February 2011, all new verifications would use the 2010 Act process going forward. However, as of April 1, 2012, 3,717 of the 6,178 SDVOSB firms (60 percent) listed as eligible in VetBiz had not been verified under the 2010 Act process. Of these 3,717 firms, 134 received \$90 million in new VA SDVOSB set-aside or sole-source contract obligations from November 30, 2011, to April 1, 2012. While the 2010 Act did not include a deadline for verification using the more-thorough process, the presence of firms that have only been subjected to the less-stringent process that VA previously used represents a continuing vulnerability. VA's Office of Inspector General (OIG) reported that the less-stringent process was in many cases insufficient to establish control and ownership and in effect allowed businesses to self-certify as SDVOSBs with little supporting documentation. VA has taken some positive action to enhance its fraud prevention efforts by establishing processes in response to 6 of 13 recommendations GAO issued in October 2011, including conducting unannounced site visits to high-risk firms and developing procedures for referring suspicious SDVOSB applications to the OIG. VA has also begun action on some remaining recommendations, such as providing fraud awareness training and removing contracts from ineligible firms, though these procedures need to be finalized.

Regarding the government-wide SDVOSB program, no action has been taken by agencies to improve fraud-prevention controls. Relying almost solely on firms' self-certification, the program continues to lack controls to prevent fraud and abuse. The Small Business Administration (SBA) does not verify firms' eligibility status, nor does it require that they submit supporting documentation. While SBA is under no statutory obligation to create a verification process, five new cases of potentially ineligible firms highlight the danger of taking no action. These firms received approximately \$190 million in SDVOSB contract obligations. In one case, a firm found ineligible by VA continued to self-certify as an SDVOSB and received about \$860,000 from the General Services Administration and the Department of Interior. Further, the Department of Defense (DOD) OIG reported in 2012 that DOD provided \$340 million to firms that potentially misstated their SDVOSB status. To address these vulnerabilities, GAO previously suggested that Congress consider providing VA with the authority necessary to expand its SDVOSB eligibility verification process government-wide. Such an action is supported by the fact that VA maintains the database identifying which individuals are service-disabled veterans and is consistent with VA's mission of service to veterans. However, the problems GAO identified with VA's verification process indicate that an expansion of VA's authority to address government-wide program problems should not be undertaken until VA demonstrates that its process is successful in reducing its own SDVOSB program's vulnerability to fraud and abuse.

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Abbreviations

2006 Act	Veterans Benefits, Health Care, and Information Technology Act of 2006
2010 Act	Veterans Small Business Verification Act
CCR	Central Contractor Registration
CVE	Center for Veterans Enterprise
DOD	Department of Defense
DOI	Department of Interior
EPLS	Excluded Parties List System
FAR	Federal Acquisition Regulation
FPDS-NG	Federal Procurement Data System-Next Generation
GSA	General Services Administration
HUBZone	Historically Underutilized Business Zone
NAICS	North American Industry Classification System
OIG	Office of Inspector General
ORCA	Online Representations and Certifications Application
SBA	Small Business Administration
SDVOSB	Service-Disabled Veteran-Owned Small Business
VA	Department of Veterans Affairs
VOSB	Veteran-Owned Small Business

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Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

August 1, 2012

The Honorable Marlin A. Stutzman
Chairman
The Honorable Bruce L. Braley
Ranking Member
Subcommittee on Economic Opportunity
Committee on Veterans' Affairs
House of Representatives

The Honorable Bill Johnson
Chairman
The Honorable Joe Donnelly
Ranking Member
Subcommittee on Oversight and Investigations
Committee on Veterans' Affairs
House of Representatives

In fiscal year 2010, federal agencies awarded \$10.8 billion in small-business obligations to firms in the Service-Disabled Veteran-Owned Small Business (SDVOSB) program, according to the Small Business Administration (SBA). The SDVOSB program is intended to honor business-owning veterans who incurred or aggravated disabilities in the line of duty by providing their firms with sole-source and set-aside contracting opportunities.¹ Firms must meet several requirements to be eligible to participate in the program, such as being majority-owned by one or more service-disabled veterans who manage and control daily business operations.²

SBA, which administers the government-wide SDVOSB program, does not verify firms' eligibility for the program, and has stated that its only statutory obligation is to report on other agencies' success in meeting SDVOSB contracting goals. In 2009, we investigated 10 cases in which

¹Veterans Benefits Act of 2003, Pub. L. No. 108-183, § 308, 117 Stat. 2651, 2662 (codified at 15 U.S.C. § 657f).

²If the business is publicly owned, at least 51 percent of the stock must be held by one or more service-disabled veterans. The spouse or permanent caregiver of a veteran with a permanent and severe disability may also control the business. See 13 C.F.R. § 125.8(g).

ineligible firms that self-certified their service-disabled veteran-owned business status received about \$100 million in SDVOSB contracts.³ Since 2009, we have issued nine reports and testimonies detailing how the SDVOSB program is vulnerable to fraud and abuse.⁴

Accounting for about 30 percent of government-wide awards, the Department of Veterans Affairs (VA) awarded \$3.2 billion in SDVOSB contracts in fiscal year 2010. Unlike SBA, VA is bound by law to verify firms' eligibility; the Veterans Benefits, Health Care, and Information Technology Act of 2006 (2006 Act) requires VA to maintain a database of SDVOSBs and Veteran-Owned Small Businesses (VOSB), known as VetBiz.⁵ The 2006 Act also requires that VA verify the ownership, control, and veteran or service-disabled status of firms listed in VetBiz to confirm that they are eligible to receive VA SDVOSB set-aside and sole-source contracts. In response to the 2006 Act, VA chose to implement a verification process consisting of checking whether a firm's owner was listed in VA's database of service-disabled veterans and conducting searches on publicly available websites such as the Excluded Parties List System (EPLS), which lists firms that have been debarred from doing business with the federal government. Nonetheless, we reported in 2009 and 2010 that this verification process allowed ineligible firms to be wrongly certified. In 2011, VA's Office of Inspector General (OIG) also reported on the basis of a random selection of 42 firms that 32 of 42 SDVOSBs and VOSBs listed in the VetBiz database were ineligible for the VA SDVOSB program.⁶

As part of our past work, we made recommendations to strengthen both government-wide and VA fraud-prevention controls. Further, in response to the Veterans Small Business Verification Act (2010 Act), part of the

³GAO, *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).

⁴See the list of related GAO products at the end of this report.

⁵Pub. L. No. 109-461, § 502, 120 Stat. 3403, 3431 – 3435 (codified as amended at 38 U.S.C. § 8127).

⁶VA Office of Inspector General (OIG), *Department of Veterans Affairs: Audit of Veteran-Owned and Service-Disabled Veteran-Owned Small Business Programs*, 10-02436-234 (July 25, 2011).

Veterans' Benefits Act of 2010,⁷ VA implemented a more-thorough verification process that includes unannounced and announced site visits, and review and analysis of company documentation to validate a firm's eligibility as owned and controlled by serviced-disabled veterans before listing the firm in VetBiz. In July 2011, we reported that both SBA and VA had taken positive steps in response to our findings and recommendations, but that both the government-wide and VA programs remained vulnerable to fraud and abuse.⁸ To determine whether the program remains vulnerable to fraud and abuse, you requested that we update our prior work and report the status of our recommendations. Therefore, we assessed (1) VA's progress in addressing remaining vulnerabilities to fraud and abuse in its SDVOSB program and (2) actions taken by SBA or other federal agencies since our previous reports to improve government-wide SDVOSB fraud-prevention controls.

To assess vulnerabilities in VA's verification process, we reviewed prior findings and recommendations from GAO audits and investigations of VA's VetBiz verification program, including the status of recommendations we issued to VA in October 2011.⁹ We also reviewed VA's standard operating procedures, internal control policies, a VA OIG report, and other related documents.¹⁰ We interviewed various agency officials about the status of VA's verification efforts. To assess VA's progress toward verifying all firms in VetBiz under the 2010 Act, we reviewed relevant statutes and regulations governing the program, VA guidance, VA statements provided to Congress, and related documents. We also interviewed various agency officials.

To assess actions taken to improve government-wide SDVOSB fraud-prevention controls since our previous reports, we reviewed prior findings and recommendations from our audits and investigations of the SDVOSB

⁷Pub. L. No. 111-275, § 104, 124 Stat. 2864, 2867–2868 (amending 38 U.S.C. § 8127).

⁸GAO, *Service-Disabled Veteran-Owned Small Business Program: Preliminary Information on Actions Taken by Agencies to Address Fraud and Abuse and Remaining Vulnerabilities*, [GAO-11-589T](#) (Washington, D.C.: July 28, 2011).

⁹GAO, *Service-Disabled Veteran-Owned Small Business Program: Additional Improvements to Fraud Prevention Controls Are Needed*, [GAO-12-152R](#) (Washington, D.C.: Oct. 26, 2011).

¹⁰VA OIG, *Department of Veterans Affairs: Audit of Veteran-Owned and Service-Disabled Veteran-Owned Small Business Programs*.

program. We reviewed applicable guidance on internal control standards from our Standards for Internal Control in the Federal Government,¹¹ the fraud-prevention framework,¹² and a Department of Defense (DOD) OIG report.¹³ We requested information from SBA on any actions that it has taken in response to our recommendations. We also requested information from SBA and VA on any actions taken related to the 10 cases of ineligible firms identified in our previous work.¹⁴ In addition, we contacted agency OIGs who received our fraud referrals pertaining to these 10 cases to learn of any action taken against the firms. We also searched the Central Contractor Registration (CCR)¹⁵ to determine whether original case-study firms were self-certified as SDVOSBs and searched VA's VetBiz online database to determine whether original case-study firms were listed in the system as verified SDVOSB firms. In addition, we searched EPLS to determine if any agencies had suspended or debarred¹⁶ the original case-study firms or related individuals we investigated.

¹¹GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1999).

¹²GAO, *Service-Disabled Veteran-Owned Small Business Program: Fraud Prevention Controls Needed to Improve Program Integrity*, [GAO-10-740T](#) (Washington, D.C.: May 24, 2010).

¹³DOD OIG, *Inadequate Controls Over the DOD Service-Disabled Veteran-Owned Small Business Set-Aside Program Allow Ineligible Contractors to Receive Controls*, 2012-059 (Feb. 29, 2012).

¹⁴For our prior work, we selected cases on the basis of a variety of factors including facts and evidence provided in protests and allegations, whether a firm received multiple SDVOSB contracts, and whether a firm received other non-SDVOSB contracts. Our prior work was not designed to identify all firms that misrepresent themselves as SDVOSBs or commit fraudulent or abusive activity, and case examples could not be projected to the overall population of SDVOSB firms.

¹⁵CCR is the primary registrant database for the U.S. federal government. CCR collects, validates, stores, and disseminates data in support of agency acquisition missions, including federal agency contract and assistance awards.

¹⁶Suspension and debarment actions prevent companies and individuals from participating in government contracts, subcontracts, loans, grants, and other assistance programs. The effect of suspension and debarment by a federal agency is government-wide. Suspensions are temporary actions, effective immediately, which disqualify a company pending the completion of an investigation and generally do not last longer than 1 year. Debarments, which are imposed after an investigation, result in a set period of disqualification, but generally not greater than 3 years.

To further assess vulnerabilities in both the government-wide and VA SDVOSB fraud-prevention controls, we investigated new allegations from informants regarding firms that received SDVOSB contracts through fraudulent or abusive eligibility misrepresentations. We did not design our work to identify all firms that misrepresent themselves as SDVOSBs or commit fraudulent or abusive activity in the SDVOSB program, nor did we attempt to identify fraud and abuse in SDVOSB subcontracts. In addition, our case examples cannot be projected to the overall population of SDVOSB firms. To identify potential cases, we reviewed SDVOSB contract awards and protests filed with SBA since 2008 and VA since 2010. We also analyzed the CCR database and VA's VetBiz database of applicants for fraudulent activity and reviewed over 100 allegations of fraud and abuse we received from informants between 2009 through 2011. From these sources, we selected 10 potential cases¹⁷ for further investigation on the basis of a variety of factors, including the credibility and specificity of facts and evidence provided in protests and allegations and whether a firm received multiple SDVOSB contracts since fiscal year 2010. We attempted to select case studies from two categories: SDVOSBs verified in VetBiz and firms listed in CCR as SDVOSBs that were not verified by VA. In addition, these 10 cases were not under investigation by the SBA or VA OIGs at the time of selection.

To validate the facts in these cases, we interviewed some firm owners and managers and reviewed relevant documentation, such as business filings and tax returns, to determine if SDVOSB eligibility requirements had been met. We reviewed certifications made by firms, such as certifications about a firm's size, SDVOSB status, and line of business, in the federal government's Online Representations and Certifications Application (ORCA)¹⁸ and CCR. We also analyzed data from Federal Procurement Data System-Next Generation (FPDS-NG)¹⁹ from October

¹⁷For the purposes of our investigation, we defined a case-study as one or more affiliated firms or joint ventures that obtained SDVOSB set-aside and sole-source contracts. These cases include multiple firms owned by an individual or multiple firms affiliated through joint ventures and other types of partner agreements.

¹⁸ORCA is a Web-based system that centralizes and standardizes the collection, storage, and viewing of many Federal Acquisition Regulation (FAR) required representations and certifications.

¹⁹The FPDS-NG is the central repository for capturing information on federal procurement actions. Dollar amounts reported by federal agencies to FPDS-NG represent the net amount of funds obligated and deobligated as a result of procurement actions.

2009 through December 2011 to identify SDVOSB contract obligations received by the firms, and confirmed the contract information with awarding agencies. We also reviewed Accurint²⁰ reports to identify whether owners and firms had any criminal records and federal tax liens and validated this information if necessary. Ultimately, through a combination of data matching, a review of public records, and interviews, we were able to substantiate the informants' allegations in 4 of the 10 cases and have gathered enough evidence to indicate firms in a fifth case may be ineligible. We have highlighted examples from these 5 cases throughout this report and will refer them to SBA and VA and other appropriate agencies for further review. We were unable to conclusively determine eligibility in the remaining 5 cases.

To assess the reliability of the data sources used for this report, including EPLS, FPDS-NG, and VetBiz, we interviewed agency officials and traced information to source documents when possible. We verified the suspension and debarment information with SBA and the appropriate agencies. We verified the contract obligations with the awarding agencies. We also verified the firms' VetBiz SDVOSB verification status with VA. We determined that the data were sufficiently reliable for the purpose of our audit. We conducted this performance audit from January 2011 to July 2012 in accordance with generally accepted government auditing standards.²¹ 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. We performed our investigative work from January 2011 to July 2012 in accordance with the standards prescribed by the Council of the Inspectors General on Integrity and Efficiency.

²⁰LexisNexis' Accurint is a database that can provide information on people, businesses, assets and locations, including bankruptcy filings, liens and arrest records.

²¹Some of the work in this report is based on prior GAO products issued in 2012, 2011, and 2009. GAO, *Service-Disabled Veteran-Owned Small Business Program: Governmentwide Fraud Prevention Control Weaknesses Leave Program Vulnerable to Fraud and Abuse, but VA Has Made Progress in Improving Its Verification Process*, [GAO-12-443T](#) (Washington, D.C.: Feb. 7, 2012); *Service-Disabled Veteran-Owned Small Business Program: Additional Improvements to Fraud Prevention Controls Are Needed*, [GAO-12-205T](#) (Washington, D.C.: Nov. 30, 2011); [GAO-11-589T](#); and [GAO-10-108](#).

Background

Federal regulations set requirements for a small business to qualify as an SDVOSB. SDVOSB eligibility regulations mandate that a firm must be a small business and at least 51 percent-owned by one or more service-disabled veterans who control the management and daily business operations of the firm. Federal statutes and the Federal Acquisition Regulations (FAR) require all prospective contractors to update the ORCA to state whether their firm qualifies as an SDVOSB.²² Additionally, the SDVOSB, as a contractor, is required to register in CCR. Contracting officials are required to check CCR, which includes information such as a firm's status as an SDVOSB, prior to awarding most federal contracts, including an SDVOSB set-aside or sole-source contract. Once an SDVOSB receives a contract, SDVOSB regulations also place restrictions on the amount of work that can be subcontracted.

With regard to VA's program, VA's Center for Veterans Enterprise (CVE) is responsible for maintaining VetBiz and implementing VA's verification program. The 2010 Act requires that no new small-business applicant may appear in VA's SDVOSB and VOSB VetBiz database unless it has been verified by VA as owned and controlled by a veteran or service-disabled veteran. Further, within 60 days after enactment, VA was required to notify all unverified businesses in its VetBiz database about the need to provide supporting documents to establish veteran ownership and control. Firms were required to do so within 90 days of receipt of the notification in order to avoid removal of the firm from VetBiz.²³ To check veteran status, CVE relies in part on VA's Beneficiary Identification Records Locator Subsystem, which confirms that owners are documented as having left service with other than a dishonorable discharge and that disability results from a service-connected condition. In response to the 2010 Act, VA also implemented a verification process that included unannounced and announced site visits, and review and analysis of company documentation. The 2010 Act does not include a date by which VA must complete the verification of firms. Firms that misrepresent

²²15 U.S.C. § 632(x) and 48 C.F.R. § 4.1201. This provision, in addition to others in the Small Business Jobs Act of 2010, Pub. L. No. 111-240, §§ 1341–1342, 124 Stat. 2504, 2543–2544, help facilitate the prosecution of firms that willfully seek and receive small-business awards through misrepresentation of their status, including SDVOSBs.

²³Once CVE verifies a business, it sends an approval letter to the firm. Under regulations first promulgated in 2008, firms retained their eligibility status for 1 year from the date of the letter. However, on June 27, 2012, VA issued updated regulations extending the eligibility period to 2 years before reverification is required.

SDVOSB status are required by law to be debarred from contracting with VA for a reasonable period of time, as determined by VA.²⁴ Additionally, VA regulations state that if a firm or owner is currently debarred or suspended, or is delinquent or in default on significant financial obligations owed to the federal government, then the firm or owner is ineligible for VA's VetBiz verification program.²⁵

Federal law has established government-wide goals for specific types of small businesses to receive a percentage of the total value of all prime-contract and subcontract awards for each fiscal year. The statutorily-mandated goal for SDVOSB participation is not less than 3 percent²⁶ of all federal contract dollars awarded each fiscal year.²⁷ SBA stated in its most recent report that, in fiscal year 2010, \$10.8 billion in small-business obligations were awarded to firms that self-certified themselves in the CCR as SDVOSBs.²⁸ DOD SDVOSB contracts accounted for \$5.3 billion or 49 percent of government-wide SDVOSB contracts during fiscal year 2010,²⁹ and VA SDVOSB contracts accounted for \$3.2 billion, or 30 percent during the same period.³⁰ Figure 1 summarizes the federal contracts awarded in fiscal year 2010 by federal agencies.

²⁴38 U.S.C. § 8127(g).

²⁵Government-wide, all prospective federal contractors must certify whether they are delinquent on certain federal tax debts. However, such delinquency may not result in an automatic disqualification from contracting eligibility, as it does in VA's VetBiz eligibility.

²⁶The federal government as a whole failed to reach the 3 percent goal in fiscal year 2010.

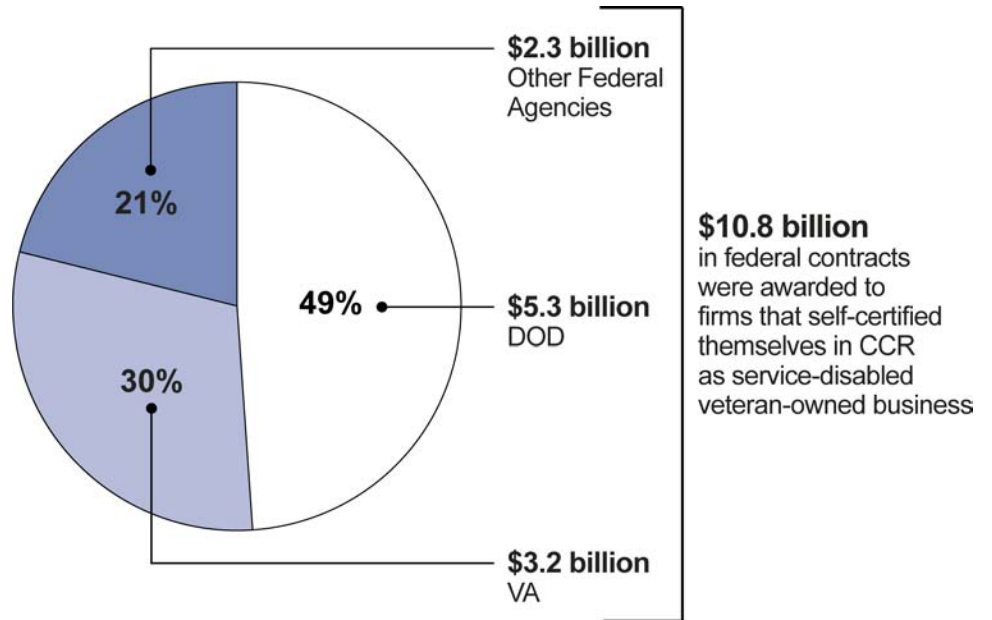
²⁷Veterans Entrepreneurship and Small Business Development Act of 1999, Pub. L. No. 106-50, § 502, 113 Stat. 233, 247–248 (codified at 15 U.S.C § 644 (g)(1)).

²⁸SBA calculates its SDVOSB total by including all small-business dollars awarded to SDVOSBs, not just those received through set-aside or sole-source contracts.

²⁹In 2012, DOD OIG reported that DOD contracting personnel incorrectly coded 137 fiscal year 2010 contracts, valued at approximately \$1.3 billion, as SDVOSB awards.

³⁰In 2011, VA OIG reported that total fiscal year 2010 SDVOSB and VOSB procurement dollars may actually be lower than reported by VA.

Figure 1: Federal Contracts Awarded to SDVOSBs in Fiscal Year 2010

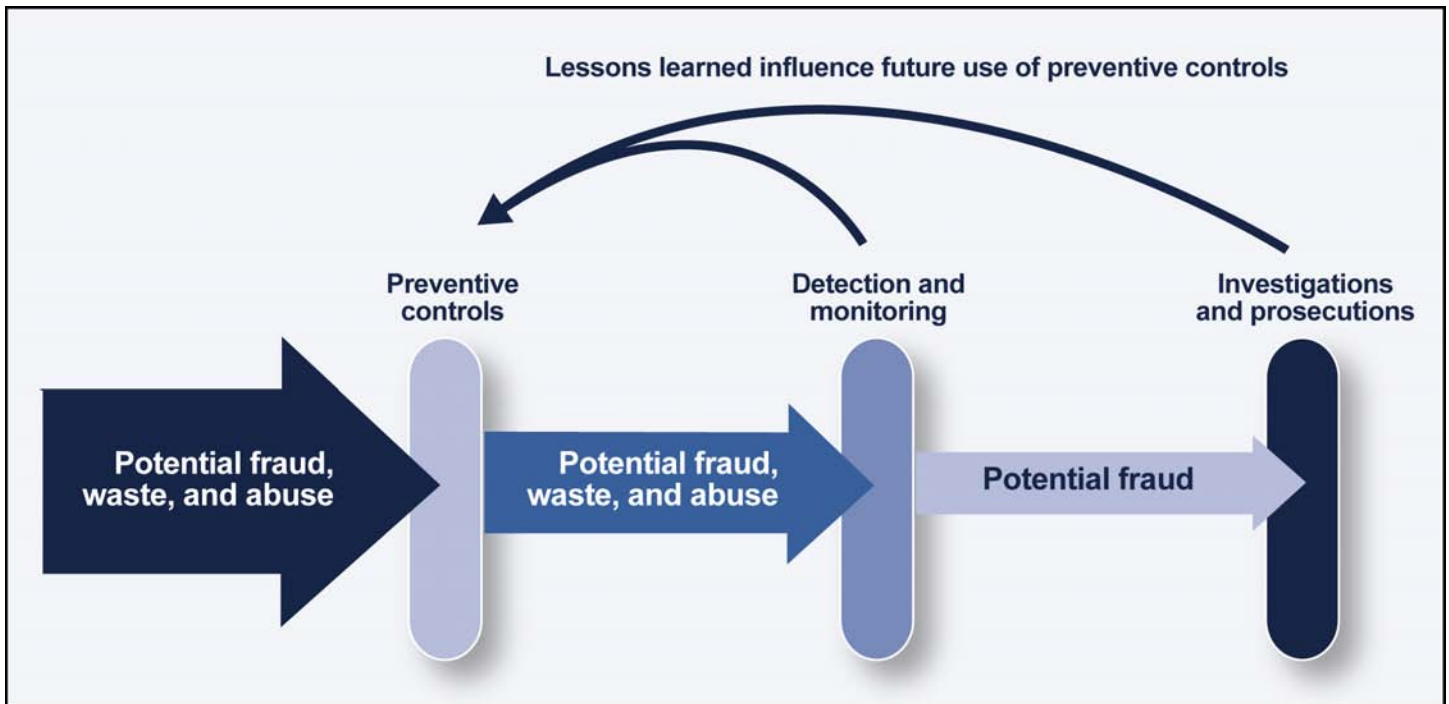


Source: GAO analysis of SBA Goaling Report Data.

Since 2009, GAO has issued nine reports or testimonies on the SDVOSB program, focusing on its vulnerability to fraud and abuse, and agencies' actions to prevent contracts from going to firms that misrepresent themselves as SDVOSBs.³¹ When discussing the SDVOSB program, we have shown that a well-designed fraud-prevention system should consist of three crucial elements: (1) up-front preventive controls, (2) detection and monitoring, and (3) investigations and prosecutions. Figure 2 below outlines the key aspects of an effective fraud-prevention framework.

³¹See the list of related GAO products at the end of this report.

Figure 2: GAO's Fraud-Prevention Framework



Source: GAO.

The most effective and most efficient part of a fraud-prevention framework involves the institution of rigorous controls at the beginning of the process. At a minimum, preventive controls for the SDVOSB program should be designed to verify that a firm seeking SDVOSB status is eligible for the program. Even with effective prevention controls, there is residual risk that firms that appeared to meet SDVOSB program requirements initially will violate program rules once they obtain contracts. This fact makes effective monitoring and detection controls essential in a robust fraud-prevention framework. Detection and monitoring efforts include activities such as periodic reviews of suspicious firms and evaluating firms to provide reasonable assurance that they continue to meet program requirements. Finally, fraud-prevention controls are not fully effective unless identified fraud is aggressively prosecuted or companies are suspended, debarred, or otherwise held accountable, or both.

VA's Program Remains Vulnerable to Fraud and Abuse as a Result of a Lack of Inventory Control and Potentially Ineligible Firms Listed in VetBiz

VA has made numerous conflicting statements about its progress verifying firms listed in VetBiz under the more-thorough process the agency implemented in response to the 2010 Act. These statements indicate that VA has taken an inconsistent approach to prioritizing the verification of firms and has been unable to accurately track the status of its efforts. Specifically, at the close of our audit work, documentation provided by VA indicated that thousands of SDVOSBs listed as eligible in VetBiz received millions of dollars in SDVOSB sole-source and set-aside contract obligations even though they had not been verified under the more-thorough process implemented in response to the 2010 Act. At that time, VA told us it planned to remove all firms that had their 1-year verification period expired and had not provided documentation for reverification under the 2010 Act process. Since then, on June 27, 2012, VA implemented an interim final rule that extends the eligibility of verified firms to 2 years, including firms for which the eligibility period had expired but that had not yet been reverified. Extending the eligibility period may allow VA to focus its efforts on more thoroughly verifying firms that were previously verified under VA's less-stringent 2006 Act process. However, the extension also allows thousands of firms to continue to be eligible for contracts even though they have not undergone the more-thorough process. With regard to our previous work, VA has 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. VA has also begun action on some remaining recommendations.

VA Has Difficulty Tracking Its Inventory of Firms

VA has provided a number of conflicting statements and explanations related to the status of its verification program, indicating that it is having difficulty tracking its inventory of firms and whether they were verified under the process implemented to carry out the 2010 Act. As we previously stated, the process VA implemented to review firms under the 2006 Act consisted of checking whether a firm's owner was listed in VA's database of service-disabled veterans and conducting searches on publicly available websites such as the EPLS, which lists firms that have been debarred from doing business with the federal government. In contrast, VA stated that it implemented a more-thorough verification process under the 2010 Act that included unannounced and announced site visits and a review and analysis of company documentation.

Although the 2010 Act did not include a date by which VA must complete the verification of firms, within 60 days of the law's enactment VA was required to notify all unverified firms listed in its VetBiz database about the need to apply for verification by submitting documents to establish

veteran ownership and control. Firms were required to do so within 90 days of receipt of the notification in order to avoid removal of the firm from VetBiz. VA officials told us that the agency prioritized its verification under the process implemented in response to the 2010 Act by reviewing (1) new applications for firms that had previously only self-certified in VetBiz (i.e., firms that had not been reviewed under the processes VA created for the 2006 Act or 2010 Act); (2) new firms that had initially applied for verification after the 2010 Act, to include reprocessing any firms that were denied through the new requirements and subsequently requested reconsideration; and (3) applications for firms initially verified in VetBiz under the process VA chose to implement for the 2006 Act.

However, our review of information provided by VA raises concerns about the status of this process and whether VA knows how many of its firms have actually been verified under the processes implemented in response to the 2010 Act. In one communication, VA stated that as of February 2011, VA's 2006 Act verification process had been discontinued, and all new verifications would use the process implemented in response to the 2010 Act going forward. Because firms would need to reverify 1 year later, this meant that only firms verified under the 2010 Act process should have been in VetBiz as of February 2012. In November 2011, VA reported that it had removed all unverified firms from its database on September 4, 2011. Subsequently, while reviewing new cases involving firms that had received VA SDVOSB contracts, we found instances where firms were not verified under VA's 2010 Act process, but rather were verified under its 2006 Act process.³²

When we met with VA in February 2012 to discuss our new cases, officials confirmed that there were still firms in VetBiz that had not been through the processes implemented in response to the 2010 Act, but did not explain how many firms still had not gone through the new process. Then, on April 23, 2012, officials told us that they had recently removed thousands of firms from VetBiz because these firms had not supplied the supporting documentation that VA decided was required for verification under the process implemented in response to the 2010 Act; VA indicated that it planned to remove hundreds of additional firms for the same reason. VA has provided conflicting statements about whether these firms

³²In one of our cases, firms that were in fact ineligible for the program received approximately \$16 million in VA SDVOSB set-aside and sole-source contract obligations, \$251,000 of which were new obligations, from October 2010 to December 2011.

received the December 2010 request to supply documentation. Further, over the next month, VA officials provided us with at least seven differing accounts of the number of SDVOSBs verified under the processes implemented for the 2006 Act and 2010 Act, the number of SDVOSBs they planned to remove, and the timing of the removals. VA's conflicting statements create uncertainty about the status of the agency's efforts to verify firms under the process implemented for the 2010 Act. Without a clear inventory and methods designed to track the verification process firms have undergone, VA cannot provide reasonable assurance that all firms appearing in VetBiz have been verified as owned and controlled by a veteran or service-disabled veteran.

In its agency comments, VA explained these inventory issues by noting (1) the lack of a comprehensive case-management system has created the need for aggregate workarounds and resulted in inconsistent aggregate reporting; (2) the limitations of its current case-management system make it difficult to track the inventory of firms; and (3) as the limitations of the case-management system increase over time, the potential of CVE to lose track of how many firms have been verified also increases. VA also noted that its verification priorities have evolved over time.

As of the close of our audit work, the information provided by VA indicated that thousands of potentially ineligible firms remain listed in VetBiz because they have not been verified under the more thorough process implemented for the 2010 Act. Our analysis shows that as of April 1, 2012, 3,717 of the 6,178 SDVOSBs (60 percent) listed as eligible in VetBiz had yet to be verified using the more-thorough verification process. Of these 3,717 firms listed as eligible on April 1, 2012, 134 received a total of \$90 million in new VA SDVOSB sole-source or set-aside contract obligations during the 4-month period from November 30, 2011, to April 1, 2012.³³ On May 14, 2012, VA told us that it removed 1,857 of these 3,717 SDVOSBs from April 2 to April 10, 2012, so that they are no longer eligible for VA SDVOSB sole-source and set-aside contracts. According to VA, the remaining 1,860 firms that had not received a review under the 2010 Act process were projected to be removed in July 2012 unless the firms provided adequate documentation supporting their eligibility. VA also stated that these firms were identified

³³We did not investigate these 134 firms to determine if they were in fact ineligible.

as being in “reverification” and no such expired firm was eligible for an actual contract award until the reverification decision had been completed.

Since then, on June 27, VA implemented an interim final rule that extends the eligibility of verified firms to 2 years. VA told us it interprets “verified” to include any firm that has been verified under either its 2006 or 2010 Act processes. Therefore, according to the interim rule, as long as a firm is verified under either process and is in its 2-year eligibility period, VA is only authorized to initiate a verification examination if it receives credible evidence calling into question a participant’s eligibility. Furthermore, VA considered firms whose prior 1-year eligibility period had recently expired, but who had not yet been through reverification, to be within the scope of the new rule, thus extending their eligibility another year. Extending the eligibility period may allow VA to focus its efforts on more thoroughly verifying firms that were previously verified under its less-stringent 2006 Act process. However, the extension also allows thousands of firms to continue to be eligible for contracts even though they have not undergone the more-thorough process. For example, according to information provided by VA in its comments, as of July 13, 2012, there are 6,079 SDVOSBs and VOSBs listed in VetBiz. Of these, 3,724 were verified under the more-through process implemented under the 2010 Act and 2,355—over 38 percent—were verified under VA’s less-rigorous 2006 Act process. As VA acknowledges in its agency comments, “the retention of firms verified prior to the 2010 Act [process] increases the possibility awards will go to firms that will not be verified when the more rigorous process is applied.”

Moreover, past audits show the risk of providing SDVOSB contracts to firms reviewed under VA’s 2006 Act process. For example, in 2011, VA’s own OIG issued a report that reviewed both SDVOSBs and VOSBs listed in VetBiz and found that 10 of 14 SDVOSBs and VOSBs verified under VA’s 2006 Act process and listed as eligible were in fact ineligible for these respective programs. The report identified several reasons for why these firms were ineligible, including improper subcontracting practices, lack of control and ownership, and improper use of SDVOSB status, among others. Further, the report noted VA’s document-review process under the 2006 Act “in many cases was insufficient to establish control and ownership... [and] in effect allowed businesses to self-certify as a veteran-owned or service-disabled veteran-owned small business with little supporting documentation.” The report goes on to state that VA’s failure to maintain “accurate and current” information in the VetBiz database also exacerbated problems in the verification process. VA’s OIG

also used statistical sampling methods to project that (1) \$500 million of VA SDVOSB and VOSB contracts were awarded annually to ineligible firms and (2) VA will award about \$2.5 billion in SDVOSB and VOSB contracts to ineligible firms over the next 5 years if it does not strengthen its oversight and verification procedures.

VA Has Made Some Progress in Addressing Our Prior Recommendations

In October 2011, we issued 13 recommendations to VA related to vulnerabilities in the verification process implemented by VA after the 2010 Act; VA generally concurred with our recommendations. As of June 2012, VA has provided us with documentation demonstrating that it has established procedures in response to 6 of these recommendations. Figure 3 shows the status of the recommendations; more specific information on each recommendation follows the figure. We have not assessed the effectiveness of any of the procedures that VA has established thus far as this is beyond the scope of this report.

Figure 3: Status of GAO's Previous Recommendations

Fraud-prevention controls	GAO recommendations	Status as of June 2012
Preventive	Provide regular fraud-awareness training to CVE and VA contracting personnel	○
	Provide additional guidance and training to the VA contracting personnel on the use of the VetBiz website so that SDVOSB contracts are only awarded to verified firms	●
	Establish formal procedures for VA staff to refer suspicious applications to the OIG and provide guidance on what type of cases to refer to the OIG	●
	Explore the feasibility of validating applicants' information with third parties, for example, requesting consent from SDVOSB applicants to validate tax information with the IRS to assess the accuracy of the information provided	●
	Formalize a process for conducting unannounced site visits to firms identified as high risk during the verification process	●
Detection and Monitoring	Develop and implement procedures for conducting unannounced site visits to contract performance locations and interviews with contracting officials to better assess whether verified companies comply with program rules after verification	○
	Develop and implement a process for unannounced site visits to verified companies' offices to obtain greater effectiveness and consistency in the verification program	●
	Develop procedures for risk-based periodic reviews of verified firms receiving contracts to assess compliance with NAICS size standards and SDVOSB program rules	○
Investigations and Prosecutions	Develop and implement specific processes and criteria for the Debarment Committee on compliance with the requirement in the 2006 Act to debar, for a reasonable period of time, firms and related parties that misrepresent their SDVOSB status	○
	Develop and implement specific procedures and criteria for staff to make referrals to VA's Debarment Committee and VA's OIG as a result of misrepresentations identified during initial verification and periodic reviews	●
	Develop specific guidelines outlining the Debarment Committee's decision process to debar firms that misrepresent their SDVOSB status	○
	Develop procedures on removing SDVOSB contracts from ineligible firms	○
	Formalize procedures to advertise debarments and prosecutions	○

- Process established
- Process not established

Source: GAO and analysis of VA data.

Process Established

- **VA has provided additional guidance and training to the VA contracting personnel on the use of the VetBiz website.** In December 2011, VA issued a guidance memo requiring VA contracting personnel to check VetBiz to ensure that a firm is verified both upon receipt of an offer and prior to award. In November 2011, VA also provided training to the contracting personnel on the use of VetBiz. Providing guidance and training to current and new contracting personnel will help to ensure that these staff are aware of the need to check VetBiz prior to awarding a contract.
- **VA has established formal procedures for VA staff to refer suspicious applications to the OIG and provided guidance on what type of cases to refer to the OIG.** In April 2012, VA issued procedures for VA staff to use if they identify suspicious information or possible misrepresentations on an application for eligibility during their initial review process. These procedures contain step-by-step instructions for how to notify the OIG about suspicious applications. Specifically, CVE’s “risk team” makes a determination as to whether or not an applicant has intentionally misrepresented its status in an apparent attempt to defraud the government. If the information is credible, the applicant is referred to the VA OIG. If VA OIG accepts the referral, it conducts preliminary inquiries to determine whether a full investigation into criminal activity is warranted. If the OIG declines the investigation, VA can refer the matter to VA’s Debarment Committee, which VA instituted in September 2010 specifically to debar firms that had violated SDVOSB regulations. In addition to these procedures, from November 2011 through January 2012, VA provided three training sessions to the VA staff on the type of red flags to note during the application review.
- **VA has explored the feasibility of validating applicants’ information with third parties.** In 2012, VA met with Dun and Bradstreet³⁴ to explore the feasibility of utilizing their services to validate applicants’ information, such as names and titles of business owners. Validating applicants’ information with third parties may help enhance VA’s ability to assess the accuracy of self-reported information.

³⁴Dun and Bradstreet is a public company that licenses information on businesses and corporations.

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- **VA has formalized a process for conducting unannounced site visits to firms identified as high-risk during the verification process.** In June 2012, VA issued procedures for VA to conduct unannounced site visits on a sample of 50 percent of high-risk firms identified during the verification process. Formalizing this process with a focus on high-risk firms may help provide reasonable assurance that only eligible firms gained access to the VetBiz database.
 - **VA has developed and implemented a process for unannounced site visits to verified companies to obtain greater effectiveness and consistency in the verification process.** VA's aforementioned June 2012 procedures also apply to verified companies. VA developed a process to select on a weekly basis, based on a combination of random and risk-based factors, verified firms to receive an unannounced site visit. In addition, according to VA it has started making these unannounced site visits. Conducting these site visits may help provide reasonable assurance to VA that the verification process is effective.
 - **VA has developed and implemented specific procedures and criteria for staff to make referrals to the Debarment Committee and VA OIG as a result of misrepresentations identified during initial verification and periodic reviews.** VA's aforementioned April 2012 procedures also apply to false information or misrepresentations identified after VA's initial review of the application, during the firm's eligibility period. These procedures may increase VA's success in pursuing firms that have misrepresented their eligibility for the program.
 - **VA has not provided regular fraud-awareness training to CVE and VA contracting personnel.** One of the most significant challenges to an effective verification program is to have sufficient human capital with proper training and experience. Although VA has not established regular fraud-awareness training, it has made progress in this area. For example, VA told us that its OIG recently provided training on procurement fraud and that its General Counsel provides weekly training on examination procedures and policies in order to educate staff on fraud prevention. In addition, VA said that it has plans to require all CVE staff to attend a fraud examiners course; several CVE staff were already scheduled to attend fraud training in July 2012. Having sufficient human capital with the proper training and experience would enhance the effectiveness of the verification program.

Process Not Established

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- **VA has not developed and implemented procedures for conducting unannounced site visits to contract performance locations and interviews with contracting officials to better assess whether verified companies comply with program rules after verification.** VA has started conducting announced site visits as part of its subcontracting compliance review program. This program is used to determine if a firm is performing in accordance with percentage of work performance requirements and other subcontracting commitments. However, VA has not developed and implemented procedures for conducting unannounced site visits to contract performance locations and interviews with contracting officials. The unannounced site visits and interviews with contracting officials would allow VA to better assess whether verified firms comply with program rules after verification.
 - **VA has not developed procedures for risk-based periodic reviews of verified firms receiving contracts to assess compliance with North American Industry Classification System (NAICS)³⁵ size standards and SDVOSB program rules.** In order to be eligible for SDVOSB set-aside and sole-source contracts, a firm must qualify as a small business under NAICS size standards. In draft guidelines, VA included supplemental information for VA staff to review the firm's NAICS codes size standards, but these guidelines have yet to be finalized. Moreover, the draft guidelines do not include procedures for periodic reviews of verified firms' compliance with these standards. Such procedures would help improve continued compliance with SDVOSB program rules.
 - **VA has not developed and implemented specific processes and criteria for the Debarment Committee on compliance with the requirement in the 2006 Act to debar, for a reasonable period, firms and related parties that misrepresent their SDVOSB status.** According to VA, its Debarment Committee relies on procedures outlined in the FAR and the VA Acquisition Regulations to determine the length of debarments.
 - **VA has not developed specific guidelines outlining the Debarment Committee's decision process to debar firms that**

³⁵The NAICS is the standard used by federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy.

misrepresent their SDVOSB status. VA should provide the Debarment Committee with guidelines to aid its decision-making process in determining what constitutes a “misrepresentation” deserving of debarment, as that term is used in the 2006 Act.

- **VA has not developed procedures on removing SDVOSB contracts from ineligible firms.** According to the VA Acquisition Regulations, the Deputy Senior Procurement Executive has the authority to determine whether VA should terminate a contract with a debarred firm. However, VA has not developed procedures to remove SDVOSB contracts from ineligible firms. According to VA, it is in the process of developing a policy on removing SDVOSB contracts from ineligible firms as determined by status protests. In addition, VA is in the process of providing guidance to the acquisition workforce on removing SDVOSB contracts from ineligible firms. Until VA develops procedures on removing SDVOSB contracts from ineligible firms, the SDVOSB program is at risk for ineligible firms to abuse the program and retain contracts obtained through fraud and abuse.
- **VA has not formalized procedures to advertise debarments and prosecutions.** VA has not formalized procedures for advertising debarments and prosecutions, though the Debarment Committee, the OIG, and CVE have listed these actions on their websites.

No Action Has Been Taken to Improve Government-wide SDVOSB Fraud-Prevention Controls

No action has been taken to improve government-wide SDVOSB fraud-prevention controls as the program continues to remain a self-certification program. Because federal law does not require it, SBA does not verify firms’ eligibility status, nor does it require that firms submit supporting documentation. According to SBA, it is only authorized to perform eligibility reviews in a protest situation, including those cases where SBA itself has reason to believe that a firm misrepresented its SDVOSB status. However, without basic checks on firms’ eligibility claims, SBA cannot provide reasonable assurance that legitimate SDVOSBs are receiving government contracts. In fact, five of our new case-study firms received SDVOSB set-aside and sole-source contract obligations, totaling approximately \$190 million, of which \$75 million were new SDVOSB set-aside and sole-source contract obligations, from October 1, 2009, to December 31, 2011, despite evidence indicating they are ineligible for the

program.³⁶ With regard to our original 10 case-study firms reported in October 2009, some are under investigation by SBA OIG and punitive actions have been taken against others. To address vulnerabilities in the government-wide program, we previously suggested that Congress consider providing VA with the authority necessary to expand its SDVOSB eligibility verification process government-wide. Such an action is supported by the fact that VA maintains the database identifying which individuals are service-disabled veterans and is consistent with VA's mission of service to veterans. However, such action should not be undertaken until VA demonstrates that its verification process is successful in reducing the SDVOSB program's vulnerability to fraud and abuse.

Self-Certification Allows Ineligible Firms to Win and Perform SDVOSB Contracts

In our previous work, we found that the SDVOSB program did not have effective government-wide fraud-prevention controls in place and was vulnerable to fraud and abuse.³⁷ Outside of VA, there was no verification in place for SDVOSB contracting. Because federal law does not require it, SBA and agencies awarding contracts—other than VA—do not have a process in place to validate a firm's eligibility for the program, and rely on the firms self-certifying as a service-disabled veteran-owned business in CCR. We found the only process in place to detect fraud in the government-wide SDVOSB program involved a formal bid-protest process at SBA, whereby interested parties to a contract award could protest another firm's SDVOSB eligibility or small-business size. However, we reported that this self-policing process did not prevent ineligible firms from receiving SDVOSB contracts. SBA officials have told us that they have limited responsibility over the SDVOSB program, and that the agency's only statutory obligation is to report on other agencies' success in meeting SDVOSB contracting goals.

Our new case studies highlight instances of the fraud and abuse that resulted from the lack of verification of firms' SDVOSB status. In fact, five of our new case-study firms received SDVOSB set-aside and sole-source contract obligations, totaling approximately \$190 million from October 1,

³⁶The SDVOSB contract dollars reported include the four cases for which we were able to substantiate allegations of program ineligibility and one case for which we gathered enough evidence to indicate the case may be ineligible.

³⁷[GAO-10-108](#).

2009, to December 31, 2011, despite evidence indicating they are ineligible for the program. Of this \$190 million, \$75 million were new SDVOSB set-aside and sole-source contract obligations. In four of the cases we examined, we were able to substantiate informants' allegations of ineligibility as follows:

- **Non-SDVOSB joint venture.** An SDVOSB entered a joint venture with a non-SDVOSB firm and received about \$16 million in new government-wide SDVOSB set-aside contract obligations. Such joint ventures are eligible if the SDVOSB firm manages the joint venture and the contract work. However, the owner, a service-disabled veteran, admitted to our investigators that his SDVOSB firm did not manage the joint venture. Therefore, the joint venture is ineligible. This firm is currently listed as a SDVOSB in CCR, which allows the firm to compete for government-wide SDVOSB contracts.
- **VA-denied firm.** Though VA denied a firm SDVOSB status in 2010 because the firm was not controlled by a service-disabled veteran owner, the firm continued to self-certify in CCR. A VA site visit found the service-disabled veteran worked mostly at another company, and the non-service-disabled veteran vice president controlled the firm. In 2011, when the firm applied for VA verification again, the size of the firm was also questioned as it shared ownership or management with at least four different entities, including companies owned by a non-service-disabled veteran minority owner. The company withdrew its application to be a VA verified SDVOSB. In total, the firm received about \$21 million in SDVOSB set-aside and sole-source contracts from DOD, the General Services Administration (GSA), the Department of the Interior (DOI), the U.S. Department of Agriculture and the VA, \$16 million of which were new SDVOSB set-aside and sole-source contract obligations. After VA denied the firm, the firm continued to self-certify as a SDVOSB in CCR and GSA, and DOI awarded the firm about \$860,000 in new SDVOSB set-aside contracts obligations. This firm is currently listed as a SDVOSB in CCR, which allows the firm to compete for government-wide SDVOSB contracts.
- **Multiple firms not veteran-controlled.** A service-disabled veteran and two non-service disabled veteran co-owners owned two firms and a joint venture at the same location. VA found one of the firms ineligible. The operating agreements of two of the firms allowed the two minority owners to control the firms, rather than the service-disabled veteran. Additionally, the joint venture, created by one of the firms, was also ineligible because the service-disabled veteran's firm did not manage the joint venture and the contract work. Therefore,

none of the three firms were eligible for the SDVOSB program. The three firms received over \$91 million in SDVOSB set-aside and sole-source contract obligations, about \$18 million of which were new SDVOSB set-aside and sole-source contract obligations, from VA and the Department of Health and Human Services. The three firms have been removed from VA VetBiz. However, these firms are currently listed as SDVOSBs in CCR, which allows the firms to compete for government-wide SDVOSB contracts.

- **Not service-disabled veteran–controlled.** This firm is ineligible for the SDVOSB program because the veteran does not control the daily operations. The service-disabled veteran was not the Chief Executive Officer, and the firm’s operating agreement did not give the service-disabled veteran the exclusivity to make decisions for the company. In addition, the service-disabled veteran owner lived 500 miles away from the firm, received only \$12,000 compared to the non-service-disabled veteran minority owner’s \$88,000 salary, and failed to meet or communicate with subcontractors. This firm received about \$37 million in SDVOSB set-aside contract obligations, \$446,000 of which were new SDVOSB set-aside contract obligations, from DOD and DOI. During the course of our work, SBA and VA found this company ineligible for the SDVOSB program. This firm no longer self-certifies as a SDVOSB in CCR. On May 25, 2012, SBA debarred the non-service-disabled veteran and the firm, making them ineligible for further contracts with the federal government.

We were unable to substantiate allegations in a fifth case, but found evidence that the firm in question may be ineligible for the SDVOSB program because the service-disabled veteran owner may not spend sufficient time at the SDVOSB. The service-disabled veteran owner worked as an attorney at a legal services organization Monday through Friday about 40 hours a week, which could prevent the veteran from managing the day-to-day proceedings of the SDVOSB. This firm received about \$25 million in new SDVOSB set-aside and sole-source contract obligations from VA and the Department of Transportation. This firm is now listed as verified in VetBiz and is currently listed as a SDVOSB in CCR, which allows the firm to compete for government-wide SDVOSB contracts.

The DOD OIG likewise reported that DOD, which awarded about half of government-wide SDVOSB contracts in 2010, did not require adequate verification of contractor status before awarding contracts. After its review of DOD contracts awarded from October 2009 to July 2010, the OIG

reported that \$1.9 million in SDVOSB contracts went to firms that were not registered in CCR as SDVOSBs and \$340.3 million went to contractors that potentially misstated their SDVOSB status.³⁸ The OIG also found that DOD awarded 12 SDVOSB set-aside and sole-source contracts for a total of \$11.5 million to six firms that VA rejected. The OIG went on to recommend that DOD create an SDVOSB verification program, but the agency disagreed, citing an absence of evidence indicating that such a program would produce a net benefit to eligible SDVOSBs, and that Congress had not provided DOD with either the resources or authority to establish such a system.

To address the vulnerabilities within the government-wide program caused by reliance on a self-certification process, we suggested in 2009 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. Such an action is supported by the fact that VA maintains the database identifying which individuals are service-disabled veterans and is consistent with VA's mission of service to veterans. In 2011, legislation was also introduced and passed in the Senate requiring all agencies to use VA's VetBiz for SDVOSB contract awards; this legislation has not become law. However, as shown by our current work, VA's program remains vulnerable to fraud and abuse because the agency has been unable to accurately track the status of its efforts and because potentially ineligible firms remain listed in VetBiz. Consequently, VA's ability to show that its process is successful in reducing the SDVOSBs program's vulnerability to fraud and abuse remains an important factor in any consideration about the potential expansion of VA's eligibility verification process government-wide. GAO has ongoing work that will, in part, examine some of the key issues that need to be addressed if VA's verification program were to be implemented government-wide.

Actions Taken against Ineligible Firms

In 2009, we found that ineligible firms in 10 cases received \$100 million in SDVOSB contracts and \$300 million in other federal contracts.³⁹ We

³⁸DOD OIG, *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).

³⁹[GAO-10-108](#).

referred all 10 of these cases to the appropriate agency OIGs. As of April 2012, while none of the firms are currently suspended or debarred by the agencies that received our referrals,⁴⁰ some actions have been taken:

- The SBA OIG is proceeding with six open investigations. In addition, the SBA OIG has joined forces with other agency OIGs to pursue several cases. Specific details cannot be provided until the cases have been fully adjudicated.
- One individual related to a case is being prosecuted by the U.S. Attorney for wire fraud and fraud against the United States involving a contract valued at \$1 million or more related to its misrepresentation as an SDVOSB. In addition, this individual and a related firm were suspended by the Department of Transportation for procurement fraud.
- One individual related to a case-study is being charged by the U.S. Attorney with conspiracy to commit wire fraud and forfeiture of his assets up to \$400,000. This individual allegedly conspired to defraud the SBA and other government contractors by falsely representing his business as a service-disabled veteran-owned and operated business.
- Another case-study firm pled guilty to wire fraud in relation to fraudulently receiving Historically Underutilized Business Zone (HUBZone) federal contracts.⁴¹ Our previous finding that the case was ineligible for the SDVOSB program, in conjunction with the firm's admitting defrauding the HUBZone program, raises the concern of ineligible firms applying for multiple procurement programs.

Actions taken against firms that violate the SDVOSB program requirements should help protect the government's interest and help discourage ineligible firms from abusing the SDVOSB program. As previously discussed, providing more emphasis on debarments and

⁴⁰In 2011, GAO reported that SBA suspended four companies and three individuals associated with 2 of the 10 case-studies. Since then these suspensions have expired.

⁴¹The HUBZone program was established to provide federal contracting preferences to small businesses operating in economically distressed communities.

investigations could further help the government deter firms from attempting to fraudulently gain access to the SDVOSB program.

Conclusions

The SDVOSB program has provided billions of dollars in contracting opportunities to deserving service-disabled veterans. However, our body of work, along with work by the DOD OIG and VA OIG, has found that the program is vulnerable to fraud and abuse, which has allowed millions of dollars to be awarded to ineligible firms. The government-wide program remains particularly vulnerable since it relies on an honor-system-like process whereby firms self-certify their eligibility. VA has the only program within the government dedicated to verifying SDVOSB firms' eligibility; VA also has responsibility for maintaining a database of service-disabled veterans and a listing of firms that are eligible for the SDVOSB program. Given VA's mission of service to veterans, we previously suggested that Congress consider expanding VA's program government-wide to employ more effective fraud-prevention controls over the billions of dollars awarded to SDVOSBs outside of VA. However, such action should not be undertaken until VA demonstrates that its verification process is successful in reducing the SDVOSB program's vulnerability to fraud and abuse.

Furthermore, while the results of this most-recent assessment show that VA has made some progress in improving its verification process in response to the 2010 Act, it has made conflicting statements regarding the verification of firms and has been unable to accurately track the status of its efforts. These problems have resulted in thousands of potentially ineligible SDVOSBs receiving millions of dollars in sole-source and set-aside contract obligations. By better managing its inventory of firms, maintaining the accuracy of firms' status in VetBiz, and applying the 2010 Act verification process to all firms, VA can be more confident that the billions of dollars meant to provide VA contracting opportunities to our nation's service-disabled veteran entrepreneurs make it to the intended beneficiaries.

Recommendations for Executive Action

To minimize potential fraud and abuse in VA's SDVOSB program and provide reasonable assurance that legitimate SDVOSB firms obtain the benefits of this program, we recommend that the Secretary of Veterans Affairs ensure that all firms within VetBiz have undergone its 2010 Act verification process. Specifically, this should include consideration of the following three actions: (1) inventory firms listed in VetBiz to establish a reliable beginning point for the verification status of each firm; (2)

establish procedures to maintain the accuracy of the status of all firms listed in VetBiz, including which verification process they have undergone; and (3) expeditiously verify all current VetBiz firms and new applicants under the 2010 Act verification procedures.

Agency Comments and Our Evaluation

We provided a draft of our report to VA and SBA for comment. In its written comments, reproduced in appendix I, VA stated that it concurred with our first two recommendations. It concurred “in principle” with the third, to verify all current VetBiz firms and new applicants under the processes implemented under the 2010 Act. With respect to this recommendation, VA noted that it implemented an interim rule on June 27, 2012, that extends the eligibility of verified firms to 2 years. VA told us it interprets “verified” to include any firm that has been verified under either its 2006 or 2010 Act processes. Therefore, according to the interim final rule, as long as a firm is verified under either process and is in its 2-year eligibility period, VA is only authorized to initiate a verification examination if it receives credible evidence calling into question a participant’s eligibility. Extending the eligibility period may allow VA to focus its efforts on more thoroughly verifying firms that were previously verified under its less-stringent 2006 Act process. However, the extension also allows thousands of firms to continue to be eligible for contracts even though they have not undergone the more thorough process. We acknowledge that VA has latitude under the law to modify its own regulations as necessary. However, the interim final rule in effect removes a backlog of firms and appears to be a self-created impediment delaying verification under the 2010 Act process. We remain convinced that the verification process utilized by VA prior to the 2010 Act process does not provide reasonable assurance that only eligible SDVOSBs participate in the program. Given this ongoing vulnerability to fraud and abuse, we continue to believe that VA should expeditiously verify current VetBiz firms and new applicants under the 2010 Act verification process.

Despite these concurrences, VA commented that our report was misleading and inaccurate with respect to (1) our characterizations of a 2011 VA OIG report, (2) conflicting statements made by VA, and (3) VA’s implementation of our previously issued recommendations. We disagree. First, VA stated that our use of the VA OIG’s 2011 report was misleading because the report examined a period when the VetBiz database included self-certified firms in addition to firms verified under the processes implemented under the 2006 Act. VA also claims the VA OIG report contains excessive extrapolations because it examined eligibility requirements beyond ownership and control. Specifically, VA notes that

14 of the 42 firms reviewed for the OIG report had been through the verification process VA used in response to the 2006 Act and claims that only 3 were determined to be ineligible based on ownership and control. VA's statement is incomplete and misleading. According to the OIG, an additional 7 were determined to be ineligible for reasons that could be identified during a robust verification process. As a result, the OIG found 10 of 14 firms verified under VA's 2006 Act process to be ineligible—an eligibility failure rate comparable to the overall eligibility failure rate cited in the report.

With regard to the aforementioned 7 firms, the OIG determined they were ineligible because they were engaged in improper subcontracting practices, such as “pass-through” contracts. Pass-through contracts occur when businesses or joint venture/partnerships list veterans or service disabled veterans as majority owners of the business but, contrary to programs requirements, the non-veteran owned business either performed or managed the majority of the work and received a majority of the contracts' funds. Given that the firms being reviewed by the OIG already had existing contracts in place, the OIG was able to identify the pass-through contracts by conducting site visits and reviewing business documentation, the same steps that VA claims are taken during the verification process it implemented in response to the 2010 Act. While we acknowledge that it is difficult to identify pass-through contracts for applicants to the program who don't have any preexisting contracts, VA should be conducting such a review for those firms that have contracts in place. As we have noted in past reports, VA's fraud prevention controls should include detection and monitoring measures to assure that firms are completing the work required of an SDVOSB contract.

Second, VA disagrees that it provided numerous conflicting statements to us regarding its verification efforts, stating that the verification process has evolved and that VA faces technical limitations related to its case-management system. While we acknowledge these concerns, it is important to note that VA did not provide us with any explanation as to its evolving priorities during the course of our audit and instead repeatedly sent us contradictory information without any clarification. Moreover, not all of the conflicting statements VA made can be attributed to inadequacies in its case-management system or to evolving priorities. Specifically, the information we received during the course of our audit work changed so significantly over such a short period of time that the evidence GAO collected does not support VA's assertion that it “knows how many firms have been verified” and can “track individual firms,” as

VA claims in its agency comment letter. Examples of the conflicting statements we received include the following:

- **Removal of firms:** On April 23, 2012, VA told us that about 900 SDVOSBs and VOSBs listed in VetBiz were targeted for removal because they had not been verified under the 2010 Act process. By April 27, 2012, this number increased to approximately 3,500 SDVOSBs and VOSBs. On May 2, 2012, we received two more differing accounts of SDVOSBs and VOSBs targeted for removal--2,660 firms and 2,646 firms--in the same email.
- **Implementation of the 2010 Act process:** On February 16, 2012, VA told us that it continued to verify firms under the process implemented under the 2006 Act between January and May 2011. Then, on April 23, 2012, VA told us that it stopped verifying firms under its 2006 Act process in February 2011 and began verification under its 2010 Act process at the same time. Next, on May 12, 2012, VA told us that it stopped verifying firms under the 2006 Act process in January 2011 and began verifying under the 2010 Act at the end of December 2010. In the same communication, VA told us that no firm was approved under its 2006 Act process after February 2011. But on May 21, 2012, VA sent us a list of firms and verification dates showing that multiple firms were last verified under its 2006 Act process past February 2011, with at least two firms verified under its 2006 Act process as late as May 2011.

Finally, VA stated it believed all previous GAO recommendations issued in October 2011 should be closed. For GAO to close a recommendation, it must be implemented or actions must have been taken that essentially meet the recommendation's intent. Further, the responsible agency must provide evidence, with sufficient supporting documentation, that the actions are being implemented adequately. By the end of our audit work, we were able to close 6 of the 13 recommendations that we issued to VA in October 2011 based on documentation VA provided demonstrating that the agency had taken specific actions in response to our recommendations. Although VA indicated that it would like to close out the remaining recommendations, it either did not demonstrate that it had taken an action to implement a recommendation or did not provide the supporting documentation needed to show that the recommendation was in fact implemented. We had several discussions with VA staff about our requirements for closing recommendations, the last occurring on June 22, 2012. Moreover, we noted in our report any progress VA has made with

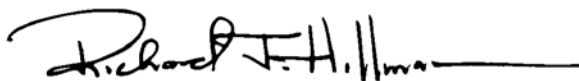
respect to each recommendation; the information VA provided in this letter had previously been acknowledged in our report. For the 7 recommendations that remain open after the issuance of this report, we will continue to seek from VA additional documentation necessary to demonstrate that implementation has occurred. At such time, we will close each recommendation, as appropriate.

In addition, VA provided technical comments, which we addressed as appropriate. We provide annotated responses to VA's more detailed comments in appendix I.

In written comments received through e-mail, SBA stated that it is committed to eliminating fraud, waste, and abuse in all of its programs including the government-wide SDVOSB program. In addition, SBA stated that it maintains a "robust and thorough" protest and appeal process. However, as noted in our report, SBA's bid-protest process alone—that is, without upfront eligibility verification and other related measures—cannot provide reasonable assurance that only legitimate firms are awarded SDVOSB contracts. In addition, five new case studies developed for this report highlight instances of fraud and abuse. SBA disagreed with the draft report's portrayal of actions taken against the firms that were the subject of the 10 case studies developed as part of our October 2009 report. We revised our report where appropriate. SBA also stated that it had taken actions against firms in addition to those cited in our case studies, but did not provide specific examples. Finally, SBA stated that it was implementing training to help its staff identify fraud and abuse and working to improve its referral process and collaboration with other agencies. Such efforts could help reduce the SDVOSB program's vulnerability. However, these efforts would affect only SBA's investigation and prosecution efforts, and not prevention, detection, and monitoring. If the government-wide program included measures to prevent, detect, and monitor fraud in the SDVOSB program, SBA could be more confident that the billions of dollars meant to provide contracting opportunities to our service-disabled veteran entrepreneurs make it to the intended beneficiaries.

We are sending copies of this report to interested congressional committees, the Administrator of SBA, the Secretary of Veterans Affairs, and other interested parties. The report is also available at no charge on the GAO website at <http://www.gao.gov>.

If you have any questions concerning this report, please contact Richard J. Hillman at (202) 512-6722 or hillmanr@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

A handwritten signature in black ink that reads "Richard J. Hillman" followed by a horizontal line.

Richard J. Hillman
Managing Director
Forensic Audits and Investigative Service

Appendix I: Comments from the Department of Veterans Affairs

Note: GAO comments supplementing those in the report text appear at the end of this appendix. Page numbers in the draft report may differ from those in this report.



DEPARTMENT OF VETERANS AFFAIRS
Washington DC 20420

July 19, 2012

Mr. Gregory D. Kutz
Director, Forensic Audits and
Investigative Service
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Kutz:

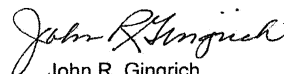
The Department of Veterans Affairs (VA) has reviewed the Government Accountability Office's (GAO) draft report, "**SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS PROGRAM: Vulnerability to Fraud and Abuse Remains**" (GAO-12-697). VA concurs with GAO's recommendations 1 and 2 and concurs in principle with recommendation 3 to the Department.

Despite these concurrences, VA has serious concerns with specific language in this draft report. VA believes the inaccurate portrayal of information in a number of areas either misleads the reader or misrepresents the status of the Center for Veterans Enterprise verification program. The enclosures specifically address each of GAO's recommendations and provide extensive technical comments on the draft report.

VA urges full incorporation of the recommended technical changes in order to ensure an accurate and reliable report. VA representatives are available to assist in further clarification of these issues upon request. Please contact Ms. Denese Canedo, at denese.canedo@va.gov or by telephone at 202-461-5684, should you have any further questions or desire to discuss these recommended technical changes.

VA appreciates the opportunity to comment on your draft report.

Sincerely,


John R. Gingrich
Chief of Staff

Enclosures

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GAO Recommendation: To minimize potential fraud and abuse in VA’s SDVOSB program and provide reasonable assurance that legitimate SDVOSB firms obtain the benefits of this program, we recommend that the Secretary of Veterans Affairs ensure that all firms within VetBiz have undergone its verification process. This should include consideration of the following three actions:

Recommendation 1: Inventory firms listed in VetBiz to establish a reliable beginning point for the verification status of each firm.

VA Response: Concur. The Center for Veterans Enterprise (CVE) has a complete inventory of all firms listed in its Vendor Information Pages (VIP), located at the VetBiz Web site that identifies the status of each firm, its eligibility date, and whether it was verified under the processes established as a result of the 2010 P.L. 111-275. Please see Attachment A (Verification Master Inventory List (VMIL) for a complete inventory of firms, including verification status. VA is furnishing a CD as the list is more than 300 pages.

Recommendation 2: Establish procedures to maintain the accuracy of the status of all firms listed in VetBiz, including which verification process they have undergone.

VA Response: Concur. CVE has established procedures to maintain the accuracy of the status of all firms listed in VIP; however, due to limitations in the Verification Case Management System (VCMS) - the VA’s information management system - the status of firms is maintained separately in the VMIL. The VMIL is updated as changes occur. CVE has initiated action to upgrade VCMS so that it can support current and future business processes.

Recommendation 3: Expediently verify all current VetBiz firms and new applicants under the 2010 Act verification procedures.

VA Response: Concur in Principle. All firms listed as verified in the VIP have been verified in accordance with P.L. 109-461 and 38 CFR §74. VA seeks to verify all firms using the process established as a result of 111-275; however, 38 CFR 74.15 (c) only authorizes CVE to initiate a verification examination “whenever it receives credible information calling into question a participant’s eligibility as a Veterans-owned small business (VOSB).” As a result, CVE did not require firms who were verified under the process before enactment of P.L. 111-275 in October 2010 and whose period of eligibility has not expired, to initiate reverification prior to the expiration of their eligibility. All new applicants and all reverification applicants are processed under the post-2010

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Act verification procedures. All companies whose verification has expired (verification approval more than two years old) are ineligible for contract awards and must go through reverification under the process established after P.L. 111-275 in order to become eligible for a VA Veterans First award.

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Technical Comments

Page 2, Paragraph 2, Line 13: “In 2011, VA’s Office of Inspector General also found on the basis of a random sample of 42 firms that 32 of 42 firms listed in VetBiz database under the 2006 Act were ineligible for the VA SDVOSB program.”

Page 14, Paragraph 2, Line 2: “However, even if VA had verified these firms under the 2006 act, past audits show the risk of providing SDVOSB contracts to firms reviewed under this process...VA’s own OIG reviewed both SDVOSBs and VOSBs in VetBiz and found 32 of 42 SDVOSBs and VOSBS as verified under the 2006 Act process were in fact ineligible for their respective programs.”

VA Comment: These statements are inaccurate and misleading. The period of OIG examination was from June 1, 2009, to May 31, 2010. This period was prior to the passage of P.L. 111-275. OIG reported that 32 of the 42 companies were “either ineligible to participate in the programs or ineligible for the awarded contracts.” Prior to the 2010 Act, companies could legally continue to self-represent in the VIP database and the vast majority of the firms in VIP were self-certified. Of the 42 companies selected for the report, only 14 had been through VA’s verification program. The rest were self-represented. Only three (3) verified firms out of 42 were determined to be ineligible based on ownership and control of the firm. As of December 2010, only firms that had been verified in VIP were eligible to receive awards. All others listed in VIP had to be verified prior to an award being made.

VA recommended change: Replace the Report language cited above with the following: “In 2010, VA’s Office of Inspector General found that most of the firms in the VIP database were self-represented and on the basis of a random sample of 42 firms, that 32 of 42 firms listed in VIP were ineligible for the VA SDVOSB program. Further, on September 4, 2011, VA eliminated all self-represented firms from VIP, making them ineligible to receive awards.”

Page 14, Paragraph 2, Line 8: “VA’s OIG also used statistical sampling methods to project that (1) \$500 million of VA SDVOSB and VOSB contracts were awarded annually to ineligible firms.... if it does not strengthen its oversight and verification procedures.”

VA Comment: This statement is inaccurate and misleading in the context of CVE verification policies and process. Only three firms out of 42 were verified yet ineligible for awards; therefore the extrapolation is excessive.

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See comment 1.

See comment 1.

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VA recommended change: Delete this statement.

Page 7, Paragraph 3, Line 1: “VA’s Center for Veterans Enterprise (CVE) seeks to help Veterans interested in forming or expanding their own small business...technical assistance needs. CVE is also responsible for maintaining VetBiz and implementing VA’s verification program.”

VA Comment: This statement is inaccurate. CVE no longer counsels Veterans interested in forming or expanding their own small business. Since April 2011, CVE’s sole function has been to verify eligibility of firms for VA Veterans First Program.

VA recommended change: Replace the segment in question with the following language: “Prior to April 2011, VA’s Center for Veterans Enterprise (CVE) sought to help Veterans interested in forming or expanding their own small business...technical assistance needs. CVE was also responsible for maintaining VetBiz.gov and the VIP database and implementing VA’s verification program. Beginning in April 2011, CVE has focused solely on implementing VA’s verification program. The former coaching mission is now accomplished by referrals to our Verification Education Partners in order to eliminate the possibility of conflict of interest.

Page 7, Paragraph 3, Line 7: “VA was required to notify all unverified businesses in its VetBiz database...to establish veteran ownership and control.”

VA Comment: VA notified all unverified firms in VIP in accordance with Section 104 (b)(2) P.L. 111-275, which states:

“In the case of a small business concern included in the database as of the date of the enactment of this Act for which, as of such date, the Secretary of Veterans Affairs has not verified the status of such concern in accordance with paragraph (4) of subsection (f) of section 8127 of title 38, United States Code, as amended by paragraph (1), not later than 60 days after the date of the enactment of this Act, the Secretary shall notify the person who owns and control the concern that...”

VA complied with the law and notified approximately 13,000 firms on December 10, 2010. At the time the notifications went out, there were approximately 17,000 firms in the Vendor Information Pages (VIP). The notices went to those companies who were self-represented and had never submitted an application for verification, and to firms that had previously been verified, but whose verification had expired prior to the

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See comment 2.

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notification. Firms with a current VA verification were not notified, in accordance with the provisions of the law.

In late March 2011, approximately 8,000 firms were removed from VIP for failure to respond to the notice. CVE only removed from VIP firms that had never undergone VA verification. Firms that had been verified using the P.L. 109-461 process that was in place at the time were allowed to remain in VIP.

See comment 3.

VA recommended change: Replace the aforementioned segment with the following language: “In accordance with Section 104 (b)(2) P.L. 111-275, VA notified all unverified companies, firms that self-represented, or firms that had expired eligibility periods, listed in VIP on December 10, 2010, that they must submit a complete application with all documentation for verification.”

Page 8, Paragraph 2, Line 1: “SDVOSBs are required to receive a portion of government-wide contractual dollars annually.”

VA Comment: This statement is not correct. Agencies have goals for socioeconomic categories such as SDVOSBs, not requirements.

See comment 4.

VA recommended change: Replace this statement with the following: The Federal Government has a 3 percent goal for procurement with SDVOSBs annually.

Page 11, Paragraph 1, Line 1: “VA has made numerous conflicting statements about its progress... in response to the 2010 Act. These statements indicate that VA has taken an inconsistent approach to prioritizing the verification of firms and has been unable to accurately track the status of its efforts.”

VA Comment: This statement is not accurate. VA has utilized a consistent approach to prioritization that is based on the regulation, fundamental principles of fairness, and availability of resources. However, VA’s approach has evolved as appropriate in response to changes in regulation or legislation and/or resources.

In May 2011, the priorities were as follows:

- (1) Verification of new applications for firms that had previously only self-represented in VIP (*i.e.*, firms that had not been reviewed under processes created for the 2006 Act or 2010 Act);
- (2) Verification of new firms that had initially applied for verification after the enactment of the 2010 Act;

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- (3) Requests for reconsideration from firms denied verification; and
- (4) Reverification of applications for firms initially verified in VIP under the process implemented for the 2006 Act.

“Unverified” firms were listed in VIP as “pending” but were not eligible for an award of contracts. They were eligible to submit proposals and those that were pending award received top priority for verification as part of “fast track” program.

VA removed or verified all unverified firms from VIP by September 4, 2011. Once that was accomplished, CVE initiated an active outreach to promote reverification of firms verified prior to implementation of P.L. 111-275.

In October 2011, the priority was:

- (1) Verification of new firms that had initially applied for verification after the 2010 Act;
- (2) Requests for Reconsideration from firms denied verification; and
- (3) Reverification of applications for firms initially verified in VIP under the process implemented for the 2006 Act.

Based on available resources, CVE determined that it was not able to complete reverification in as timely a way as might be desired and therefore, beginning on June 6, 2012, CVE executed a Class Deviation process that placed all firms whose eligibility had expired in a special category “reverification.” In accordance with the published Class Deviation, firms in this category are not eligible to receive awards until reverification is completed. To avoid damaging these firms, a “Fast Track” process was initiated for firms pending award that gives them top priority. Since June 6, 2012, the priority has been:

- (1) Fast Track for firms in “reverification” status that are pending award;
- (2) Simplified reverification of firms verified using P.L. 111-275 process;
- (3) Verification of new firms using the 2010 Act procedures;
- (4) Requests for Reconsideration from firms denied verification; and
- (5) Reverification of applications for firms initially verified in VIP under the process implemented for the 2006 Act.

CVE has reported to GAO its progress on eliminating “unverified firms” and tracks those firms that were verified pre-P.L. 111-275 and post-P.L. 111-275. The VetBiz Case Management System (VCMS) does not contain historical data and does not provide the capability to track the status of all firms in VIP. As a result, information is stored in

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several secure locations and the lack of a comprehensive case management information system has created the need for manual workarounds and generated inconsistent aggregate reporting. In order to track overall status, CVE has established the VIP Master Inventory List (See Attachment A) outside of VCMS.

VA recommended change: Replace the aforementioned language with the following: “VA verification priorities have evolved over time. Progress has enabled VA to verify all firms in VIP, but VA has not completed verification of all firms using the process applied after the 2010 Act. Lack of a comprehensive management information system in VCMS has made it difficult for CVE to track the status of firms in the aggregate. CVE has had to establish and maintain the VIP Master Inventory outside of VCMS to in order to track overall status. The lack of a comprehensive case management system has created the need for manual workarounds and resulted in inconsistent aggregate reporting.”

See comment 5.

Page 11, Paragraph 1, Line 4: “VA’s most-recent numbers indicate that thousands of SDVOSBs listed as eligible in VetBiz received millions of dollars in SDVOSB sole-source and set-aside contract obligations even though they had not been verified under the new requirements of the 2010 Act.”

VA Comment: This statement is incorrect and misleading as it does not provide the full picture. No firms were listed in VIP as verified that had not been verified under the requirements of P.L. 109-461. Those that were not verified, were listed as “Pending” and were verified prior to an award being made.

P.L. 109-461 as amended and the Regulation 38 CFR Part 74 requires all firms in VIP to be verified. It does not specify verified under the process established in the wake of P.L. 111-275. All firms in VIP have been verified. All firms verified under the new process have been verified with full document reviews. P.L. 111-275 was primarily enacted to address those firms listed on VIP but not yet verified. It did not invalidate prior verification determinations.

CVE has initiated reverification for those firms whose eligibility has expired, but it has only initiated reverification of firms verified prior to 111-275 in accordance with 38 CFR § 74.15 (c) that only authorizes CVE to initiate a verification examination “whenever it receives credible information calling into question a participant’s eligibility as a VOSB.”

CVE initiated a more robust review process as a result of P.L.111-275 (which was only made possible via a large infusion of people and resources). The older process met the requirements of P.L. 109-461. When additional resources became available, CVE

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expanded the scope of its evaluations and adopted a strategy designed to reverify firms verified under the older process as their eligibility expired, but in accordance with our priorities, reverification was the lowest priority.

See comment 6.

VA recommended change: Replace the aforementioned language with the following: "VA's most recent numbers indicate thousands of SDVOSBs listed as eligible in VetBiz received millions of dollars in SDVOSB sole source and set-aside contract obligations were verified under the P.L. 109-461 process, rather than the more robust process initiated by the 2010 act. Limitations imposed by the regulation at 38 CFR §74.15 and the VA verification priorities have impeded CVE from immediately completing verification of all firms using the process established by the 2010 Act."

Page 11, Paragraph 2, Line 1: "VA has provided a number of conflicting statements and explanations related to the status of its verification program, indicating that it is having difficulty tracking its inventory of firms and whether they were verified under the process implemented to carry out the 2010 Act."

Page 13, Paragraph 1, Line 8: "Over the next month, VA officials provided us with at least seven differing accounts of the number of SDVOSBs verified under the processes for the 2006 Act and 2010 Act...Without a clear inventory and methods designed to track the verification process firms have undergone, VA cannot provide reasonable assurance that all firms appearing in VetBiz have been verified as owned and controlled by a veteran or service-disabled veteran."

Page 12, Paragraph 2, Line 2: "However, our review ... raises concerns ...whether VA knows how many of its firms have actually been verified pursuant to the requirements of the 2010 Act."

VA Comment: These statements are inaccurate and misleading. CVE knows how many firms have been verified, and is able to track its inventory of firms using VMIL. No firm appears in VIP as eligible for an award unless it is verified as owned and controlled by a Veteran or service-disabled Veteran. Those listed as "reverification" are not eligible to receive awards without undergoing verification using the 2010 Act process. CVE staff provided a variety of responses over time based on their best understanding of the parameters of the particular questions and the situation at the time of the question. The limitations of VCMS preclude obtaining comprehensive information easily. Unfortunately, VCMS does not distinguish between firms verified under the older process and those verified under the newer process. It only tracks the initial verification date of a firm after May 2011, so tracking and inventory are done manually, outside of VCMS, the VA's information management system. These limitations require CVE to

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manually manage its inventory of businesses in VIP including last verified date and the process under which they were verified outside VCMS using VMIL.

Since September 4, 2011, all firms appearing in VIP have been verified either under the older process or by the current process established after P.L. 111-275 was enacted. VA has a clear inventory (See Attachment A) and can track the verification process of firms so that we can ensure that we only verify those firms who are indeed, eligible. While our ability to provide aggregate reporting has been hampered by VCMS, it has not precluded us from tracking individual firms.

While we seek to have all firms verified under the post- P.L.111-275 process and have initiated action to that end, as noted above, 38 CFR Part 74 does not provide authority to initiate that process prior to the expiration of eligibility for firms that are currently verified without a specific rational basis for the action. Those firms whose eligibility period has expired and resource limitations have precluded CVE from completing their reverification are listed in VIP but are annotated as "reverification" and they are not eligible to receive an award without being verified under the process established by the 2010 Act. Of the 6,079 firms currently in VIP as of 13 Jul 2012, 3,733 were verified under P.L. 111-275 the new process and 2,346 were verified under P.L. 109-461, the old process.

See comment 5.

VA recommended change: Page 11, Paragraph 2, Line 1: Replace the aforementioned language with the following: "CVE has had difficulty providing consistent aggregate reporting due to limitations of its VCMS system. Although CVE reports that it is able to track its inventory outside of VCMS, limitations of the VCMS hamper reporting and make it difficult to track the inventory of firms."

See comment 5.

VA recommended change Page 13, Paragraph 1, Line 8: Replace the aforementioned language with the following: "Over the next month, VA officials were unable to provide consistent information from VCMS that clearly differentiated between SVOSBs verified under the processes for the 2006 Act and those verified under the 2010 Act. Although CVE reports that all firms listed in VIP as eligible for the SDVOSB program have been verified as owned and controlled by a Veteran or service-disabled Veteran, the limitations of the VCMS hamper reporting and management."

See comment 5.

VA recommended change, Page 12, Paragraph 2: Our review of information provided by VA raises concerns that the retention of firms verified prior to the 2010 Act increases the possibility awards will go to firms that will not be verified when the more rigorous process is applied. We are also concerned that as the limitations of the VCMS

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system increase, the potential for CVE to lose track of how many firms have actually been verified also increases.

Page 12, Paragraph 1, Line 2: "...within 60 days of the law's enactment VA was required to notify all firms listed in its VetBiz database about the need to apply for reverification...."

VA Comment: This statement is not correct. Section 104 (b)(2) of P.L. 111-275 stipulated: "In the case of a small business concern included in the database as of the date of the enactment of this Act for which, as of such date, the Secretary of Veterans Affairs has not verified the status of such concern in accordance with paragraph (4) of subsection (f) of section 8127 of title 38, United States Code, as amended by paragraph (1), not later than 60 days after the date of the enactment of this Act, the Secretary shall notify the person who owns and controls the concern."

VA met the mandate in the law to notify unverified firms in VIP that they must submit documentation for verification. At that time, VIP had approximately 17,000 companies, about 6,000 of whom were verified. VA sent out 13,000 notifications in December 2010 to firms who had never been verified or whose verification term had expired.

VA recommended change: "within 60 days of the law's enactment VA was required to notify all unverified firms listed in its VetBiz database about the need to apply for verification in accordance with Section 104 (b)(2) P.L. 111-275. VA notified all unverified companies in VIP on December 10, 2010, that they must submit a complete application with all documentation for verification. Those unverified firms that failed to comply, were removed from VIP."

Page 12, Paragraph 1, Line 5: "VA Officials told us that the agency prioritized its verification under 2010 Act by...and 3) applications for firms initially verified in VetBiz under the process implemented for the 2006 Act."

VA Comment: This statement is not correct. Since an analysis of verification denials revealed that most were a result of ignorance of the details of 38 CFR Part 74, rather than any attempt to defraud, the Request for Reconsideration process gave a firm a "second chance" if it modified its business model to fit the requirements of 38 CFR Part 74. As a result, firms that were denied were allowed to make legal changes to their official corporate or company documentation and then request reconsideration. It then enters a completely separate queue and since such firms are designated higher risk than an initial application, they received a new, comprehensive examination of all documentation and a review by VA's Office of General Counsel in many cases.

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See comment 7.

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See comment 8.

VA recommended change: Replace the sentence with the following: “VA Officials told us that the agency prioritized its verification under the 2010 Act by reviewing (1) new applications for firms that had previously only self-certified in VetBiz (i.e., firms that had not been reviewed under processes created for the 2006 Act or 2010 Act); (2) new firms that had initially applied for verification after the 2010 Act; (3) Requests for Reconsideration from firms denied verification; and 4) applications for firms initially verified in VIP under the process implemented for the 2006 Act.”

Page 12, Paragraph 2, Line 3: “First, in July 2011, VA stated that it removed 8,000 of the 13,000 SDVOSBs and VOSBs listed in VetBiz because these firms had not complied with VA’s December 2010 letter requesting...”

VA Comment: This statement is misleading. The only firms removed in March 2011 were those ‘pending’ firms that did not respond to VA’s December 2010 notification of CVE’s new review process, elimination of inclusion in VIP based upon self-certification, and the requirement that all applicant firms submit documentation for the examination in order to participate in the VA Veterans First Program. The 8,000 non-responsive firms were removed in March 2011.

See comment 9.

VA recommended change: Replace the aforementioned with the following language: “In July 2011, VA stated that it removed 8,100 unverified firms in March 2011 of the 13,000 SDVOSBs and VOSBs listed in VIP because these firms had not complied with the December 2010 notification.”

Page 12, Paragraph 2, Line 6: “On November 30, 2011, VA reported that it had removed all “unverified” firms from its database by September 4, 2011.”

VA Comment: This statement is accurate. No firm appears in VIP unless it has been verified. For purposes of P.L. 109-461, VA has always interpreted ‘verified’ as any company that has been verified under either the P.L. 109-461 process of primarily public records review or under the full documentation review implemented upon passage of P.L. 111-275. VA has never deviated from that position and all statements by VA leaders are consistent with that position.

Page 12, Footnote 32, “...firms that were in fact ineligible for the program received approximately \$16 million in VA SDVOSB set-aside and sole source contract obligations...”

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VA Comment: VA does not believe this to be a true statement. All firms receiving awards were listed in VIP based on verification of their eligibility under P.L. 109-461.

See comment 10.

VA recommended change: "...firms that were not verified under the 2010 Act process received approximately \$16 million in VA SDVOSB set-aside and sole source contract obligations..."

Page 13, Paragraph 1, Line 1: "...in February 2012, ... did not explain how many firms still needed to be verified."

VA Comment: In February 2012, all firms in VIP had been verified, as reported by CVE.

See comment 11.

VA recommended change: Replace the end of the statement starting at "...did not explain how..." with "did not report how many firms were verified under the older process."

Page 13, Paragraph 1, Line 3: "Then, on April 23, 2012, officials told us that they had recently removed thousands of firms from VetBiz because these firms had not supplied the supporting documentation required for verification under the requirements of the 2010 Act... not clear whether these firms received the December 2010 request..."

VA Comment: This statement is not correct. CVE removed 3,019 firms that had not supplied documentation to support reverification. To avoid overwhelming the system, CVE did not reach out to all firms needing to be reverified at once. None of the firms had received the December 2010 letter because they were all verified as eligible to participate in Veterans First at that time of the notification.

As of May 6, 2012, all firms whose eligibility had expired had their status in VIP changed to "reverification." In this status, firms may bid on solicitations, but are not eligible to receive awards. They may be Fast Tracked through the verification process if they are the apparently successful offer or on a Veterans First contract solicitation.

See comment 12.

VA recommended change: Replace the section beginning at "...removed thousands .." with "removed thousands of firms from VIP because they had not supplied supporting documentation required for reverification under the requirements of the 2010 Act...none of these firms received the December 2010 request."

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Enclosure

Department of Veterans Affairs (VA) Comments to
Government Accountability Office (GAO) Draft Report:
***“SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS PROGRAM –
Vulnerability to Fraud and Abuse Remains”***
(GAO-12-697)

Page 13, Paragraph 2, Line 1: “The most recent information we have from VA indicates that thousands of potentially ineligible firms remain listed in VetBiz because they have not been verified under the requirements of the 2010 Act.”

VA Comment: This statement is not accurate and is misleading. All firms in VIP have been verified and are eligible to receive a contract award with the exception of firms listed as “reverification.” Verification is based on an evaluation at a particular point in time. All firms in VIP, regardless of when they were verified, have the potential to be ineligible.

VA recommended change: Replace the sentence with the following: “The most recent information we have from VA indicates that thousands of firms verified under the old process remain listed in VetBiz.”

Page 13, Paragraph 2, Line 4: “Of these 3,717 firms listed as eligible on April 1, 2012, 134 received a total of \$90 million ... from November 30, 2011, to April 1, 2012. On May 14, 2012, VA told us that it removed 1,857 of these 3,717 SDVOSBs...”

VA Comment: This statement is misleading. All the firms listed in VIP on April 1, 2012, were eligible to receive awards on that date. CVE removed 1,857 firms on May 14, 2012, because they did not respond to requests to undergo reverification. Since GAO did not investigate any of the 134 firms mentioned, VA has no basis to reverify them prior to expiration of their eligibility.

VA recommended change: As all firms in VIP during that time period were eligible, this statement should be removed.

Page 14, Paragraph 1, Line 2: “According to VA, the remaining 1,860 firms that require a review under the 2010 Act process are projected to be removed in July 2012 unless the firms provide adequate documentation supporting their eligibility. VA also stated that these firms are identified as being in “reverification” and no such expired firm is eligible for an actual contract award until reverification has been completed.”

VA Comment: This statement is not accurate due to the rule change in effect June 27, 2012. Specifically, the number 1,860 is no longer accurate. All firms whose two year eligibility period has expired are removed from VIP. If they have initiated reverification, they are listed as in “reverification” and are ineligible to receive a contract award. No expired firms are eligible to receive a contract award.

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See comment 13.

See comment 13.

See comment 13.

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VA recommended change: Remove "1,860", as this number is no longer accurate based upon the rule change.

Page 15, Figure 3:

VA Comment: This figure is misleading. VA has provided documentation that VA considers it sufficient to close all of these recommendations. GAO has not provided any information to VA concerning what additional action is required for GAO to consider the recommendations to be closed. If GAO does not believe VA actions to be sufficient, VA requests that GAO provide VA information on what additional action is needed to close each recommendation.

VA recommended change to Figure 3: VA recommends that GAO adjust the table to reflect VA action on each GAO recommendation. If VA action is not sufficient, include information in the table that shows progress VA has made on implementing each recommendation and information as to what VA needs to additionally provide in order for GAO to close each recommendation.

Page 18, Bullet one: "VA has not provided regular Fraud Awareness Training"

VA Comment: This statement is not correct. As the report notes, the Office of General Counsel provides periodic training on verification criteria which includes discussion of fraud risk.

VA recommended change: Close recommendation.

Page 19, Bullet one: "VA has not developed and implemented specific processes and criteria for the Debarment Committee on compliance with the requirement in the 2006 Act to debar, for a reasonable period, firms and related parties that misrepresent their SDVOSB status. According to VA, its Debarment Committee relies on procedures outlined in the FAR and the VA Acquisition Regulations to determine the length of debarments."

VA Comment: Since each case must be adjudicated on its specific circumstances, developing a standardized chart for the length of debarment is implausible. The debarring official will base the period of debarment on the circumstances surrounding the cause for debarment. Specific procedures are contained in the VAAR. Subpart 809.406-3 provides procedures for debarment and subpart 809.407-3 provides

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See comment 14.

See comment 15.

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procedures for suspensions. VAAR subpart 809.406-2 (a) identifies causes for debarment and states; “misrepresentation of Veteran Owned Small Business (VOSB) or SDVOSB eligibility may result in action taken by VA officials to debar the business concern for a period not to exceed 5 years from contracting with VA as a prime contractor or a subcontractor.” VAAR subpart 809.406-4 provides further guidance on the period of debarment by stating, “Except in an unusual circumstance, the period of debarment will not exceed 3 years.”

VA recommended change: Close recommendation.

Page 19, Bullet two: “VA has not developed specific guidelines outlining the Debarment Committee’s decision process to debar firms that misrepresent their SDVOSB status. VA should provide the Debarment Committee with guidelines to aid its decision-making process in determining what constitutes a “misrepresentation” deserving of debarment, as that term is used in the 2006 Act.”

VA Comment: VA has provided guidance on the type of information needed and identified the standard being used (subpart 819.70) by the committee to initiate the process. Once received, VA evaluates each action on a case-by-case basis. A copy of the referral guidance can be found at <http://www.va.gov/oal/business/8127debarments.asp>.

The 8127 Debarment Committee will only accept referrals from VA officials. All referrals must include sufficient supporting information to warrant review by the Committee, such as:

- The allegation of misrepresentation as a VOSB or SDVOSB and/or the violation of the limitations on subcontracting requirements of actions awarded under VAAR Subpart 819.70;
- The identity of business concerns involved in the allegations;
- The identifying information for any solicitations or contractual actions relating to the allegations;
- Copies of relevant documents that support the allegations;
- Whether anyone else has reviewed the allegations, and if so, copies of those complaints or recommendations for debarment; and
- Contact information for the VA official making the recommendation.

The 8127 Debarment Committee will not review unsupported allegations. The serious nature of debarment and suspension requires that these sanctions be imposed only in the public interest for the government’s protection and not for purposes of punishment.

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See comment 16.

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The 8127 Debarment Committee uses as the guide to determine misrepresentation the following information from 38 U.S.C. Section 8127(g): “Any business concern that is determined by the Secretary to have misrepresented the status of that concern as a small concern owned and controlled by Veterans or as a small business concern owned and controlled by service-disabled veterans for purposes of this subsection shall be debarred from contracting with the Department for a reasonable period of time, as determined by the Secretary.” VAAR Subpart 809.406-2 (b) provides additional information on the causes of debarment; “any deliberate violation of the limitation on subcontracting clause requirements for acquisitions under VAAR subpart 819.70 (Service-Disabled Veteran-Owned and Veteran-Owned Small Business Acquisition Program) may result in action taken by VA officials to debar any service-disabled veteran-owned, veteran-owned small business concern or any large business concern involved in such action.”

See comment 17.

VA recommended change: Close recommendation.

Page 19, Bullet 3: “VA has not developed procedures on removing SDVOSB contracts from ineligible firms. According to the VA Acquisition Regulations, the Deputy Senior Procurement Executive has the authority to determine whether VA should terminate a contract with a debarred firm. However, VA has not developed procedures to remove SDVOSB contracts from ineligible firms. According to VA, it is in the process of developing a policy on removing SDVOSB contracts from ineligible firms as determined by status protests. In addition, VA is in the process of providing guidance to the acquisition workforce on removing SDVOSB contracts from ineligible firms. Until VA develops procedures on removing SDVOSB contracts from ineligible firms, the SDVOSB program is at risk for ineligible firms to abuse the program and retain contracts obtained through fraud and abuse.”

See comment 18.

VA Comment: VA has determined that contracting officers will follow the guidance for continuation of current contracts found in FAR 9.405-1 and VAAR 809.405-1. No additional policy is required at this time.

VA recommended change: Close recommendation.

Page 20, Bullet 1: “VA has not formalized procedures to advertise debarments and prosecutions. VA has not formalized procedures for advertising debarments and prosecutions, though the Debarment Committee, the OIG, and CVE have listed these actions on their websites.”

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VA Comment: VA follows the procedures required in FAR 9.404 to advertise all suspensions and debarments in the Excluded Parties List System (EPLS), which is operated by the General Service Administration and is consulted by, and used by, all Federal agencies. In addition to EPLS, VA has developed its own Web site to specifically advertise (and emphasize) SDVOSB suspensions and debarments. Debarment actions can be found at <http://www.va.gov/oal/business/8127debarmentActions.asp>. Further, as was previously provided, VA advertises debarments and prosecutions on the Web sites of the Debarment Committee, OIG, and CVE also formally posts debarments and prosecutions on VetBiz.

VA recommended change: Close the recommendation.

See comment 19.

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GAO Comments

1. We clarified the report to indicate what the Department of Veterans Affairs (VA) Office of Inspector General (OIG) reported on its findings in 2011 and also to indicate that the report includes all firms in VetBiz, not just those verified under the Veterans Benefits, Health Care, and Information Technology Act of 2006 (2006 Act) process. The remainder of VA's comments related to the OIG report are inaccurate, based on our review of the report and discussions with VA's OIG staff. See the Agency Comments and Our Evaluation section of this report for more detail.
2. In the final report, we deleted the draft report's discussion of information about the Center for Veterans Enterprise (CVE) being responsible for helping veterans who are interested in forming or expanding their own small businesses.
3. Our report's characterization of the Veterans Small Business Verification Act (2010 Act), part of the Veterans' Benefits Act of 2010, is correct and we did not make associated changes to the report. While VA's recommended change points out that VA removed firms that self-represented or had expired eligibility periods, these categories of firms are included by the "all unverified businesses" language in the existing report language.
4. We deleted the sentence stating that SDVOSBs are required to receive a portion of government-wide contractual dollars annually.
5. We have revised our draft report to note that according to VA, (1) the lack of a comprehensive case-management system has created the need for aggregate workarounds and resulted in inconsistent aggregate reporting, (2) the limitations of the case-management system make it difficult to track the inventory of firms, and (3) as the limitations of the case-management system increase over time, the potential of CVE to lose track of how many firms have been verified also increases. We also acknowledge VA's assertion that its verification priorities have evolved over time. However, not all of the conflicting statements VA made can be attributed to inadequacies in its case-management system or to evolving priorities. One of the many examples relates to the December 2010 request for documentation mentioned in the 2010 Act. Specifically, on April 23, 2012, VA told us that between late March 2012 and early April 2012 it had removed over 3,000 SDVOSBs and VOSBs because these firms had failed to provide requested business documentation. We asked whether the firms removed in April 2012 had been sent this request. In response, VA told us that the firms removed in April 2012 did not

receive the December 2010 document. Then on May 12, 2012, VA told us the firms had in fact been sent the December 2010 letter. Later, on June 20, 2012, VA told us that it did not send the December 2010 letter to all firms listed in VetBiz at the time to avoid a flood of applications. In its agency comments, VA states that the 2010 Act did not require it to send all firms listed in VetBiz in December 2010 a request for documentation if the firms had been verified under the 2006 Act and this verification had not yet expired.

6. We revised the text in our draft report to more-clearly reflect that thousands of SDVOSBs listed as eligible in VetBiz received millions of dollars in contract obligations even though they had not been verified under the more-thorough process that VA implemented in response to the 2010 Act. VA's recommended changes also suggest that firms that were verified under the 2006 Act process could not be immediately reverified under the more-thorough 2010 Act process because, in addition to resource-allocation priorities, VA was limited by the requirements of 38 C.F.R. § 74.15(c). However, we note that VA has latitude under the law to modify its own regulations as necessary to ensure that only valid SDVOSBs are included in VetBiz. Furthermore, VA's recent decision to amend 38 C.F.R. § 74.15 and extend the VetBiz eligibility term from 1 year to 2 years appears to be a self-created impediment to ensuring all firms expeditiously undergo the more-thorough 2010 Act process.
7. We revised the text in our report to reflect that the 2010 Act required VA to notify all unverified firms about the need to apply for verification.
8. The language VA objects to concerning VA's prioritization of verifications under the 2010 Act process is taken directly from documentation provided by VA during the course of our audit. Accordingly, we made no changes to the report.
9. The language VA objects to concerning removal of firms is taken directly from oral and written statements made by VA during the course of our audit. Accordingly, we made no changes to the report.
10. The firms mentioned in this footnote are related to one of the new cases we reviewed as a result of allegations we received from confidential informants. These firms were not verified under the process implemented under the 2010 Act and we determined that they were in fact ineligible for the SDVOSB program because the firms' operating agreements allowed the two minority owners to control the firms, rather than the service-disabled veteran. These firms

received approximately \$16 million in VA SDVOSB set-aside and sole-source contract obligations from October 2010 to December 2011. Accordingly, we made no changes to the report.

11. We revised our report to make clear that we were referring to verification using the processes implemented under the 2010 Act.
12. We received conflicting statements from VA as to which firms received the December 2010 notification later and have revised the text to clearly reflect this fact.
13. We revised the text in our report to more-clearly reflect that thousands of potentially ineligible firms remain listed in VetBiz because they have not been verified under the more-thorough process implemented for the 2010 Act. While these firms have been verified under the 2006 Act process, past audits show the potential risk of providing SDVOSB contracts to firms reviewed under this process. VA's recommended change does not acknowledge this risk and is therefore incomplete. Moreover, our statements that were related to the number of firms not verified under the requirements of the 2010 Act, the dollar amounts those firms received, and the number of firms VA planned to remove were all supported by evidence and were accurate at the close of our audit work. We have clarified the report to indicate that fact and included information on the requirements of the interim final rule VA implemented on June 27, 2012. Specifically, in our final report we have noted that the rule extends a firm's eligibility period for 2 years. We also note that VA interprets "verified" to include any firm that has been verified under either the 2006 Act or 2010 Act processes, meaning that this rule will allow thousands of firms to remain eligible for contracts even though they have not undergone the more-thorough process implemented under the 2010 Act process. See the Agency Comments and Our Evaluation section of this report for a more-thorough discussion of this issue.
14. To this point, VA has not provided sufficient documentation to close the 7 recommendations that remain open. GAO will continue to work with VA to confirm the status of its efforts to address our recommendations and will close recommendations, as long as necessary supporting evidence is provided.
15. Our report states that VA has made progress in the area of fraud-awareness training. However, VA has not provided any documentation to show that fraud-awareness training is being provided on a regular basis, as we recommended. Our

recommendation will remain open until necessary evidence to close it is provided. Accordingly, we have not changed the language in our report.

16. The FAR and the VA Acquisition Regulations do not provide specific processes and criteria for the Debarment Committee on compliance with the requirement in the 2006 Act to debar, for a reasonable period of time, firms and related parties that misrepresented their SDVOSB status. VA should provide additional guidance to the Debarment Committee on the specific process and criteria to use to debar firms as required by the 2006 Act. Accordingly we have not changed the language in our report.
17. The recommendation requested that VA develop specific guidelines outlining the Debarment Committee's decision process to debar firms that misrepresent their SDVOSB status. VA needs to provide supporting documentation demonstrating that VA provided the Debarment Committee with the guidance outlining the decision process to debar firms that misrepresent their SDVOSB status. Accordingly, we have not changed the language in our report.
18. VA cites provisions of the FAR and the VA Acquisition Regulations containing guidance for continuing current contracts to firms that were found ineligible through the debarment process. However, our recommendation asked VA to develop procedures to remove SDVOSB contracts from ineligible firms. Accordingly, we have not changed the language in our report.
19. Our report acknowledges that VA advertises the debarments and prosecutions on the Debarment Committee, VA OIG, and CVE websites. However, our recommendation specifically asked for VA to formalize procedures to advertise debarments and prosecutions, and we have not received any documentation related to such procedures. Accordingly, we have not changed the language in our report.

Related GAO Products

Service-Disabled Veteran-Owned Small Business Program: Governmentwide Fraud Prevention Control Weaknesses Leave Program Vulnerable to Fraud and Abuse, but VA Has Made Progress in Improving Its Verification Process. [GAO-12-443T](#). Washington, D.C.: February 7, 2012.

Service-Disabled Veteran-Owned Small Business Program: Additional Improvements to Fraud Prevention Controls Are Needed. [GAO-12-205T](#). Washington, D.C.: November 30, 2011.

Service-Disabled Veteran-Owned Small Business Program: Additional Improvements to Fraud Prevention Controls Are Needed. [GAO-12-152R](#). Washington, D.C.: October 26, 2011.

Service-Disabled Veteran-Owned Small Business Program: Preliminary Information on Actions Taken by Agencies to Address Fraud and Abuse and Remaining Vulnerabilities. [GAO-11-589T](#). Washington, D.C.: July 28, 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.

Service-Disabled Veteran-Owned Small Business Program: Fraud Prevention Controls Needed to Improve Program Integrity. [GAO-10-740T](#). Washington, D.C.: May 24, 2010.

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.: December 16, 2009.

Service-Disabled Veteran-Owned Small Business Program: Case Studies Show Fraud and Abuse Allowed Ineligible Firms to Obtain Millions of Dollars in Contracts. [GAO-10-255T](#). Washington, D.C.: November 19, 2009.

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.: October 23, 2009.

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