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## HUBZone Contracts<sup>1</sup>

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### The Scenario

A Department of Defense agency requested an audit of its HUBZone contracts to determine whether it complied with HUB Zone Act participation goals for Federal agencies.<sup>2</sup> During the review, the auditor selected a sample of HUBZone certified contracts, awarded during the past year, to determine contractor eligibility for program participation. The auditor interviewed agency contracting officers, HUBZone business owners, and reviewed HUBZone certification files obtained from the Small Business Administration (SBA). The auditor's work disclosed the following information:

- Interviews conducted at Company A revealed that the business was not at least 51% owned and controlled by a United States citizen. Specifically, one of the company owners was American; however, their business partner's citizenship application was pending approval. As a result, Company A did not comply with the SBA requirement that a HUBZone business must be at least 51% owned and controlled by a United States citizen.
- Three of the twelve contractors listed their principal business addresses in HUBZone areas; however, they were actually running their operations from locations that were outside of an authorized HUBZone. Further, none of the company employees resided in the HUBZone location, which violated the SBA requirement that at least 35% of the businesses employees reside in a HUBZone.<sup>3</sup>
- Four companies listed business addresses in HUBZone areas. However, when the auditor attempted to visit the business locations they discovered that the addresses were for rented post office boxes within a HUBZone.

The auditor's report concluded that at least twenty percent of the agency contracts awarded under the HUBZone program were made to companies that were not eligible for program participation.

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<sup>1</sup>The purpose of the HUBZone program is to provide federal contracting assistance for qualified small businesses concerns located in historically underutilized business zones in an effort to increase employment opportunities, investment, and economic development. HUB Zone regulations apply to all Federal departments or agencies that employ one or more contracting officers. The Small Business Administration certifies that a small business concern is qualified for participation in the HUB Zone program. (13 CFR, Part 126.100, 126.100(a), 126.103(4).

<sup>2</sup> The HUBZone Act established participation goals for certified firms starting in fiscal year 1999. The fiscal year 1999 goal was 1 percent of the Federal government's total value of prime contract awards, and the fiscal year 2000 goal was 1.5 percent. The act increased the goal by one-half percent each year, reaching 3 percent in fiscal year 2003 and each fiscal year thereafter.

<sup>3</sup> SBA regulations state that HUBZone business must attempt to maintain at least 35% of employees that reside in a HUBZone. Attempt to maintain is defined as making substantive efforts such as written offers of employment, published advertisements seeking employees, and attendance at job fairs.

**General Comments / Lessons Learned.** HUBZone program fraud continues to be problematic for Federal agencies because they are required to rely on the SBA to certify companies for HUBZone participation. SBA has taken some steps to enhance the effectiveness of the program; however, additional improvements are needed. While contracting dollars awarded to HUBZone firms increased from fiscal year 2003 to 2006, the government wide goal of awarding three percent of annual contracting dollars to HUBZone firms was not met. When conducting audits of HUBZone companies, auditors are encouraged to visit the SBA web page, [www.sba.gov](http://www.sba.gov), to obtain more information on eligibility and the HUBZone certification process. Additionally, the Government Accountability Office, Report No. GAO-08-643, "Small Business Administration, Additional Actions Are Needed to Certify and Monitor HUB Zone Business and Asses Program Result," June 2008 provides additional information on HUBZone program vulnerabilities and recommendations for improvement.

#### **FRAUD INDICATORS**

- **The business is not at least 51% owned and controlled by a United States citizen.**
- **The firm does not maintain a principal office in a HUBZone. Instead, the firm's main operation/headquarters is located outside of a HUB Zone.**
- **At least 35% of the firm's employees do not reside in a HUBZone.**
- **The firm's HUBZone business address is not authentic.**