
Service-Disabled Veteran Owned Businesses¹

The Scenario

An auditor was reviewing Department of Defense contract awards for engineering services. During the review, they noted that several service-disabled veteran owned businesses (SDVO) were awarded contracts for agency engineering projects. However, the auditor decided that additional audit work was needed when they noted that Mr. XYZ was listed as a 51% owner of five different business partnerships that received engineering contracts during the past six months. During audit fieldwork, reviews of contract requirements, company payroll records, and interviews with company employees and Mr. XYZ were completed. The auditor's workpapers contained the following information:

- Mr. XYZ's ownership of the five companies was documented in each partnership agreement. However, he rarely was seen at any of the office locations. One interviewee stated that he generally came in on Friday mornings for coffee and usually left by ten o'clock to play golf. The auditor noted that Small Business Administration (SBA) regulations require the management and daily business operations of a SDVO firm must be controlled by at least one veteran. SBA interprets control to mean that the veteran conducts both the long-term decision making and the day-to-day administration of the business operation.
- Mr. XYZ stated that he was not officially trained as an engineer. He stated that he was able to understand the engineering information his partners shared with him because he was a quick learner. However, SBA regulations require that a service-disabled veteran must have managerial experience of the extent and complexity to run the business. Additionally, Mr. XYZ stated that he generally did not participate in management decision making and did not supervise company employees that were certified engineers.
- Review of payroll records at the five business partnerships showed that Mr. XYZ was receiving a monthly salary of \$8,000 from each engineering firm.

The auditor concluded that the engineering firms had fraudulently used Mr. XYZ's status as a certified service-disabled veteran to compete for, and obtain, Department of Defense engineering contracts.

General Comments / Lessons Learned. The SBA administers numerous programs that are designed to increase small business owner's eligibility for Federal contracting opportunities. The SDVO, Veterans Business Enterprise, HUBZone, and 8A programs are some of the better known initiatives within the Federal contracting community. In

¹ The Small Business Administration defines a service disabled veteran with a permanent and severe disability as a veteran with a service-connected disability that has been determined by the Veterans Administration, in writing, to have a permanent and total service disability for purposes of receiving disability compensation or a disability pension.

July 2005, the American Forces Press Service stated that the Department of Defense awarded about \$500 million dollars to businesses owned and operated by veterans with service-related disabilities. However, the agency's goal is to increase that amount to \$6 billion within the next five years. Because of the anticipated increase in contracts awarded to service-disabled veterans, auditors should familiarize themselves with the program requirements. For additional information on SBA contracts for veterans and other small businesses, visit the SBA web page at www.sba.gov.

FRAUD INDICATORS

- **The business is not at least 51% owned and controlled by a service-disabled veteran.**
- **At least one veteran does not control the management and daily business operations of the company. Control is defined as both the long-term decision making and day-to-day administration of the business operations.**
- **The service-disabled veteran does not possess the complex managerial skills/ability needed to run the business.**
- **The service-disabled veteran cannot demonstrate that they have the ultimate managerial and supervisory control over those who possess the required licenses or technical expertise.**
- **Payroll records show a service-disabled veteran receiving monetary compensation that is not commensurate with the veteran's technical skills or contributions to the overall business operations.**