

United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP
WASHINGTON, DC 20510-6350

July 21, 2009

The Honorable Karen G. Mills
Administrator
U.S. Small Business Administration
409 Third Street, SW
Washington, D.C. 20416

Dear Administrator Mills:

Congratulations on passing the 100-day mark in your tenure as the Administrator of the Small Business Administration (SBA)! In such a short time, I have been amazed and impressed at what you have accomplished, especially in the area of the SBA's capital access programs. As a result of your steadfast efforts and leadership on implementing the provisions of the *American Recovery and Reinvestment Act*, loan volume at the Agency has increased by more than 40 percent. I truly appreciate your continued willingness to collaborate so closely with me on these key issues confronting small businesses all across the nation.

As Ranking Member of the Senate Committee on Small Business and Entrepreneurship, one of my primary roles is to conduct vigorous oversight to ensure that the SBA's programs are operating at maximum efficiency and effectiveness. During your confirmation hearing, you expressed a strong willingness to root out fraud and abuse in all SBA programs, including the Agency's government contracting and business development programs.

As you are undoubtedly aware, the Government Accountability Office (GAO) and the SBA Inspector General (IG) have issued a series of reports, testimonies, and studies identifying alarming concerns with the Historically Underutilized Business Zone (HUBZone) and Alaskan Native Corporation (ANC) programs. In addition, I am troubled by a number of statutorily mandated reporting deadlines that the SBA has missed for the Small Business Innovative Research (SBIR), Small Business Technology and Transfer (STTR), the 8(a) Business Development, and the small business contracting goal programs.

I understand that the issues and concerns I raise in my letter today did not take place under your watch and am confident in your ability to expeditiously correct any issues and lead the SBA during this critical time. I am writing to request that you provide me with a status report on the aforementioned issues, which I will describe in more detail below.

Regarding the HUBZone program, the GAO made a number of recommendations for how the SBA could rectify fraud and abuse within the program's certification and oversight process. These include the Agency:

- Incorporating a risk-based mechanism for conducting unannounced site visits as part of the screening and monitoring process;
- Implementing policies and procedures into the SBA's program examinations for evaluating if a HUBZone firm is expending at least 50 percent of the personnel costs of a contract using its own employees;
- Ensuring appropriate policies and procedures are in place for the prompt reporting and referral of fraud and abuse; and
- Once the GAO provides the names of the firms identified in the report, confirm their ineligibility and initiate appropriate action.

Regarding the concerns with the ANC program, the GAO recommended that the SBA should:

- Clearly address, in regulations, how it will comply with existing law to determine if one or more ANCs are obtaining an unfair competitive advantage;
- Specifically address its role in monitoring ownership of ANC holding companies;
- Collect information on ANCs' 8(a) participation;
- Revisit the regulation that requires agencies to notify the SBA of all contract modifications;
- Consistently determine whether other small businesses are losing contracting opportunities when awarding contracts through the 8(a) program to ANC firms;
- Evaluate staffing levels and training needed to effectively oversee ANC participation in the 8(a) program and take steps to allocate appropriate resources to the Alaska District Office; and
- Provide more training to agencies on the 8(a) program, specifically including a component on ANC 8(a) participation.

In addition, the SBA IG has made the following recommendations for the ANC program, including a report issued on July 10, 2009. The SBA IG recommends that with regard to the ANC program, the Agency should:

- Conduct a review to determine the impact of ANC growth on other firms in the programs and whether ANCs should continue to have no cap on sole-source awards;
- Centrally track the awards of ANC joint ventures as well as ANC sole-source awards;
- Ensure that the SBA's information systems can provide timely and accurate performance information;
- Finalize regulations and actions needed to implement the GAO's recommendation to staff the Alaska District office adequately;
- Review the 8(a) companies for compliance and affiliation issues;
- Immediately initiate actions to suspend and terminate participants from the 8(a) program based on their repeated non-compliance;

- Advise procuring agencies of the suspensions so that 8(a) contract awards can be averted until terminations are final;
- Establish additional procedures requiring more documentation and closer examination of the documentation; and
- Perform a workforce analysis to determine whether staffing levels for the Alaska District Office are adequate, and take action as appropriate.

Finally, regarding the missed deadlines, please provide an update for when we can expect to receive reports for the following statutory requirements:

- Small Business Innovative Research Program for Fiscal Years 2007 and 2008;
- Small Business Technology and Transfer for Fiscal Years 2007 and 2008;
- 8(a) Business Development Program for Fiscal Year 2008; and
- Small Business Contracting Goal Programs for Fiscal Year 2008.

I formally request that you report back to me by July 31, 2009, on the status of implementation by the SBA of recommendations to prevent fraud and abuse in the HUBZone and 8(a) programs. In addition, I would also like to be provided a status report on when the Committee can expect to receive any and all outstanding statutorily mandated reports.

Thank you again for your willingness to serve and your commitment to our nation's small businesses.

Sincerely,



OLYMPIA J. SNOWE
Ranking Member