



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

TESTIMONY OF MICHAEL A. CHODOS
U.S. SMALL BUSINESS ADMINISTRATION

BEFORE THE
U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

JUNE 26, 2013

Chairman Issa, Ranking Member Cummings, and distinguished members of the Committee. Thank you for inviting me to testify about the Small Business Administration's (SBA) role in the awarding of certain contracts to Signet Computers, Inc., and its successor Strong Castle Inc. (SCI), a firm recently decertified by SBA as a Historically Underutilized Business Zone (HUBZone) entity.

Before discussing the specifics of the SCI case, I would like to briefly describe the HUBZone program and some of its recent successes. The program was enacted into law as part of the Small Business Reauthorization Act of 1997. Its aim is to help small firms in underserved communities gain access to Federal contract opportunities. Generally, HUBZones are urban or rural areas with very low median household incomes and/or very high unemployment. The program requires certified companies to have their principal office in a HUBZone and to employ individuals who reside in HUBZones, with the intention of spurring economic growth within the community.

In Fiscal Year (FY) 2012, the HUBZone Program assisted 7,872 small businesses to better understand program requirements and benefits. As of May 31, 2013, there were 5,029 certified HUBZone small businesses. In FY 2012, over \$8 billion dollars were awarded to certified firms for work performed in all 50 states, including DC, Puerto Rico, Guam, the Virgin Islands, and the Northern Mariana Islands.

In the case of SCI, the firm applied for HUBZone certification on March 11, 2012, and was certified on June 22, 2012. The Internal Revenue Service (IRS) issued RFQ No. T1RNO-12-Q-00083 as a request for quotes to establish a Blanket Purchase Agreement under the General Services Administration's (GSA) Federal Supply Schedule 70 contract. SCI was awarded the

BPA on or about December 7, 2012. A HUBZone status protest was filed with SBA by a competing firm on December 19, 2012.

SBA could not process the protest based on applicable jurisdictional rules; however, SBA believed the information contained in the protest called into question SCI's HUBZone eligibility. As a result, SBA began its investigation into the eligibility of SCI for the HUBZone Program in late December of 2012.

Based on the facts and evidence found during this investigation, SBA proposed SCI for decertification on January 31, 2013. It is important to note that this investigation—and the resulting proposed decertification—took place before, and independent of, the Committee investigation of SCI.

After a thorough review of the information provided to SBA in response to the proposed decertification, SBA decertified SCI on May 23, 2013. A more detailed explanation of the decertification can be found in SBA's Notice of Decertification, which has previously been provided to the Committee.

SBA takes very seriously its duty to root out fraud, waste, and abuse in all of the Federal small business contracting programs, including HUBZone. Our top priority at SBA is to ensure that the benefits of our programs flow to the intended recipients. Our government contracting programs are a critical and effective toolkit for small businesses; however, we have no tolerance for fraud, waste and abuse in those programs. For this reason, we have implemented a comprehensive, three-pronged strategy to identify, prevent and pursue non-compliance or fraud across all our government contracting programs:

1. Effective certification processes: Clear and comprehensive eligibility screening on the front-end to ensure that only qualified, eligible firms participate in our programs;
2. Continued surveillance and monitoring: Targeted and thorough examinations, reviews and site visits to identify potentially fraudulent firms or those that no longer qualify; and
3. Robust and timely enforcement: Prompt, proactive enforcement to remove bad actors, deter wrongdoing, and provide integrity to our contracting programs.

We are especially proud of our core partnership with the SBA's Office of Inspector General (OIG), whose assistance is critical to the success of our improvement efforts. Through ongoing and proactive collaboration with the Government Accountability Office (GAO) and our stakeholders, SBA intends to keep the Federal government's commitment to aid and assist small business. Below are the details of the specific ways, we implement our three-pronged strategy in SBA's Government Contracting and Business Development (GCBD) programs, with specific examples from the HUBZone Program.

Effective Certification Processes

SBA certifies eligible firms to participate in the HUBZone program. In FY 2009, SBA began a two-year re-engineering effort of the HUBZone program that included enhanced reviews to minimize the opportunity for ineligible firms to gain entry into the program. The process now requires applicants to submit relevant documentation (i.e., lease/rental agreements, three years of tax returns, citizenship documentation, payroll records) to prove they meet the program requirements.

Additionally, we reduced the HUBZone application processing time and eliminated the application backlog issues that hindered the program in the past. In late 2009, the application processing time was about 300 days. Now, about 61% of the applications are processed within 90 days, and the HUBZone office continues to further reduce application processing times.

Continued Surveillance and Monitoring

Only those firms entitled to benefit from SBA's programs should remain in them. SBA has used three tools to monitor firms in the HUBZone program: (i) site visits, (ii) re-certifications and (iii) legacy portfolio reviews. These efforts, coupled with the changes to the HUBZone maps following the 2010 Census as required under the Small Business Act, have significantly reduced the number of eligible HUBZone firms.

Robust and Timely Enforcement

SBA's programs must be reserved for those who are—and who remain—eligible. SBA has a range of enforcement tools at its disposal when identifying a firm that is ineligible to participate in our programs. Some are not aware that they are out of compliance, and simply withdraw when made aware of their ineligibility. Others are bad actors, and are taking intentional and often fraudulent advantage of our programs. SBA has no tolerance for a firm found to be acting fraudulently, and where appropriate we will act decisively to oust them from our programs and from doing business with the government generally.

In addition to our own compliance, monitoring and enforcement efforts, we also conduct a thorough investigation and review of every firm cited in IG audits and GAO reports. We have—and will continue to take—all appropriate actions, including suspension and debarment and referral to the Department of Justice, against any firms attempting to "game the system" with SBA's programs.

We recently assembled an SBA Suspension and Debarment Task Force (Task Force), which has developed a number of tools to encourage fraud detection and streamline fraud referrals. For instance, it has implemented a system for the efficient coordination of responses by various SBA program offices, the IG, and SBA's Suspension and Debarment Official (SDO). The Task Force

is also implementing a series of tools and procedures to measure and track our enforcement results. The table below describes some of those results.

Fiscal Year	Suspensions	Proposed Debarments	Debarments	Total
2008 ¹		2		2
2009	2	6	2	10
2010	6	7	0	13
2011	15	9	7	31
2012	8	16	6	30
2013	4	9	0	13
Total	35	49	15	99

We realize, however, that the onus of these efforts does not rest only in the GCBD office. The strategy and efforts described in my testimony reflect an integrated approach that utilizes resources across GCBD, our General Counsel's Office, our 68 District Offices and others. Specifically, SBA has been educating its employees on ways to detect wrongful behavior, and what to do when they uncover it. The training also provides employees with an understanding of the numerous tools that SBA can use to combat fraud. To this end, the Task Force has provided program specific training to employees in SBA's 8(a) Business Development office, HUBZone office, and SDV Program office. The Task Force has also provided training to most of SBA's size specialists, and all of its Area Directors. SBA plans to continue providing additional training every year.

SBA has also increased its coordination with other agencies. Often procuring agencies and their contracting offices are in a better position to identify possible fraudulent activity by SBA program participants, than SBA. So far, these efforts have been highly effective. For example, our SDO and our HUBZone Program office provided information, advice, and evidence to the Department of the Navy that resulted in the suspension of two firms and three individuals. More recently SBA's SDO worked very closely with the Department of Homeland Security, the Department of the Navy, the Department of the Army, GSA, the Department of Energy, the Department of Justice, and the OIG on a case that has resulted in SBA issuing seven proposed debarments so far, and with several administrative actions being taken by other agencies as well.

As demonstrated by the initiatives and efforts described in this testimony, SBA has taken great strides to strengthen the small business contracting programs and implement a robust strategy to combat fraud, waste and abuse. Work remains to be done to completely eliminate fraud, waste and abuse in our programs, as bad actors, regrettably, still take wrongful advantage of government benefits. While we have made significant progress, we continue to look for ways to

¹ Prior to FY 2008, SBA did not keep separate records for procurement, grants and lending suspension and debarment actions.

identify further opportunities for improvement and to maximize small businesses' access to this important source of revenue so they can do what they do best: create jobs.

Thank you for hearing my testimony today, and I am happy to answer any questions you may have.

###