

S. HRG. 119–251

RUNNING GOVERNMENT LIKE A SMALL BUSINESS: CUT WASTE, CRUSH FRAUD

HEARING BEFORE THE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP OF THE UNITED STATES SENATE ONE HUNDRED NINETEENTH CONGRESS FIRST SESSION

DECEMBER 10, 2025

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RUNNING GOVERNMENT LIKE A SMALL BUSINESS: CUT WASTE, CRUSH FRAUD

WEDNESDAY, DECEMBER 10, 2025

UNITED STATES SENATE,
COMMITTEE ON SMALL BUSINESS
AND ENTREPRENEURSHIP,
Washington, DC.

The committee met, pursuant to notice, at 2:31 p.m., in Room 428A, Russell Senate Office Building, Hon. Joni Ernst, Chair of the committee, presiding.

Present: Senators Ernst [presiding], Hawley, Husted, and Hirono.

OPENING STATEMENT OF SENATOR ERNST

CHAIR. I call the Committee on Small Business and Entrepreneurship to order. We've all heard Washington, DC. referred to as the swamp, but these days, it is looking more and more like a pigsty. While Iowa small businesses keep their books neat and tidy and pinch pennies to balance their own budgets, they are the ones who are hurt when the government is sloppy and reckless with hard earned taxpayer dollars.

That's why I made a promise to Iowans to make Washington squeal. For over a decade, I've been exposing egregious Washington waste with my monthly Squeal Awards. Some examples are too outrageous to believe. I'm talking about bureaucrats approving PPP loans for applicants who used pictures of dolls for IDs; imagine giving Barbie or Ken a taxpayer-funded loan. Not only that, but they also believe folks claiming to be over 115 years old were alive and well enough to be approved for 3,095 PPP and EIDL loans worth \$333 million, including \$36,000 to a 157-year-old. That's pure hog wash!

But this is only the tip of the iceberg. Instead of boosting Main Street, millions of your tax dollars were wasted through USAID to fund Iraqi Sesame Street. And this one is unacceptable: Improper payments, or the government tossing cash into the wrong trough, have become commonplace.

In Fiscal Year 2024, federal agencies shoveled out \$162 billion in improper payments. The most frustrating part is how simple it is to stop this waste. A report by the Pandemic Response Accountability Committee found that \$79 billion in potential COVID fraud could have been prevented if four basic questions were asked. One, is the applicant's social security number valid? Two, if valid, does the name connected to that number match the name on the application? Three, does the birthday match? And lastly, is the indi-

vidual alive? Seriously, folks that could have saved \$79 billion right there.

The good news is that we can prevent nearly all improper payments in the future with my *DOGE in Spending Act* that enacts common sense guardrails—like those four simple questions. And these quick fixes could not come soon enough. Six years after COVID, scammers are still pigging out on SBA relief funds. I'm proud this committee advanced my *SBA Fraud Enforcement Act*, and I'm eager to see it become law.

Fraudsters snout-deep in pandemic-era shuttered venue and restaurant funds must be held accountable. Unfortunately, unless my bill is passed by the Senate and signed into law, many of these criminals will soon get away with it. During the prior administration, USAID repeatedly rebuffed my request for information, using intimidation and shell games to hide where money is going, how it's being spent, and why. This is the same agency that handed cash to violent terrorists, and funded dance classes in Wuhan. Yes, the same Wuhan you are thinking of.

As a result of my oversight, I discovered firsthand USAID was a rogue bureaucracy, operating with little accountability and, at times, at odds with our nation's best interests. My findings were confirmed when, this summer, federal prosecutors convicted a USAID contracting officer who raked in over \$1 million in bribes to steer more than \$550 million in contracts to 8(a) program participants.

Unfortunately, the SBA's 8(a) program has been a magnet for fraudsters since its inception. Decades of government watchdog investigations, bipartisan oversight hearings, a patchwork of reforms, and what is there to show for it? Not a shred of evidence that the program is worth taxpayers' investment. It is refreshing to see an administration take fraud as seriously as I do, and I applaud Administrator Loeffler's efforts to end 8(a) program scams for good.

In the meantime, I have launched my own 8(a) investigation and introduced the *Stop 8(a) Contracting Fraud Act* to pause 8(a) no-bid contracts government-wide until the SBA completes its audit. I am also urging federal agencies government-wide to adopt this common-sense moratorium.

Make no mistake, this waste hurts all our small businesses the most. When COVID fraudsters cashed in, thousands of deserving small businesses in Iowa were left out in the cold because funds had run dry. When the Biden USAID sent money to every corner of the world, small businesses here at home footed the bill as their taxes skyrocketed.

When 8(a) programs divert government contracts to businesses committing fraud, legitimate small businesses pay the price losing jobs, revenue, and growth opportunities. Government contracting should be based on eligibility and merit, not skin color. I promised to make Washington squeal, and it is clear that this pig pen of a swamp needs a thorough mucking out.

I want to thank our witnesses for bravely pulling on their rubber boots and grabbing their buckets. Thank you all very much. Let's clean this up for American taxpayers and put our hardworking small businesses first. And I do look forward to hearing your testimony.

I now ask unanimous consent that a statement by Senator Dan Sullivan of Alaska be entered into the record. Senator Sullivan has been a fierce advocate for Alaskans and a partner in working to ensure fraud is eradicated from federal contracting. And without objection, so ordered.

I now recognize Ranking Member Markey for his opening statement.

STATEMENT OF SENATOR MARKEY

Senator MARKEY. Thank you so much, Madam Chair. Today's hearing is called, *Running Government Like a Small Business: Cut Waste, Crush Fraud*. Sounds important. A more accurate title, however, would be, *Running Government Like a Trump Family Business: Cutting Deals with Billionaires and Crushing Small Businesses*. That's what the title on this hearing should say. Because this administration, the Trump administration, it's chosen to focus their energy on relentlessly attacking small businesses from tariffs, to healthcare, to electricity prices, to contracts.

Yeah. They're focused on small businesses, crushing Main Street. Through the now defunct Department Of Government Efficiency, or DOGE, the administration disproportionately cut contracts for women-owned and minority-owned small businesses. Those are the programs they cut. Additionally, 10 percent of all contracts cut by DOGE were veteran-owned businesses, most of whom were veterans disabled in the line of service. Can you imagine they cut 10 percent of those contracts for those vets? This is all since January.

While, we all want taxpayer dollars to be well spent, we should take note of who this administration treats as expendable. It's those least able to defend themselves. It's those least able to flatter or provide gifts to the President and to his family.

The administration's most recent fixation, SBA's 8(a) program, which is a program that gives small disadvantaged businesses training, technical assistance, and federal contracting opportunities for nine years. Now, those businesses are principally Black and Brown owned in our country. That's who they're focusing on, cutting that program for those people who are just a small business trying to get a foothold in this American economy during this very difficult economic time with healthcare costs, and with electricity costs, and with the tariffs all zeroing in on small businesses.

This program was created by a Republican President, President Nixon and signed into law in 1978. It has done a world of good for tens of thousands of small businesses, and again, disproportionately Black and Brown, providing access to billions in contracting opportunities with the largest buyer of goods and services in the country, the federal government.

Like any federal program, there have been rare cases of bad actors taking advantage of these resources and they should be held accountable. They should be made to pay the price. But these rare instances do not warrant an all out assault on a program that has created good paying jobs, provided pathways to success for small businesses, and created economic growth for our country.

In a hearing focused on waste, and fraud, and abuse, we just cannot avoid or ignore the elephant in the room: President Trump's pay to play system. To receive special status as a foreign country,

you must gift the President a \$400 million jetliner that he gets to keep when he leaves the White House. That's unbelievable. To get a gold mine of government contracts, just pay for the President's golden ballroom. To receive an exemption from President Trump's terrible tariffs, simply give the President a lavish gift or pay to dine at Mar-a-Lago.

Can a small business do that? No. They're not dining at Mar-a-Lago. They can't afford it. You got to put up a million bucks to just get in the door. This is not how honest, hardworking, small businesses get things done. This is how they get business done in *The Godfather*, *Godfather Part One*. That's what this White House is all about.

Because when it comes to true oversight, who gets thrown under the floodlights? It's the little guys, the minority, small business owner, the Black and Brown small businesses, the veteran-owned small businesses, the local restaurant trying to make it through the pandemic.

And what is it for? It's all to help the big guys who hobnob with the President and don't want pesky small businesses competing with them for customers or contracts. Those big guys say crush the little guys, and by the way, give us all their money in tax breaks for us, too.

If we're serious about cutting waste, crushing fraud, helping small businesses, let's start at the top. The President's handouts to his billionaire buddies aren't just corruption and an abuse of power, it's theft. Theft from small businesses, theft from hardworking Americans, theft from our future. Every tariff exemption handed out to the President's political posse rigs the game against small businesses trying to survive the President's disastrous trade war.

Small businesses had to take the President to the Supreme Court to try to remove those tariffs on them. My hope is that they'll rule that way. But you never know with the Supreme Court. Every dollar the Trump family gets by treating our government as their own personal piggy bank is money stolen from everyday people. President Trump and his family raked in more than \$1.8 billion in cash and gifts just this year, the first 11 months. It's Robin Hood in reverse. It's Main Street versus Mar-a-Lago. That's what this hearing is all about.

And it's time Congress does its job, and holds this President accountable for turning the federal government into an arm of the Trump business organization. The little guys are not the villains. President Trump's corruption, and waste, and fraud, and abuse is America's real villain, and I look forward to this hearing, Madam Chair,

CHAIR. Thank you, Ranking Member Markey. And I want to extend a warm welcome to all of our witnesses. I'm thankful that you took time out of your busy schedules to share your expertise and insight with this committee.

I will now introduce our first witness, Mr. Luke Rosiak. Mr. Rosiak is an Investigative Reporter at *The Daily Wire*, who has covered waste in the federal government for nearly 20 years. He is the winner of the prestigious 2025 Dao Prize for best reporting on government waste and the 2022 Media Research Center Bulldog

Award for outstanding investigative journalism. Congratulations on your recent Dao Award, and it is well deserved.

Next, Mr. John Hart is the CEO of Open the Books. Before joining Open the Books, he served as the Communications Director to late U.S. Senator Tom Coburn, where he helped pass landmark transparency legislation that put federal spending online. His work at Open the Books includes oversight reports on improper payments, government waste, and COVID fraud.

Our third witness, Dr. Courtney LaFountain, is the Acting Director of Financial Markets and Community Investment at the Government Accountability Office, GAO, in Washington, D.C. Dr. LaFountain earned her Ph.D. in economics from Washington University in St. Louis, Missouri. She is a recipient of the 2022 Arthur S. Fleming Award, which recognizes federal employees for outstanding public service. Thank you again.

And I now recognize Ranking Member Markey to introduce his witness.

Senator MARKEY. Yeah. Thank you, Madam Chair. Dylan Hedtler-Gaudette is the Acting Vice President of Government Affairs at the Project on Government Oversight, or POGO. POGO began in 1981 as a Pentagon watchdog. In the years since, they have expanded to focus on the entire federal government, fighting to achieve a more ethical, effective, and accountable federal government.

Mr. Hedtler-Gaudette has covered a range of issues including Congressional stock trading, Pentagon accountability, federal spending issues, foreign influence and the Foreign Agents Registration Act, judicial ethics, and Congressional capacity amongst others. POGO is one of my all-time favorites, and it's so great to have you here today. Thank you.

CHAIR. Great. Thank you, Ranking Member Markey. And briefly, I'll take a moment to explain our lighting system to our witnesses. And Mr. Hedtler-Gaudette, you just talk away, okay, so we'll let you know if time is expiring. There are three lights in front of you. Green means go. Yellow means you are running out of time. And red means wrap up your remarks. I ask unanimous consent that the witnesses' full statements be included in the record. Without objection, so ordered.

As your written testimony has been made part of the record, the committee asks that you limit your oral remarks to five minutes. And with that, Mr. Rosiak, we'll start with you, and you are recognized for five minutes for your testimony.

**STATEMENT OF MR. LUKE ROSIAK, INVESTIGATIVE
REPORTER, THE DAILY WIRE, NASHVILLE, TENNESSEE**

Mr. ROSIAK. Thank you, Senator Ernst, Senator Markey, committee members. It's an honor to appear before all of you. I've been an investigative reporter for nearly 20 years focused on waste, fraud, and abuse in the federal government. I concluded many years ago that the most openly abused and shockingly corrupt program in the federal government is so-called "set aside". Contracting contracts are set aside from open competition for women and minority owned businesses and other groups.

The Small Business Administration coordinates so-called 8(a) contracting for agencies across the government. That gives this committee an important jurisdictional vantage point for a big pool of money at places like the Pentagon. Now, if you were doing something in your yard like taking down a tree, or doing some other work on your property, you probably wouldn't do that work unless you called around and got, say, three quotes from different vendors. You choose the one with the best value.

The government would build a tank without even trying to find the best value first through this mechanism that we call set aside contracting. The program was created in 1978, mostly to help Black Americans start businesses since they'd been discriminated against by the government. But I don't believe any member of this committee would support the program if you see how it works, a half century later.

At least five percent of all federal contracting dollars are diverted through set-asides. But these billions don't go to poor minorities in your states. They go to insiders in the suburbs of DC, which are already the wealthiest counties in the country. Very little goes to Black Americans these days.

The racial composition of America is more complex than it was back in 1978. In the case of first-generation immigrants, this results in an odd policy that the government is basically prioritizing foreigners over Americans by one measure. South Asians, people from the country of India gobble up a lion's share of 8(a) contracts while black Americans get only 15 percent. Not 50 percent, but 15 percent.

The scandal isn't that there have been a few examples of abuse. The scandal is that it's hard to find one that isn't. Pick a random set aside contract on USAspending.gov. I quickly chose OCT Consulting LLC when preparing this testimony. So, this isn't a notorious fraudster that's been in the news. I haven't written about this person. I literally just picked them off a list a couple days ago. It's a guy named Atul Kathuria, who lists a home in McLean, Virginia as his company address.

He received 19 contracts from the federal government, totaling \$43 million without having to show that he had the best price or the best services. The government didn't even consider anybody else. Now, normally it would be illegal to give a contract to a company with no competition. That can enable bribery and kickbacks. It's the kind of thing corrupt countries like Russia do. In this case, it was legal because the government certified OCT Consulting as a, "Subcontinent Asian Indian American-owned Small Business 8(a) Participant."

Well, perhaps the SBA forgot to check with the U.S. Census Bureau. Indian Americans are the wealthiest demographic in America with higher median income than whites. These contracts are in the field of IT, which didn't even exist during the era of government discrimination. Indians have never been underrepresented in the field of IT. They're actually overrepresented in that field.

Now, a listing of DC's most expensive real estate transaction shows that earlier this year, Atul bought an 11,000 square foot estate replete with a wine cellar for \$7 million. You can see it up

there on the screen. Minority ownership is just to win a contract, not to fix societal disparities at any meaningful scale.

Every staff member listed on OCT Consulting's website is a white man except for the owner and his wife. What did Atul do before he became a disadvantaged businessman and overcame all odds to become a millionaire? He went to George Washington University, and worked for 15 years as a financial consultant at Ernst and Young and Booz Allen Hamilton.

This kind of thing is a disgrace. You've all seen the video where an exec from Native American 8(a) ATI Consulting was caught on camera saying they just subcontract the work out to companies like Accenture and keep a huge cut. The story here isn't that a wily businessman concealed this from the government and finally got caught. It's that 8(a) is actually a corrupt conspiracy between government procurement officers and big companies. The companies, the beltway bandits, like Accenture, Booz Allen, Deloitte, Lockheed Martin.

Somebody from government will be talking to a friend at one of these companies and say, "I have some work that you guys might be a good fit for. Let's work together." But if Booz Allen, say, has to compete for it, they'll have to make sure they charge less than Deloitte. The process would take forever and there's no guarantee they'll get it.

So, the contracting officer encourages the beltway bandit to seek out a random 8(a) that's listed waiting like a shell company on one of the contract vehicles. The government can immediately award the contract to the 8(a) knowing that they'll subcontract the work back to the big firm. It's just a way to bypass competitive bidding a process we have in place for a reason. So, the guy in the James O'Keefe video didn't swindle the government. We all knew the government knew there are skyscrapers down the street in Tyson's Corner, defense contractors working on advanced weapons that don't have to bid competitively for contracts because we say they're Alaskan Native corporations. Every one of us in this room knows there are not Native Alaskans in those buildings.

8(a) creates a random group of influence-peddlers, who like lobbyists, get rich by selling their access to government insiders for the benefit of big business while driving up the costs for all of us. This is the kind of thing people hate about Washington. You owe it to voters to end this program.

[The prepared statement of Mr. Rosiak follows.]

Luke Rosiak, Investigative Reporter, The Daily Wire

Thank you Senator Ernst, Senator Markey, committee members. It's an honor to appear before all of you.

I've been an investigative reporter for nearly 20 years, focused on waste, fraud and abuse in the federal government. Based on all my research, I concluded years ago that the most openly abused and shockingly corrupt program in the federal government is "set-aside" contracting.

Contracts are set aside from open competition for women- and minority-owned businesses and other groups. The Small Business Administration coordinates so-called 8(a) contracting for agencies across the government.

The program was created in 1978 to help black Americans start businesses since they'd been discriminated against by the government. But I don't believe any member of this committee would support this program if you see how it works a half century later.

At least five percent of all federal contracting dollars are diverted through set-asides, but these billions don't go to poor minorities in your states. They go to insiders in the suburbs of D.C., which are already the wealthiest counties in the country.

Very little goes to black Americans. The racial composition of America is more complex than in 1978. In the case of first-generation immigrants, this means the policy of the U.S. government is to prioritize foreigners over Americans. By one measure South Asians, from the country of India, gobble up a lion's share of 8(a) contracts, while black Americans get only 15%.

The scandal isn't that there have been a few examples of abuse. The scandal is that it's hard to find one that isn't. Pick a random set-aside contract on USASpending.gov. I quickly chose [OCT Consulting](#) LLC when preparing this testimony.

It's a guy named Atul Kathuria who lists a home in McLean, Virginia as his company address. He received 19 contracts from the federal government totaling \$43 million without having to show that he had the best price or the best services. The government didn't even consider anyone else.

Normally it would be illegal to give a contract to a company with no competition. That can enable bribery and kickbacks. It's the sort of thing corrupt countries like Russia do. In this case it was legal because the government [certified](#) OCT Consulting as a "Subcontinent Asian Indian-American Owned Small Business 8(a) Participant."

Perhaps the Small Business Administration forgot to check with the U.S. Census Bureau: Indian-Americans are the wealthiest demographic in America, with a higher median income than whites. The contracts are in the field of IT, which didn't even exist during the era of government discrimination. Indians have never been underrepresented in IT, they're overrepresented.

A listing of D.C.'s most [expensive real estate](#) transactions shows that earlier this year, Atul bought an 11,000-square foot estate, replete with a wine cellar, for \$7 million.

Minority ownership is just to win a contract, not to fix societal disparities at any meaningful scale. Every staff member listed on OCT Consulting's [website](#) is a white man, except for the owner and his wife.

What did Atul do before he became a disadvantaged businessman and overcame all odds to become a millionaire? He went to George Washington University and [worked](#) for 15 years as a financial consultant at Ernst and Young and Booz Allen Hamilton.

This is a disgrace.

You've all seen the video where an exec from Native American 8(a) ATI Consulting was caught on camera saying they just subcontract the work out to companies like Accenture, and keep a huge cut.

But the story isn't that a wily businessman concealed this from the government. It's that 8(a) is actually a corrupt conspiracy between government procurement officers and big companies, the Beltway Bandits like Accenture, Booz Allen, Deloitte, Lockheed Martin.

Someone in government will be talking to a friend at one of these giant corporations, and say they have a project in mind they'd like to work together on. But if Booz Allen has to compete for it, it will have to make sure it charges less than Deloitte. The process would take forever and there's no guarantee they'll get it.

So the contracting officer encourages the Beltway Bandit to seek out a random 8(a) that's listed, waiting like a shell company, on one of the contract vehicles. The government can immediately award the contract to the 8(a), knowing that they will subcontract the work to the big firm. It's just a way to bypass competitive bidding, a process we have in place for a reason.

The guy in the James O'Keefe video didn't swindle the government. We all knew. The government knew.

There are skyscrapers down the street in Tysons Corner, defense contractors working on advanced weapons, that don't have to bid competitively for contracts because we say they're Alaskan Native Corporations. But every one of us here knows there aren't native Alaskans in those buildings.

8(a) creates a random group of influence-peddlers who, like lobbyists, get rich by selling their access to government insiders, for the benefit of big business, while driving up the costs for all of us.

It's what people hate about Washington.

And we owe it to voters to end it.

This committee is going to have to address 8(a) because of recent court rulings related to the Supreme Court's Students for Fair Admissions ruling.

Since July 2023, SBA has been barred from assuming that minorities are disadvantaged for purposes of 8(a) contracting. In a case called [Ultima](#), a judge put an injunction in place, which the Biden administration implemented by having people write essays about how they are socially disadvantaged, instead of just looking at their race.

Last month a lawsuit was filed pointing out that there's [still](#) a legal problem: The injunction changes how SBA does 8(a) contracting, but the 8(a) regulatory language is also used by other government programs too. SBA will likely be required to rewrite the 8(a) rule to settle this lawsuit.

The Department of Transportation runs an almost identical program to 8(a), and in 2024 a judge also put an injunction on it (Mid-America Milling Co.). The solicitor general has told Congress that he can't defend the constitutionality of these programs.

Now you have a minority set-aside contracting without the minority. The courts ban the racial part, but the set-aside program is still in the law. That's created a program that I don't think either party would support.

It dangles billions of dollars in front of people of any race who can write sob-story essays, which are totally unverifiable and subjective, about how they are "socially disadvantaged." The only requirements for being economically disadvantaged are that you have less than \$6.5 million in assets and \$850,000 in personal net worth, not including your home. And of course there are companies, like the ones that help the children of Hollywood celebrities get into college, who will write these essays for you.

There are political and legal minds who object to the government steering money to people based on their race, but I look at it primarily from a fraud vulnerability standpoint. Set-aside contracts are inherently vulnerable to fraud, and the amount of money at stake here makes it virtually guaranteed that as long as we have them, the free market will find ways to make them essentially pass-throughs that subvert the intent of the program and result in more expensive and lower quality services in every facet of government.

Bio:

Luke Rosiak is an investigative reporter for The Daily Wire who has covered waste in the federal government for nearly 20 years. He is a database expert who uses computer programming to analyze procurement records on [USASpending.gov](#) and has written extensively about set-aside contracting. He is the winner of the [2025 Dao Prize](#) for Best Reporting on Government Waste and the 2022 Media Research Center [Bulldog Award](#) for Outstanding Investigative Journalism. He lives on a hobby goat farm in Virginia.

His stories on set-aside contracting include:

- [New Lawsuit Could Topple The Heart Of Race-Based Federal Programs](#)
- [Trump Orders All Beneficiaries Of The Largest DEI Program To Turn Over Internal Financial Records](#)
- [The Core Part Of This Federal Race-Based Contracting Program Is Illegal, Judge Says](#)
- [Feds Crack Down On Minority Contracting Schemes, D.C.'s Worst-Kept Secret](#)
- [USAID Official, Three Contractors Plead Guilty To Half-Billion Dollar Bribery Scheme](#)
- [USAID's \\$800M 'Root Causes Of Migration' Plan Included Company That Feds Knew Previously Bribed Agency](#)
- [Foreign Aid Official Who Resisted DOGE Took Secret Payments After Steering Africa Money To Friend](#)

- [Governor Candidate Blacklisted By Veterans Affairs After Evidence He Sold His Disabled-Vet Status](#)
- [Conflict of interest in \\$4 billion government minority program](#)
- [\\$4 billion program for disadvantaged businesses lacks oversight](#)
- [Phantom Contractors](#)
- [Stimulus funds fed minority businesses that served as middlemen](#)
- [Local business contract takes the long route: government allows pass-through costs](#)
- [Minority contractors 'game the system,' find havens in D.C. homes](#)
- [Maryland's minority-contracting program gets failing grade on 'graduation'](#)
- [Md. couple indicted in scheme to cheat SBA on minority contracts](#)



CHAIR. Thank you for the testimony, Mr. Rosiak. And next, we will go to Mr. Hedtler-Gaudette. Mr. Hedtler-Gaudette, you're now recognized for five minutes for your testimony.

STATEMENT OF MR. DYLAN HEDTLER-GAUDETTE, VICE PRESIDENT OF POLICY AND GOVERNMENT AFFAIRS, PROJECT ON GOVERNMENT OVERSIGHT (POGO), WASHINGTON, D.C.

Mr. HEDTLER-GAUDETTE. Thank you, Chair Ernst, Ranking Member Markey, and members of the committee. I appreciate the opportunity to testify before you today on the important issue of waste, fraud, and abuse in the federal government, particularly in the federal contracting process. This is a really important and persistent issue, and I'm pleased to see the Senate Small Business Committee taking it up.

My name is Dylan Hedtler-Gaudette, and I'm the Acting Vice President of Policy and Government Affairs at the Project on Government Oversight, or POGO. We are a non-partisan, independent watchdog group with nearly 45 years of experience promoting more accountability, transparency, and effectiveness in federal government. We literally exist to combat abuse of power and corruption, which necessarily includes trying to root out waste, fraud, abuse, and conflicts of interest.

As you can imagine from the name of our organization, we believe strongly in the power and the value of oversight. This hearing today is a prime example of good oversight work. We believe strongly that good oversight work is indispensable to the pursuit of good governance. And this is why it's been so alarming to see what has been happening over the past year or so.

The current administration has systematically dismantled the very foundation of the federal government that it is supposed to be leading, which has included attacking key oversight institutions, whether it's firing Inspectors General, attacking oversight bodies such as the Government Accountability Office, cutting off access to key agencies or press and journalists, nominating manifestly unfit and unqualified individuals to serve in critical oversight positions, or largely relegating Congress to the sidelines.

The current administration has made a mockery of the very concept of oversight and accountability in government. We also saw the hyped, but largely failed, effort to root out waste, fraud, and abuse under the auspices of the so-called Department of Government Efficiency. Beyond that, we've seen direct assaults on the constitutional structure of government, which has included the illegal impoundment and withholding of Congressionally appropriated funds and the unlawful firing of large numbers of federal workers.

We have already heard today, and we'll continue to hear more about the Small Business Administration's 8(a) Business Development Program. We should put this program in a little bit of context at the outset here. All 8(a) contract dollars comprise about 5.4 percent of the total \$755 billion that were handed out in federal contract last year, the vast majority of which are awarded to very large, well-connected powerful corporations.

If there are people taking advantage of the 8(a) program or any other program in government, they should be held accountable. But

we must realize that oversight bandwidth and resources are extremely finite and scarce, and we need to triage those resources, and focus on the most egregious and the largest examples of waste, fraud, and abuse. We should not select oversight targets on the basis of political or ideological agendas.

My primary purpose here today is not to criticize, and complain, and to point out bad things that have happened. I'm here to propose solutions. So, I want to focus on a couple of solution areas here, but there are many more I lay out in my written testimony.

First, we must protect, strengthen, and preserve the independence and the effectiveness of key watchdog and oversight practitioners such as Inspectors General and the Government Accountability Office. We must also sufficiently resource and fund those organizations so that they can perform their critical oversight duties effectively.

The Senate also has an especially pivotal role to play in providing advice and consent on the nomination of the individuals who should be leading those entities. And the Senate must never allow the confirmation of politically compromised, unfit, and unqualified individuals.

We must also take a long hard look at the ethics rules and the enforcement of those rules that we have on the books currently. They're wholly insufficient to the task of rooting out corruption, conflicts of interest in cronyism, which play midwife to waste fraud and abuse. We must also halt the pernicious effects of the revolving door between agencies and the very industries that those agencies are supposed to oversee and regulate.

We have an opportunity before us here today, and in the rest of the 119th Congress, to advance real common-sense reforms to promote government integrity and crack down on waste, fraud, and abuse. Me and my organization stand ready, willing, and able to partner with anyone who wants to turn those goals into reality.

Thank you for having me here today, and I look forward to answering your questions.

[The prepared statement of Mr. Hedtler-Gaudette follows.]

Dylan Hedtler-Gaudette
Acting Vice President, Policy and Government Affairs
Project On Government Oversight

Chair Ernst, Ranking Member Markey, and Members of the Committee, thank you for the opportunity to testify today about waste and fraud in the federal government.

I am Dylan Hedtler-Gaudette, acting vice president of policy and government affairs at the Project On Government Oversight (POGO). POGO is a nonpartisan, independent watchdog that investigates and exposes waste, corruption, abuse of power, and when the government fails to serve the public or silences those who report wrongdoing. We champion reforms to achieve a more effective, ethical, and accountable federal government that safeguards constitutional principles.

For more than 40 years, POGO has advocated for more effective, transparent, and accountable federal spending. We began as a primarily Department of Defense-focused watchdog but have since expanded our scope to encompass the entire federal government. Whether we have been exposing exorbitant expenditures at the Pentagon, price gouging by government contractors, or widespread problems in the context of emergency spending situations, we have long called for reforms and solutions to address waste and fraud.¹

As a government watchdog organization, we know the value of rigorous oversight. This is why we have also been longtime champions and supporters of internal government watchdogs such as inspectors general (IGs) and entities like the Government Accountability Office (GAO).² These watchdogs exist to root out waste, fraud, and abuse and to crack down on corruption through investigations, audits, and the issuance of recommendations. If we are to effectively address waste and fraud in the federal government, watchdogs and oversight practitioners like IGs and the GAO — and Congress itself — must be sufficiently resourced, adequately funded, consistently supported, and proactively insulated from undue political influence.

As such, it has been extremely disheartening to see the current administration systematically undermine and dismantle government oversight, from the opening days of its term through the present day. Unlawfully firing IGs, attacking the GAO, and appointing manifestly unqualified

¹ *Wasteful Spending and Inefficiencies: Examining DoD Platform Performance and Costs: Hearing Before the House Committee on Oversight and Accountability, subcommittee on National Security, the Border, and Foreign Affairs*, 118th Cong. (July 24, 2024) (testimony of Dylan Hedtler-Gaudette, Director of Government Affairs, Project On Government Oversight), <https://www.pogo.org/testimonies/pogos-testimony-on-wasteful-inefficient-pentagon-spending>; Mandy Smithberger, “Spare Parts Contractor Profits from Broken System,” Project On Government Oversight, January 12, 2022, <https://www.pogo.org/analysis/spare-parts-contractor-profits-from-broken-system>; Nick Schwellenbach, Neil Gordon, Sean Moulton, Leslie Garvey, “The Great Pandemic Swindle: Feds Botch Review of Billions in Suspect PPP Loans,” Project On Government Oversight, October 6, 2022, <https://www.pogo.org/investigations/the-great-pandemic-swindle-feds-botched-review-of-billions-in-suspect-ppp-loans>.

² POGO Staff, “Inspectors General: Many Lack Essential Tools for Independence,” Project On Government Oversight, February 26, 2008, <https://www.pogo.org/reports/inspectors-general-many-lack-essential-tools-for-independence>; Janice Luong, “Congress Must Protect the GAO from Executive Overreach,” Project On Government Oversight, July 9, 2025, <https://www.pogo.org/analysis/congress-must-protect-the-gao-from-executive-overreach>.

individuals to key oversight positions (just to name a few examples) are not the actions of an administration that takes oversight and accountability and the integrity of government seriously.³ In fact, they are the opposite. The recent public disregard for oversight from the executive branch only makes the role of congressional oversight more important. That's why we at POGO are glad you're holding this hearing today.

In addition to our broad focus on oversight and accountability, POGO has also worked toward promoting small business participation in the federal contracting ecosystem as a means toward spurring competition, bringing down costs to taxpayers, and breaking the corrosive stranglehold that a handful of large companies have on the federal contracting system.⁴

The Small Business Administration (SBA) stimulates the small business sector, supporting small business receipt of federal awards. For this, it should be applauded. But the SBA has also experienced its share of oversight lapses and instances of waste and fraud, including but not limited to problems during the COVID-19 pandemic relief era.⁵ Given the size and scope of the federal budget and the sheer quantity of discrete programs, projects, and activities that budget facilitates in a given fiscal year, federal agencies must always remain vigilant in overseeing and managing the activities within their purview, and Congress must routinely engage in rigorous oversight to ensure compliance and efficacy. The SBA is no different than any other agency in this regard.⁶

³ POGO Staff, "POGO and Partners: The Senate Must Demand Answers on IGs," Project On Government Oversight, February 11, 2025, <https://www.pogo.org/policy-letters/pogo-and-partners-the-senate-must-demand-answers-on-igs>; Faith Williams, "The Administration's Latest Attack on Oversight," Project On Government Oversight, October 2, 2025, <https://www.pogo.org/analysis/the-administrations-latest-attack-on-oversight>; Sean Michael Newhouse, "Whistleblower Organizations Applaud Withdrawal of Trump's 'Unfit' Nominee to Lead Oversight Office," Government Executive, October 22, 2025, <https://www.govexec.com/oversight/2025/10/whistleblower-organizations-applaud-withdrawal-trumps-unfit-nominee-lead-oversight-office/408981/>; April Rubin, "OMB Director Says Government Accountability Office 'Shouldn't Exist,'" *Axios*, September 3, 2025, <https://www.axios.com/2025/09/03/russell-vought-government-accountability-office>.

⁴ Neil Gordon, "Federal Small Business Contracting: Fact or Fiction?," Project On Government Oversight, July 7, 2015, <https://www.pogo.org/analysis/federal-small-business-contracting-fact-or-fiction>; Nick Schwellenbach, "Sidelining Small Businesses," Project On Government Oversight, June 24, 2022, <https://www.pogo.org/investigations/sidelining-small-businesses>; Jack Scher, "Government Errors Hurt Small Businesses," Project On Government Oversight, June 14, 2013, <https://www.pogo.org/analysis/government-errors-hurt-small-businesses>.

⁵ Nick Schwellenbach and Ryan Summers, "Red Flags: The First Year of COVID-19 Loan Fraud Cases," Project On Government Oversight, April 15, 2021, <https://www.pogo.org/investigations/red-flags-the-first-year-of-covid-19-loan-fraud-cases>; "Pandemic Spending Failings Show the Need for Stronger Oversight Protections," *Hearing before the House Committee on Oversight and Accountability*, 118th Cong. (February 8, 2023) (testimony of Sean Moulton, Senior Policy Analyst, Project On Government Oversight), https://docs.pogo.org/testimony/2023/POGO_Pandemic_Spending_Failings_Show_the_Need_for_Stronger_Oversight_Protections.pdf.

⁶ "Small Business Administration: A Primer on Programs and Funding," Congressional Research Service, April 27, 2022, <https://www.congress.gov/crs-product/RL33243>; "The Federal Budget in Fiscal Year 2024: An Infographic," Congressional Budget Office, March 20, 2025, <https://www.cbo.gov/publication/61181>.

The title of this hearing centers the need to run the federal government like a small business, by cutting waste and stamping out fraud. Setting aside the question of whether government — which does not operate in the pursuit of profit or maximized shareholder returns — can or should be run like a business, the issue of how to address waste and fraud is an important one.

The GAO estimates that, according to fiscal data from 2018 to 2022, the government lost between \$233 and \$521 billion to fraud each year, and it calculates that \$2.8 trillion in improper payments have been issued by the federal government since 2003.⁷

Waste is a more subjective category, but POGO has a long track record of documenting and exposing wasteful spending, such as the nearly \$2 trillion (and counting) projected to be spent on the F-35 Joint Strike Fighter program, despite routine failures of basic performance assessments in operational testing environments.⁸ Another example of wasteful spending that POGO has highlighted is the increasing reliance on service contracts by the federal government, which data shows actually costs more than in-housing those activities.⁹ Anticipating another likely exercise in wasteful spending, we're watching the recently commenced Golden Dome missile defense project, a prime candidate for increased scrutiny and oversight.¹⁰

Commonsense Reforms for Addressing Waste and Fraud

In our decades of serving as a government watchdog, we've identified several pragmatic, commonsense solutions to the twin diseases of waste and fraud that plague the federal government. I lay some of those reforms out below.

Preserve, strengthen, and insulate inspectors general.

As noted above, IGs play a critical role in promoting integrity in the federal government by investigating and exposing waste, fraud, abuse, and corruption. IGs should therefore be funded and resourced sufficiently so as to maximize their effectiveness. Congress should update the Inspector General Act of 1978 to further protect and insulate IGs from political meddling and interference so they can perform their vital duties without fear or favor, as we have previously

⁷ "Fraud & Improper Payments," U.S. Government Accountability Office, accessed December 5, 2025, <https://www.gao.gov/fraud-improper-payments>.

⁸ Greg Williams, "F-35 Testing Report Reveals Problems with Production Decisions," Project On Government Oversight, November 21, 2024, <https://www.pogo.org/analysis/f-35-testing-report-reveals-problems-with-production-decisions>; Dan Grazier, "F-35: The Part-Time Fighter Jet," Project On Government Oversight, February 26, 2024, <https://www.pogo.org/analysis/f-35-the-part-time-fighter-jet>.

⁹ Paul Chassy and Scott Amey, "Bad Business: Billions of Taxpayer Dollars Wasted on Hiring Contractors," Project On Government Oversight, September 13, 2011, <https://www.pogo.org/reports/bad-business-billions-of-taxpayer-dollars-wasted-on-hiring-contractors>; Omar Tabuni, "Fact Sheet: The Right-to-Repair for the United States Military," Project On Government Oversight, February 13, 2025, <https://www.pogo.org/fact-sheets/fact-sheet-the-right-to-repair-for-the-united-states-military>.

¹⁰ Charles Tiefer, "Trump's Golden Dome: Costly and Wasteful, Tied to Billionaire Thiel," *Forbes*, September 26, 2025, <https://www.forbes.com/sites/charlestiefer/2025/09/26/trumps-golden-dome-costly-and-wasteful-tied-to-billionaire-thiel/>.

recommended.¹¹ Moreover, the Senate must take its advise and consent role more seriously when it comes to confirming IG nominees: No unqualified or politically compromised nominee should ever be confirmed.

Protect and strengthen the Government Accountability Office.

The GAO is an indispensable congressional resource when it comes to investigating and analyzing what the federal government is doing with public funds. To safeguard this crucial institution so it is able to do its job effectively, Congress should ensure that it has the necessary funding and resources, while also enacting reforms to further enhance the GAO's capacity and efficacy. Specifically, Congress should pass the GAO reforms contained in the Congressional Power of the Purse Act.¹² Relatedly, Congress should also reform the process for appointing the Comptroller General in such a way so as to prevent the president from undermining the GAO from within by appointing an unfit or otherwise adversarial individual who does not believe in the core mission of the GAO. In the substantive arena, Congress should more regularly act on GAO recommendations and reports, including those set forth in the annual report on duplicative programs.¹³

Reform existing systems and tools for tracking and analyzing federal funding.

A key component of ensuring integrity and mitigating waste and fraud in federal spending is having strong and effective tools and mechanisms for monitoring dollars after they are spent. Currently, resources like USASpending.gov are too weak, and reporting requirements are either inadequate or ignored by agencies. There are numerous ways to improve how we track federal dollars and provide tools for spotting and heading off leakages in the spending chain, including shoring up subaward recipient reporting, requiring better and more consistent award descriptions and other information, and expanding the quality and types of data collected.¹⁴

¹¹ *The War on Waste: Stamping out the Scourge of Improper Payments and Fraud: Hearing before the House Committee on Oversight and Accountability, Subcommittee on Delivering on Government Efficiency*, 119th Cong. (February 12, 2025)(testimony of Dylan Hedtler-Gaudette, Director of Government Affairs, Project On Government Oversight), <https://www.pogo.org/testimonies/pogo-calls-for-focus-on-real-reforms-to-improve-federal-spending-accountability-and-transparency>; Inspector General Act of 1978, 5 U.S.C. §1-13, <https://www.govinfo.gov/content/pkg/USCODE-2011-title5/html/USCODE-2011-title5-app-inspector.htm>.

¹² Congressional Power of the Purse Act, H.R. 5220, 119th Cong., (2025), <https://www.congress.gov/bills/119th/congress/house-bill/5220>.

¹³ U.S. Government Accountability Office, “GAO Recommendations Have Led to \$725 billion in Financial Benefits – New Duplication and Cost Savings Report Shows Potential for Another \$100 billion or More,” Press Release, May 13, 2025, <https://www.gao.gov/press-release/gao-recommendations-led-725-billion-financial-benefits-new-duplication-cost-savings-report-shows-potential-100-billion>.

¹⁴ Sean Moulton. “Blueprint to Fix Reporting of Federal Spending,” Project On Government Oversight, August 2, 2021, <https://www.pogo.org/analysis/blueprint-to-fix-reporting-of-federal-spending>.

Enact stronger ethics and conflict of interest rules to safeguard the federal contracting process.

One of the key drivers of government corruption, including waste and fraud, is a perversion of the federal contracting process through which contracts are awarded. Large, well connected companies peddle influence and leverage connections to rig the system in their favor.¹⁵ Congress should enact strong conflict of interest rules to ensure that federal contracts are awarded through a rigorous and objective process of merit and in accordance with programmatic guidelines and public interest needs, not on the basis of cronyism and as a result of corporate capture. Included among these reforms should be stronger revolving door rules and more transparency in federal contractor lobbying and political activities.¹⁶

Waste, Fraud, and Where to Find It

To level-set today's discussion, I want to begin by contextualizing the scale and scope of waste and fraud in small business programming context relative to other areas of the federal government. As I noted above, GAO's estimates of waste and improper payments extend into hundreds of billions — even into trillions of dollars, when aggregated over time.

The Small Business Administration had a little more than \$17 billion available to it in budgetary resources last fiscal year. This makes SBA one of the smaller agencies in the federal government. By way of contrast, the Department of Defense had more than \$2 trillion in budgetary resources available to it last year, making it the largest discretionary budget in the entire federal portfolio.¹⁷

The Committee on Small Business and Entrepreneurship has a specific jurisdiction that includes oversight of SBA and not the Department of Defense, so it naturally tracks that this committee and this hearing will accordingly focus on issues related to its jurisdictional remit. However, we should all agree that, when deciding how to allocate finite oversight resources and bandwidth to address waste and fraud, our government should focus on the agencies that receive and spend the most money. Logically, we will find the most waste and fraud with the least effort if we focus on the biggest agencies and expenditures.

¹⁵ Project on Government Oversight, "Top Federal Contractors Spend Millions on Influence, Get Billions in Contracts," Press Release, August 31, 2017, <https://www.pogo.org/post/top-federal-contractors-spend-millions-on-influence-get-billions-in-contracts>; Public Citizen, "Corporate Donors to Trump's White House Ballroom Beset by Conflicts, Receive \$279 billion in Government Contracts," Press Release, November 23, 2025, <https://www.citizen.org/news/corporate-donors-to-trumps-white-house-ballroom-beset-by-conflicts-received-279-billion-in-government-contracts-in-the-past-five-years/>.

¹⁶ Mandy Smithberger, "Three Steps to Help Stop the Pentagon's Revolving Door," Project On Government Oversight, November 22, 2021, <https://www.pogo.org/fact-sheets/three-steps-to-help-stop-the-pentagons-revolving-door>; Scott Amey, "Groups Seek to Ban Secret Election Support by Contractors," Project On Government Oversight, March 2, 2015, <https://www.pogo.org/analysis/groups-seek-to-ban-secret-election-support-by-contractors>.

¹⁷ "Department of Defense (DOD) Agency Profile," USASpending, accessed on December 5, 2025, <https://www.usaspending.gov/agency/department-of-defense?fy=2025>; "Federal Budget in Fiscal Year 2024," CBO, [See note 6].

Unfortunately, when it comes to finding waste and fraud, this administration has appeared to focus its attention on agencies, programs, projects, and activities that fit into political and ideological categories with which it disagrees, rather than focusing on the most egregious instances of corruption.¹⁸

The SBA has been no exception. One program that has received attention recently is the 8(a) contracting program, designed to provide socially and economically disadvantaged small businesses resources and access to the federal contracting ecosystem.¹⁹ In June of this year, SBA Administrator Kelly Loeffler announced an audit of the program in response to what she called “rampant fraud.”²⁰ While it is imperative to conduct robust oversight of all contracting programs, in fiscal year 2024, \$41.8 billion was awarded through 8(a) contracts, representing just about 5.4% of the total \$755 billion in federal contract awards.²¹

To add more detail and data to this picture, and to be more specific in naming examples that should have drawn far more attention and focus from those invested in addressing cozy dealings and ethics concerns, here are a few cases POGO has investigated in 2025 alone.

Last week, POGO and *Mother Jones* reported on a number of former clients of White House Border Czar Tom Homan that have recently won lucrative border and immigration-related contracts. Partly given Homan’s former consulting for these companies last year, ethics experts say there is at least an appearance of corruption.²²

Earlier in November, we highlighted a disturbing pattern of contract awards at the Department of Homeland Security (DHS) through which the agency appears to be circumventing its own

¹⁸ The White House, “Historic Pocket Rescission Package Eliminates Woke, Weaponized, and Wasteful Spending,” August 29, 2025, <https://www.whitehouse.gov/briefings-statements/2025/08/historic-pocket-rescission-package-eliminates-woke-weaponized-and-wasteful-spending/>; Katherine Tangalakis-Lippert, “DOGE’s Anti-DEI Drive Flagged These Programs. Only They Weren’t DEI,” *Business Insider*, March 11, 2025, <https://www.businessinsider.com/doge-wrongly-flagged-jobs-programs-dei-equity-2025-3>; John Parkinson, Justin Gomez, Allison Pecorin, Sarah Beth Hensley, “Trump Says Some ‘Democrat Programs’ to be Cut During Shutdown,” *ABC News*, October 14, 2025, <https://abcnews.go.com/Politics/strategy-speaker-johnson-backs-gops-clean-cr-shutdown/story?id=126511106>.

¹⁹ Corinne R. Blackford, Congressional Research Service, “SBA’s 8(a) Business Development Program: Structure and Current Issues,” September 19, 2024, <https://www.congress.gov/crs-product/R48190>.

²⁰ “Small Business Administration, “Administrator Loeffler Orders Full-Scale Audit of 8(a) Contracting Program,” Press Release, June 27, 2025, <https://www.sba.gov/article/2025/06/27/administrator-loeffler-orders-full-scale-audit-8a-contracting-program>.

²¹ “Scorecard Details: Small Business Procurement Scorecard,” the U.S. Small Business Administration, last updated July 14, 2025, [Scorecard details | U.S. Small Business Administration](https://www.sba.gov/scorecard). “A Snapshot: Government-Wide Contracting: A 2024 Update,” U.S. Government Accountability Office, last modified June 2025, https://files.gao.gov/multimedia/Federal_Government_Contracting-FY2024/index.html; “SBA Scorecard Data Explorer,” U.S. Small Business Administration, accessed December 8, 2025, <https://datahub.certify.sba.gov/>.

²² Dan Friedman, Russ Choma, Nick Schwellenbach, “Border Czar’s Former Clients Cash In on Trump’s Immigration Crackdown,” *Mother Jones* and the Project On Government Oversight, December 5, 2025, <https://www.pogo.org/investigations/border-czars-former-clients-cash-in-on-trumps-immigration-crackdown>.

leadership's oversight by issuing a series of contracts for \$99,999, just below the \$100,000 threshold at which the secretary has decided to weigh in with sign-off.²³

In October, POGO co-published an investigation with *Mother Jones* detailing how a DHS contract worth almost a billion dollars was awarded to a firm with "no track record" as a federal contractor through a "rushed" process that involved a DHS official with ties to the firm's founder.²⁴

In September, POGO and *Mother Jones* co-published an investigation that showed how Trump-tied lobbying firm Ballard Partners helped a surveillance and biometric company called BI² land a no-bid ICE contract worth millions of dollars. Prior to hiring Ballard, BI² had for years struggled to break into federal contracting.²⁵

In August, POGO released an investigation uncovering past financial and employment ties between senior Trump Administration officials at the Office of Management and Budget (OMB) and the Pentagon with tech contractors vying for a piece of the administration's "Golden Dome" project.²⁶

In March, we published an investigation exposing the political ties of the ICE contractor CSI Aviation. The firm, whose owner hosted a Trump campaign rally in the fall of 2024, could make billions of dollars running deportation flights, despite its involvement in numerous high-profile controversies.²⁷

In February and March, we published two investigations digging into the ongoing business and financial ties between Elon Musk, the owner of several companies with federal contracts, top political appointees at OPM, and staffers on the Department of Government Efficiency (DOGE) team at the Treasury Department who were granted access to highly sensitive databases.²⁸

²³ Nick Schwellenbach, "\$99,999 Contracts Balloon Under Kristi Noem's Directive," Project On Government Oversight, November 21, 2025, <https://www.pogo.org/investigations/99-999-dhs-contracts-balloon-under-kristi-noems-directive>.

²⁴ Dan Friedman and Nick Schwellenbach, "Massive DHS 'Self-Deportation' Contract Challenged as Secretive and 'Unlawful,'" Project On Government Oversight, October 10, 2025, <https://www.pogo.org/investigations/massive-dhs-self-deportation-contract-challenged-as-secretive-and-unlawful>.

²⁵ Nick Schwellenbach and Russ Choma, "Trump-Tied Lobbyists' Clients Keep Winning No-Bid ICE Contracts," Project On Government Oversight, September 25, 2025, <https://www.pogo.org/investigations/trump-tied-lobbyists-clients-keep-winning-no-bid-ice-contract>.

²⁶ Nick Schwellenbach and Neil Gordon, "Gold Rush: Top Trump Officials' Silicon Valley Ties," Project On Government Oversight, August 25, 2025, <https://www.pogo.org/investigations/gold-rush-top-trump-officials-silicon-valley-ties>.

²⁷ Nick Schwellenbach, "Meet the ICE Contractor Running Deportation Flights," Project On Government Oversight, March 20, 2025, <https://www.pogo.org/investigations/meet-the-ice-contractor-running-deportation-flights>.

²⁸ Nick Schwellenbach, "Elon Musk's DOGE Teams Raise Vetting, Ethics Concerns," Project On Government Oversight, February 6, 2025, <https://www.pogo.org/investigations/elon-musks-doge-teams-raise-vetting-ethics-concerns>; Nick Schwellenbach, "Musk's Deep Financial Ties to Top Feds Revealed," Project On Government Oversight, March 7, 2025, <https://www.pogo.org/investigations/musks-deep-financial-ties-to-top-feds-revealed>.

In January, we released a new investigation into the revolving door between private prison giant GEO Group and the Department of Homeland Security, revealing that ICE's former top detention official, Daniel Bible, had recently accepted a job with one of the agency's largest contractors.²⁹

What these examples showcase is the pervasiveness of cronyism and a potentially biased award process on display in less than one year under this administration. It is these kinds of malfeasance and misconduct in federal contracting and lobbying that should be the focus of congressional oversight and legislative reform efforts.

Conclusion: What Oversight Is — and What It Is Not

Oversight is essential to ensuring integrity and effectiveness in the federal government. Without robust and consistent oversight, the public cannot trust that resources, including hard-earned tax dollars, are being used appropriately and efficaciously. We cannot be sure that government officials are acting in good faith and in the public interest, in accordance with both the norms and rules of ethical conduct, without strong and persistent oversight of official conduct.

All of this said, not all oversight is created equal, and not all activity labeled oversight are appropriate or legitimate. Targeting perceived political enemies with spurious claims of misconduct or illegality, for example, is not oversight. Threatening to go after nonprofit groups and philanthropic foundations on the basis of ideological or political disagreements is not oversight.³⁰ Indiscriminately firing large numbers of federal employees and unlawfully withholding duly enacted funding is not a legitimate exercise in oversight.³¹ Congress burying its head in the sand and allowing all of this is not oversight. True oversight is what IGs do every day, work that leads them to identify tens of billions of dollars in potential savings to taxpayers each year.³² Oversight is the auditing and investigating and myriad substantive recommendations made by the GAO every year.³³ Oversight is the serious work done by congressional committees

²⁹ Nick Schwellenbach and René Kladzyk, "Private Prison Giant Hired ICE Detention Chief," Project On Government Oversight, January 17, 2025, <https://www.pogo.org/investigations/private-prison-giant-hired-ice-detention-chief>.

³⁰ Vittoria Elliott, "The Trump Administration Is Coming for Nonprofits. They're Getting Ready," *Wired*, October 2, 2025, <https://www.wired.com/story/the-trump-administration-is-coming-for-nonprofits-theyre-getting-ready/>.

³¹ U.S. Government Accountability Office, "Department of Homeland Security — Application of the Impoundment Control Act to Federal Emergency Management Agency Prior Year Federal Assistance Appropriations," B-337204.2 (September 29, 2025), <https://www.gao.gov/products/b-337204.2>; Eric Katz, "Trump's mass probationary firings were illegal, judge concludes, but he won't order re-hirings," *Government Executive*, September 15, 2025, <https://www.govexec.com/workforce/2025/09/trumps-mass-probationary-firings-were-illegal-judge-concludes-he-wont-order-re-hirings/408111/>.

³² U. S. Senate Committee on Homeland Security and Governmental Affairs, Office of Ranking Member Gary Peters, "Peters Unveils New Investigative Report Finding Fired Inspectors General Identified More Savings than DOGE," May 21, 2025, <https://www.hsgac.senate.gov/media/dems/peters-unveils-new-investigative-report-finding-fired-inspectors-general-identified-more-savings-than-doge/>.

³³ U.S. Government Accountability Office, *High-Risk Series: Heightened Attention Could Save Billions More and Improve Government Efficiency and Effectiveness*, GAO-25-107743 (February 25, 2025), <https://www.gao.gov/products/gao-25-107743>.

in holding hearings like this one, engaging in inquiry and fact-finding, and issuing investigative reports that form the evidentiary basis for future legislative reforms.

Common threads across the serious and legitimate kind of oversight conducted by numerous stakeholders, inside and outside of government, are things like objectivity, a focus on provable facts, a reliance on solid data, and the willingness to speak truth to power, regardless of who holds power or the political or ideological affiliation of those involved.

I will conclude here by urging this committee and Congress as an institution to focus on conducting real oversight and prioritizing the worst and most harmful occurrences of misconduct and malfeasance, not just the politically advantageous and convenient ones.

I urge the Senators on this committee to consider the specific and actionable reforms suggested above and to look into the instances of corruption we have highlighted this year. We stand ready, willing, and able to partner with you in these efforts.

CHAIR. Thank you, Mr. Hedtler-Gaudette. We appreciate your testimony. And next, we will move to Mr. Hart. Mr. Hart, you are now recognized for five minutes for your testimony.

**STATEMENT OF MR. JOHN HART, CHIEF EXECUTIVE OFFICER,
OPEN THE BOOKS, KNOXVILLE, MARYLAND**

Mr. HART. Madam Chair Ernst, Ranking Member Markey, and distinguished Senators, thank you for the invitation to testify today.

Every dollar saved in Washington is a dream realized somewhere in America. Nowhere is that more true than in the small business community. Small businesses aren't just the engine of growth, they are also teachers. They teach us that our Founders were right. That Thomas Jefferson was onto something when he said the natural progress of things is for liberty to yield and government to gain ground. So, I commend this committee for truly listening, for hearing, and we're here, of course, because government doesn't operate like a small business.

Instead of doing more with less, government does less with more. Over the past 100 years, the federal government has grown massively. In 1925, it's been about \$484 per person adjusted for inflation. Today, that number is more than \$20,000 per person. And in our economy, we see this at work. The best way to make something expensive is for government to make it affordable.

Sectors that have been the most lavishly subsidized, such as healthcare and education have seen the worst inflation. On the other hand, sectors that have not been as heavily subsidized such as electronics tend to produce goods and services that get better and more affordable over time. It's pretty simple. TVs get thinner while government gets bigger, while government borrows to avoid hard choices.

Small businesses live in the real world of finite resources. Our unsustainable safety net programs are absolutely the primary drivers of our debt and deficit, in particular, healthcare fraud. But government salaries are part of the problem. Between 2020 and 2024, government salaries rose 33 percent faster than private sector wages.

Meanwhile, the number of federal employees earning more than \$200,000 a year rose by 82 percent to bring the number to 70,000 employees. And today, we have more than 400 agencies and sub-agencies in the federal government. Do small businesses really need 400 agencies to succeed, or would they be better off at 200, 100, or maybe the 4 our Founders authorized in the Constitution?

Instead of expanding federal agencies, we should be expanding their agency. Meanwhile, the agency charged with helping small businesses often misses the mark across the country. We see SBA lending flowing to organizations that most Americans would never consider small. SBA-backed loans have gone to Fortune 500 firms, Rolex stores, Napa wineries, luxury spas, and plastic surgery centers. These aren't the mom-and-pop shops Congress intended to support.

Since 2023, our auditors found more than \$105 million in SBA loans for private country clubs, beach clubs, tennis and racket clubs, and yacht clubs. Nearly half of that in 2025 alone. Another

11.8 billion went to highly capitalized investment funds and venture finance firms, which was aid to Wall Street, not Main Street.

And fraud and improper payments compound the problem. During the pandemic, the SBA issued paycheck protection loans to 50,000 entities on Treasury's do-not-pay list, a failure that modernized data systems could have prevented. Major law firms and accounting firms received \$1.4 billion despite showing little or no financial hardship.

And of course, we all know age-related fraud also flourished. In 2021 and 2022, SBA issued 5,593 loans to businesses owned by people who said they were 11 years old or younger. Now, I applaud that initiative, but I think that may not be true. While 3,095 loans went to borrowers aged 115 or older. That's \$645 million in questionable loans in just two years. You memorably noted, Senator Ernst, some fraudsters uploaded pictures of Barbie dolls as forms of ID to obtain loans. So, I guess that makes us all kin, you know, accessories to the fraud and waste of our own taxpayer dollars.

But the good news is our system is amenable to change. Twenty years ago, my late boss, Senator Tom Coburn, teamed up with a young Senator from Illinois named Barack Obama to pass landmark transparency legislation that put all federal spending online for the first time. Obama said it is not often that two Senators from different parties are able to bridge the partisan divide in this town and get something accomplished.

But the American people demand greater transparency and accountability. And it is our honor and privilege. Indeed, it is our duty to provide the tools to help make that possible. At Open the Books, we are continuing that work. We're encouraging real time transparency and building next generation AI tools. We believe the best way to thwart a surveillance state is with a surveillance citizenry.

So, thank you, and I look forward to your questions.

[The prepared statement of Mr. Hart follows.]

John Hart
CEO
Open the Books
Testimony as prepared for delivery for December 10 hearing

Madame Chair Ernst, Ranking Member Markey, and distinguished Senators:

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Small businesses aren't just the engine of growth; they are powerful instructors.

America's entrepreneurs teach us that our founders were right, that Thomas Jefferson was on to something when he said, "The natural progress of things is for liberty to yield, and government to gain ground."

So, I commend this committee for truly listening. For hearing.

We're here, of course, because government doesn't operate like a small business.

Instead of doing more with less, we routinely see government doing less with more.

Over the past 100 years the federal government has grown massively. In 1925, it spent about \$484 per person – adjusted for inflation. Today, that number is more than \$20,000 per person.

In our economy, we see this law at work: The best way to make something expensive is for government to make it affordable.

The areas of the economy that have been most lavishly subsidized – such as health care and education – have seen the worst inflation. On the other hand, sectors that have not been as heavily subsidized, such as electronics, tend to produce goods that get better and more affordable over time. It's pretty simple: TVs get thinner while government gets bigger.

While government borrows to avoid hard choices, small businesses live in the real world of finite resources. Our unsustainable safety net programs are the primary drivers of our debt and deficits, but government salaries are part of the problem. Between 2020-2024 government salaries rose 33 percent faster than private sector wages. Meanwhile, the number of federal employees earning more than \$200,000 rose to nearly 70,000 employees, an 82 percent increase.

And, today, we have more than 400 agencies and subagencies in the federal government. Do small businesses need 400 agencies to succeed, or would they be better off with 300,

200, 100 or maybe the four our founders authorized in the Constitution? And the agency charged with helping small businesses often misses the mark.

Across the country, we see SBA lending flowing to organizations that most Americans would never consider “small.” Walmart – the largest company in the world by revenue – has received SBA-backed loans. So have Fortune 500 firms, Rolex stores, Napa wineries, luxury spas, and plastic surgery centers. These aren’t the mom-and-pop shops Congress intended to support.

Since 2023, our auditors found more than \$105 million in SBA loans to private country clubs, beach clubs, tennis and racquet clubs, and yacht clubs – nearly half in 2025 alone. Another \$11.8 billion went to highly capitalized investment funds and venture finance firms – aid to Wall Street, not Main Street.

Fraud and improper payments compound the problem. During the pandemic, the SBA issued forgivable Paycheck Protection Program loans to 57,000 entities on Treasury’s Do Not Pay List – a failure that better interagency communication and modernized data systems could have prevented. Major law firms and accounting firms received \$1.4 billion, despite showing little or no financial hardship.

Age-related fraud also flourished. In 2021–22, SBA issued 5,593 loans worth \$312 million to businesses whose listed owners were 11 years old or younger, and 3,095 loans worth \$333 million went to borrowers aged 115 or older – that’s \$645 million in questionable loans in just two years.

And as you memorably noted, Senator Ernst, some fraudsters uploaded pictures of barbie dolls as forms of ID to obtain loans.

The good news is our system is amendable to change.

Twenty years ago, my late boss Senator Tom Coburn teamed up with a young Senator from Illinois named Barack Obama to pass landmark transparency legislation that put all federal spending online.

Obama said, “It is not often that two Senators from different parties are able to bridge the partisan divide in this town and get something accomplished. But the American people demand greater transparency and accountability, and it is our honor and privilege – indeed, it is our duty – to provide the tools to help make that possible.”

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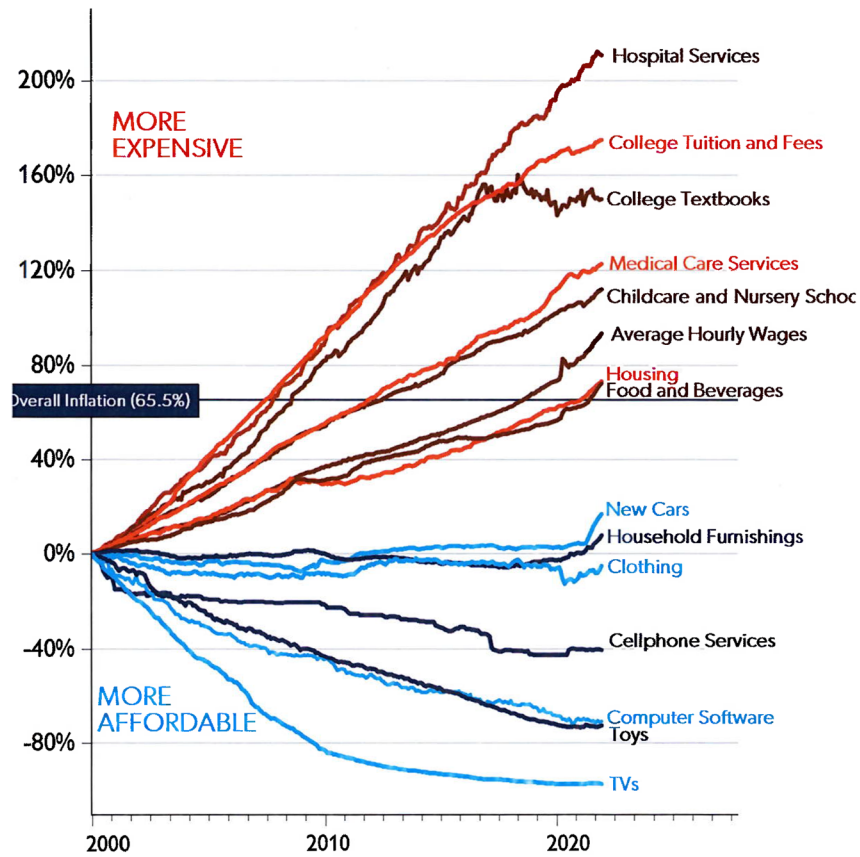
Thank you. I look forward to your questions.





Price Changes: January 2000 to December 2021

Selected US Consumer Goods and Services, Wages



Source: Bureau of Labor Statistics

Carpe Diem **AEI**

CHAIR. Thank you, Mr. Hart. And Dr. LaFountain, you are now recognized for five minutes for your testimony.

STATEMENT OF DR. COURTNEY LAFOUNTAIN, ACTING DIRECTOR, FINANCIAL MARKETS AND COMMUNITY INVESTMENT, GOVERNMENT ACCOUNTABILITY OFFICE (GAO), WASHINGTON, D.C.

Dr. LAFOUNTAIN. Chair Ernst Ranking, Member Markey, and members of the committee, thank you for the opportunity to discuss GAO's work on Small Business Administration programs.

SBA's mission is to help Americans start, grow, and build small businesses. Today, I'd like to discuss opportunities we've identified for SBA to improve management of fraud risks, improper payments, and contracting programs to better meet that mission in the future. And my testimony draws on recommendations from GAO reports in these areas since the spring of 2020. So, I'll begin with opportunities to better manage fraud risks and improper payments that surfaced during the pandemic.

SBA moved quickly to set up programs to respond to the pandemic's economic shock. And altogether, it made or guaranteed more than \$1 trillion in loans and grants, and assisted more than 10 million small businesses. But the speed of those loan approvals came at the expense of oversight and fraud risk management, especially early on. Our work uncovered several weaknesses such as heavy reliance on self-certification and pay-and-chase approaches, rather than putting stronger upfront safeguards in place against fraud and other improper payments.

So, where SBA has acted on our recommendations, we've seen some clear improvements. It's conducted fraud risk assessments, and put controls in place to prevent funding from going to potential fraudsters or ineligible applicants. And as of the end of Fiscal Year 2025, we estimate that improved oversight saved the government at least \$30 billion.

All that being said, fraud risks and improper payments didn't disappear with the end of the public health emergency. SBA's pandemic programs still involve large numbers of loans and grants being reviewed, monitored, and serviced. Because of that, SBA needs to continue strengthening its safeguards, for example, by expanding its use of data analytics for detecting fraud, strengthening post-award monitoring, and improving processes for referring potential fraud cases to its Inspector General.

In addition, SBA should enhance its capacity to identify and track overpayments and subsequent recoveries. I also want to emphasize that the lessons learned about fraud risk management from SBA's pandemic programs do remain relevant for the agency's other programs. For example, the pandemic programs highlighted the importance of conducting robust fraud risk assessments. And we've reported recently on weaknesses in fraud risk assessments by agencies participating in small business research programs, and we identified steps SBA can take through its oversight role to help improve the quality of those assessments should those programs be reauthorized.

Our work has also underscored the value of robust internal controls and quality data for detecting bad actors and ineligible appli-

cants. We've reported recently on weaknesses in the data systems that SBA uses to certify its small businesses eligibility for contracting assistance programs. And while we didn't specifically examine those systems through the lens of fraud risk management, a more secure, reliable system for validating, maintaining, and disseminating information about program eligibility would clearly help reduce risks.

Finally, in June, the SBA Administrator announced a review of fraud in the 8(a) Business Development Program following a Department of Justice investigation, that you've discussed, involving bribery and businesses participating in the 8(a) program. Applying the lessons that SBA learned about fraud risk management and its pandemic programs could be applied to support this effort as well.

So, bottom line, with a more robust system of internal controls and fraud risk management, SBA would be better placed to support small businesses both during normal times and in future emergencies, while also ensuring that taxpayer dollars go where they should.

So, this concludes my opening remarks, and thank you again for the opportunity to speak here today.

[The prepared statement of Dr. LaFountain follows.]



United States Government Accountability Office

Testimony
Before the Committee on Small
Business & Entrepreneurship, U.S.
Senate

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SMALL BUSINESS ADMINISTRATION

Opportunities to Improve Management of Fraud Risks, Improper Payments, and Contracting Programs

Statement of Courtney LaFountain, Acting Director,
Financial Markets and Community Investment



SMALL BUSINESS ADMINISTRATION

Opportunities to Better Manage Fraud Risks, Improper Payments, and Contracting Programs

GAO-26-108820

December 10, 2025

A testimony before the Committee on Small Business and Entrepreneurship, U.S. Senate

For more information, contact: Courtney LaFountain, lafontaine@gao.gov

What GAO Found

Since June 2020, GAO has made dozens of recommendations to help the Small Business Administration (SBA) better manage fraud risks, improve its estimates of improper payments, and oversee its contracting programs. This testimony discusses SBA's efforts to address 42 of these, of which SBA has implemented 17.

- **Fraud risks.** GAO has found that some SBA programs—particularly its COVID-19 pandemic relief programs—have been susceptible to fraud. SBA established these programs quickly to respond to the adverse economic conditions small businesses faced, but the speed of implementation came at the expense of appropriate safeguards. SBA has implemented most GAO recommendations in this area—for example, by implementing oversight plans, conducting fraud risk assessments, and developing a fraud strategy. GAO has estimated that the additional controls SBA put in place for its pandemic-relief programs collectively had saved the government more than \$30 billion as of the end of fiscal year 2025.

However, it is imperative for SBA to advance its fraud prevention and detection efforts, such as by expanding use of data analytics and improving its process for referring potential fraud to SBA's Office of Inspector General. Furthermore, examining fraudsters and fraud schemes that emerged during the pandemic can help agencies identify fraud mitigation controls that can be implemented both in emergency environments and during normal operations.

- **Improper payments.** GAO has also previously identified problems related to SBA's estimates of improper payments, particularly for its pandemic relief programs. An improper payment occurs when a payment should not have been made or was made in the incorrect amount. SBA has implemented one GAO recommendation in this area but has not implemented three others. These include expanding and documenting its overpayment review procedures and expanding its overpayment tracking process. Developing reliable improper payment estimates is essential for understanding and addressing financial vulnerabilities in SBA's programs in a timely manner.
- **Contracting assistance programs.** SBA has addressed several GAO recommendations related to oversight of its contracting programs, including the 8(a) Business Development Program. For example, the agency has improved its documentation of compliance reviews of small business subcontracting plans. However, SBA has not addressed 14 recommendations intended to address critical risk management and cybersecurity issues associated with its small business certification platform.

In addition, SBA's independent financial statement auditor issued a disclaimer of opinion on SBA's fiscal year 2024 financial statements. The auditor reported material weaknesses in SBA's controls over pandemic relief programs for the fifth consecutive year. For example, the auditor found that SBA did not sufficiently design the review process for Paycheck Protection Program (PPP) loan forgiveness. GAO supports the auditor's recommendations to address these weaknesses and urges SBA to work toward obtaining a clean financial statement audit opinion.

Why GAO Did This Study

Since spring 2020, SBA has made or guaranteed more than \$1 trillion in loans and grants and assisted more than 10 million small businesses adversely affected by the COVID-19 pandemic, primarily through PPP and the COVID-19 Economic Injury Disaster Loan program. SBA also continued to support small businesses through its contracting assistance and small business research programs.

This testimony discusses the status of selected GAO recommendations to SBA related to fraud risks, improper payments, and contracting assistance programs, as well as issues related to SBA's financial statements.

This testimony is based on prior GAO reports issued from June 2020 through March 2025 that assessed SBA's implementation of four pandemic relief programs, SBA improper payments, financial statements, and contracting assistance programs. Details on GAO's methodology can be found in the individual reports cited.

Chair Ernst, Ranking Member Markey, and Members of the Committee:

Thank you for the opportunity to discuss the status of selected recommendations we have made to the Small Business Administration (SBA) and issues related to its financial accounting.

Since spring 2020, SBA has done much to help small businesses adversely affected by the COVID-19 pandemic. SBA made or guaranteed more than \$1 trillion in loans and grants and assisted more than 10 million small businesses, primarily through the Paycheck Protection Program (PPP) and COVID-19 Economic Injury Disaster Loan (COVID-19 EIDL) program. SBA also continued to operate programs supporting federal contracting opportunities for small businesses and overseeing agencies' small business research programs.

Although these efforts helped millions of small businesses, we have identified significant program integrity risks, potential for fraud, and the need for improved management and oversight of SBA's pandemic relief programs. Our concerns about SBA's implementation of PPP and COVID-19 EIDL led us to include emergency loans for small businesses on our High-Risk List in March 2021.¹

Beyond financial impacts, fraud erodes public trust in government and hinders agencies' efforts to execute their missions and program objectives effectively and efficiently. Investigations, prosecutions, and efforts to recover fraudulently disbursed funds are ongoing. Congress has passed legislation to extend the statute of limitations for fraud for some pandemic-relief programs, which will give law enforcement, investigators, and prosecutors more time to uncover potential fraud and to develop cases.

Furthermore, by examining fraudsters and fraud schemes that emerged during the pandemic, agencies can identify fraud mitigation controls that can be implemented both in emergency environments and during normal operations.

¹GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021). We provided updates on this high-risk area in April 2023 and February 2025. See GAO, *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas*, [GAO-23-106203](#) (Washington, D.C.: Apr. 20, 2023), and *High-Risk Series: Heightened Attention Could Save Billions More and Improve Government Efficiency and Effectiveness*, [GAO-25-107743](#) (Washington, D.C.: Feb. 25, 2025).

We have also issued reports citing concerns about improper payments and weaknesses in the management of some SBA contracting programs, such as the 8(a) Business Development Program.

In this statement, I will discuss (1) the status of selected fraud-related recommendations for SBA programs, including pandemic relief programs; (2) concerns identified by SBA's independent financial statement auditor; (3) SBA's actions to address improper payments; and (4) SBA's management of its contracting programs.

For this statement, we relied primarily on our body of work issued from June 2020 through March 2025 on SBA's implementation of four pandemic relief programs.² For those reports, we reviewed SBA documentation and analyzed program data. We interviewed officials from SBA and other federal agencies, such as the Department of the Treasury. We also reviewed our recent work on SBA's improper payments and the opinions of SBA's independent financial statement auditor.³ More detailed information on our scope and methodology can be found in the individual reports we cite.

We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. Those standards

²These programs are PPP, COVID-19 EIDL, the Restaurant Revitalization Fund, and Shuttered Venue Operators Grants. For more information, see GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts*, [GAO-20-625](#) (Washington, D.C.: June 25, 2020); *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, [GAO-21-191](#) (Washington, D.C.: Nov. 30, 2020); *COVID-19: Critical Vaccine Distribution, Supply Chain, Program Integrity, and Other Challenges Require Focused Federal Attention*, [GAO-21-265](#) (Washington, D.C.: Jan. 28, 2021); *COVID-19: Sustained Federal Action Is Crucial as Pandemic Enters Its Second Year*, [GAO-21-387](#) (Washington, D.C.: Mar. 31, 2021); *Economic Injury Disaster Loan Program: Additional Actions Needed to Improve Communication with Applicants and Address Fraud Risks*, [GAO-21-589](#) (Washington, D.C.: July 30, 2021); *COVID-19: Current and Future Federal Preparedness Requires Fixes to Improve Health Data and Address Improper Payments*, [GAO-22-105397](#) (Washington, D.C.: Apr. 27, 2022); *Restaurant Revitalization Fund: Opportunities Exist to Improve Oversight*, [GAO-22-105442](#) (Washington, D.C.: July 14, 2022); *COVID Relief: SBA Could Improve Communications and Fraud Risk Monitoring for Its Arts and Entertainment Venues Grant Program*, [GAO-23-105189](#) (Washington, D.C.: Oct. 11, 2022); *COVID Relief: Fraud Schemes and Indicators in SBA Pandemic Programs*, [GAO-23-105331](#) (Washington, D.C.: May 18, 2023); *COVID-19 Relief: SBA and DOL Should Improve Processes to Identify and Recover Overpayments*, [GAO-25-106199](#) (Washington, D.C.: Nov. 13, 2024); and *COVID-19 Relief: Improved Controls Needed for Referring Likely Fraud in SBA's Pandemic Loan Programs*, [GAO-25-107267](#) (Washington, D.C.: Mar. 24, 2025).

³GAO, *Improper Payments: Information on Agencies' Fiscal Year 2024 Estimates*, [GAO-25-107753](#) (Washington, D.C.: Mar. 11, 2025).

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.

Background

SBA's Pandemic Relief Programs

Paycheck Protection Program. Congress established PPP in the CARES Act to help small businesses affected by the COVID-19 pandemic.⁴ In total, Congress provided approximately \$814 billion in commitment authority.⁵ PPP loans were made by lenders and guaranteed 100 percent by SBA. The loans carried a 1 percent interest rate and were fully forgivable if certain conditions were met—for example, at least 60 percent of the loan forgiveness amount had to be for payroll expenses to qualify for full loan forgiveness.

According to SBA, as of May 31, 2021 (when SBA stopped accepting new applications), lenders had made about 11.8 million PPP loans totaling about \$800 billion.⁶

COVID-19 Economic Injury Disaster Loan Program. Congress temporarily expanded eligibility for SBA's EIDL program, which provides low-interest loans of up to \$2 million for expenses that cannot be met because of a disaster. Congress also created emergency EIDL advances, a new program component.⁷ In total, Congress appropriated \$50 billion in loan credit subsidies for the cost of COVID-19 EIDL loans and \$55 billion

⁴The CARES Act established PPP as part of SBA's 7(a) lending program.

⁵American Rescue Plan Act of 2021, Pub. L. No. 117-2, § 5001(d), 135 Stat. 4, 85.

⁶Totals exclude canceled loans. According to SBA, canceled loans may include, but are not limited to, duplicative loans, loans not closed for any reason, and loans fully paid off.

⁷CARES Act, Pub. L. No. 116-136, §§ 1107(a)(6), 1110, 134 Stat. 281, 302, 306. The advances could be used toward payroll, sick leave, and other business obligations. Borrowers did not have to repay them, even if they were subsequently denied the COVID-19 EIDL loan.

for advances.⁸ The \$50 billion in credit subsidies would enable SBA to provide about \$470 billion in COVID-19 EIDL loans.⁹

As of April 2022, SBA had approved about 3.9 million loans totaling about \$378 billion. SBA also approved about 6.8 million advances totaling about \$27.5 billion.

Restaurant Revitalization Fund. The Restaurant Revitalization Fund provided awards (which did not need to be repaid) to assist small businesses in the food service industry affected by the pandemic.¹⁰ Recipients could use the awards for eligible expenses such as payroll, business debt, maintenance, or construction of outdoor seating. The program accepted applications from May 3, 2021, through June 30, 2021.

As of June 30, 2021, the Restaurant Revitalization Fund had provided \$28.6 billion in awards to assist about 101,000 small businesses.

Shuttered Venue Operators Grants. The Shuttered Venue Operators Grant program provided grants to small businesses in the live performing

⁸SBA provided advances using the \$10 billion that Congress appropriated under the CARES Act. On April 16, 2020, SBA announced that the lending authority for COVID-19 EIDL loans and the funding for EIDL advances had been exhausted. Under the Paycheck Protection Program and Health Care Enhancement Act, Congress appropriated another \$10 billion for advances and \$50 billion in loan credit subsidy for COVID-19 EIDL loans. Additionally, Congress made agricultural enterprises eligible for COVID-19 EIDL loans and advances. SBA began accepting new applications from only agricultural enterprises on May 4, 2020. On June 15, 2020, SBA reopened the application portal to all eligible applicants. In the Consolidated Appropriations Act, 2021, Congress appropriated an additional \$20 billion for targeted EIDL advances to eligible entities located in low-income communities with 300 or fewer employees that experienced an economic loss of greater than 30 percent. Qualifying entities could receive up to \$10,000 in targeted advances. The American Rescue Plan Act of 2021 appropriated an additional \$10 billion for the targeted EIDL advances. It also appropriated \$5 billion for a newly created EIDL advance program that provided up to \$5,000 to business entities that qualified for the targeted EIDL advances but also met criteria for being smaller (employs less than 10 employees) and more economically harmed (economic loss greater than 50 percent) than the original targeted EIDL advances. The act also appropriated \$70 million for COVID-19 EIDL loans.

⁹The distributed amount for COVID-19 EIDL exceeded the net appropriated funding due to the COVID-19 EIDL loan credit subsidy. The subsidy covers the government's cost of extending or guaranteeing credit and represents the estimated long-term cost of providing loans, taking into account expected future performance, including loan repayments, prepayments, and defaults. The subsidy amount was roughly 14 percent of the cost of each disaster loan in fiscal year 2020 and roughly 9 percent in fiscal year 2021.

¹⁰Pub. L. No. 117-2, § 5003, 135 Stat. 4, 85.

arts and entertainment sectors affected by the pandemic.¹¹ Recipients could use the funds for eligible expenses such as payroll, rent or mortgage payments, and utilities. This program accepted applications from April 26, 2021, through August 20, 2021.¹²

As of July 5, 2022, Shuttered Venue Operators Grants had provided about \$14.6 billion in grants to about 23,000 small businesses.

Fraud Risk Management

The objective of fraud risk management is to ensure program integrity by continuously and strategically mitigating both the likelihood and effects of fraud, while also facilitating a program's mission. The Fraud Risk Framework provides a comprehensive set of leading practices that serve as a guide for agency managers to use when developing efforts to combat fraud in a strategic, risk-based manner.¹³ The framework organizes the leading practices within four components: (1) Commit, (2) Assess, (3) Design and Implement, and (4) Evaluate and Adapt.

In June 2016, the Fraud Reduction and Data Analytics Act of 2015 required the Office of Management and Budget (OMB) to establish guidelines for federal agencies to create controls to identify and assess fraud risks to design and implement antifraud control activities. The act further required OMB to incorporate the leading practices from the Fraud Risk Framework in the guidelines.¹⁴ The Payment Integrity Information Act of 2019 repealed the Fraud Reduction and Data Analytics Act but maintained the requirement for OMB to provide guidelines to agencies in implementing the Fraud Risk Framework.¹⁵

¹¹Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, § 324, 134 Stat. 1182, 2022.

¹²The application portal initially opened on April 8, 2021, but shut down the same day because of a software problem, reopening on April 26, 2021.

¹³GAO, *A Framework for Managing Fraud Risks in Federal Programs*, [GAO-15-593SP](#) (Washington, D.C.: July 28, 2015).

¹⁴Pub. L. No. 114-86, 130 Stat. 546 (2016).

¹⁵Pub. L. No. 116-17, § 2(a), Stat. 113, 131 – 132 (2020), codified at 31 U.S.C. § 3357. The act requires these guidelines to remain in effect, subject to modification by OMB as necessary and in consultation with GAO.

	In its 2016 Circular No. A-123 guidelines, OMB directed agencies to adhere to the Fraud Risk Framework's leading practices.¹⁶ In October 2022, OMB issued a Controller Alert reminding agencies that they must establish financial and administrative controls to identify and assess fraud risks.¹⁷ In addition, the alert reminded agencies that they should adhere to the leading practices in the Fraud Risk Framework as part of their efforts to effectively design, implement, and operate an internal control system that addresses fraud risks.
Small Business Innovation Research and Small Business Technology Transfer Programs	The Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs were established to enable federal agencies to support research and development (R&D) projects carried out by small businesses.¹⁸ Under the Small Business Act, federal agencies with an extramural budget for R&D exceeding \$100 million are required to participate in the SBIR program. Those with such obligations of \$1 billion or more are required to participate in the STTR program.¹⁹ According to SBA, which oversees the programs, 11 federal agencies and their components participate in SBIR or in both programs. Since the inception of the programs, federal agencies have invested over \$68 billion in SBIR/STTR awards for R&D and to commercialize technologies.²⁰
Payment Integrity Information Act of 2019	The Payment Integrity Information Act of 2019 requires agencies to manage improper payments by identifying risks, taking corrective actions, and estimating and reporting on improper payments in programs they administer. The act also requires each agency's inspector general to issue an annual report on compliance with applicable criteria from the act.

¹⁶Office of Management and Budget, *Management's Responsibility for Enterprise Risk Management and Internal Control*, OMB Circular No. A-123 (Washington, D.C.: July 15, 2016).

¹⁷Office of Management and Budget, *Establishing Financial and Administrative Controls to Identify and Assess Fraud Risk*, CA-23-03 (Washington, D.C.: Oct. 17, 2022).

¹⁸15 U.S.C. § 638.

¹⁹15 U.S.C. § 638(f)(1), (n)(1)(A). Agencies' R&D programs generally include funding for two types of R&D: intramural and extramural. Intramural R&D is conducted by employees of a federal agency in or through government-owned, government-operated facilities. Extramural R&D is generally conducted by nonfederal employees outside of federal facilities.

²⁰SBIR and STTR started in 1982 and 1992, respectively.

8(a) Business Development Program	The 8(a) Business Development Program supports small businesses owned and controlled by socially and economically disadvantaged individuals and entities. It is SBA's largest program to support contracting. The program generally provides up to 9 years of developmental support, such as business counseling and mentoring, contracting guidance, and access to capital and surety bond guarantees. ²¹ The program also sets aside federal contracting opportunities for participants.
SBA Has Taken Steps to Address Fraud Risk in Some Programs, but Additional Work Remains	We have previously found that some SBA programs—particularly its pandemic relief programs—have been susceptible to fraud risks.²² SBA established PPP and COVID-19 EIDL quickly to respond to the adverse economic conditions small businesses faced. However, the speed of implementation came at the expense of appropriate financial and other safeguards, which left the programs susceptible to fraud.²³ As the programs matured and SBA implemented our recommendations, SBA improved its oversight and incorporated lessons learned from PPP and COVID-19 EIDL into its other relief programs, the Restaurant Revitalization Fund and Shuttered Venue Operators Grants. SBA still has opportunities to advance its fraud prevention and detection efforts, such as by expanding use of data analytics and providing guidance to agencies participating in certain programs. Addressing material weaknesses in internal controls reported by its financial statement auditor could also help prevent fraud in SBA's programs.
SBA Has Implemented Most of Our Pandemic-Related Fraud Risk Recommendations	We have made a number of recommendations to SBA to improve oversight and fraud risk management of its pandemic programs, including 13 detailed below. ²⁴ SBA has implemented nine of these recommendations. However, it is still in the process of implementing four others, which are related to responding to potentially fraudulent or ineligible awards, enhancing the use of data analytics to prevent and

²¹To assist small businesses adversely affected by the COVID-19 pandemic, Congress allowed businesses in the 8(a) program on or before September 9, 2020, the option to extend their participation in the program for 1 year.

²²Fraud involves obtaining something of value through willful misrepresentation.

²³For example, see GAO, *Small Business Administration: COVID-19 Loans Lack Controls and Are Susceptible to Fraud*, [GAO-21-117T](#) (Washington, D.C.: Oct. 1, 2020).

²⁴GAO has made additional recommendations to SBA that could help prevent or identify fraud in its programs.

detect fraud, and improving its process for referring potential fraud cases to SBA's Office of the Inspector General (OIG).

Incorporating oversight plans—implemented. SBA officials said they initially put limited safeguards in place when launching PPP to expedite the loan approval process. This was consistent with a mandate from Congress, reinforced by Treasury, to provide rapid support for small businesses. In June 2020, we found that SBA had not provided details on how it would review loans of more than \$2 million and did not have plans for reviewing loans of less than \$2 million.²⁵ We therefore recommended that SBA develop and implement plans to identify and respond to PPP risks to help ensure program integrity, achieve program effectiveness, and address potential fraud.

Consistent with our recommendation, in December 2020, SBA implemented an oversight plan with multiple layers of review. It also hired a contractor with expertise in fraud detection to help conduct these reviews. SBA incorporated controls from this plan when it launched the Restaurant Revitalization Fund and Shuttered Venue Operators Grant programs.

Similarly, because SBA did not have a plan for responding to COVID-19 EIDL risks, we recommended in March 2021 that SBA implement a comprehensive oversight plan for that program to help ensure program integrity, achieve program effectiveness, and address potential fraud.²⁶ In August 2022, SBA provided an oversight plan describing controls it had implemented or planned to implement for COVID-19 EIDL loans.

We estimated that SBA's additional controls it put in place for its pandemic-relief programs collectively had saved the government more than \$30 billion as of the end of fiscal year 2025.

Assessing fraud risks—implemented. Conducting a fraud risk assessment is a leading practice in strategically managing fraud risks.²⁷ Such assessments can, for example, help program officials determine whether certain controls are effectively designed and implemented to reduce the likelihood or impact of a fraud risk to a tolerable level. They

²⁵GAO-20-625.

²⁶GAO-21-387.

²⁷GAO-15-593SP.

also can help agencies prioritize risks and allocate resources. Because SBA moved quickly to establish PPP and COVID-19 EIDL, it did not conduct formal risk assessments for either program. Accordingly, in March 2021, we made two recommendations that SBA conduct a comprehensive fraud risk assessment for each program.²⁸

In response, SBA hired a contractor in October 2021 to conduct these assessments. The contractor found that SBA had implemented additional fraud prevention controls since the start of the programs. These controls included cross-referencing applicant information with Treasury's Do Not Pay list and introducing a set of automated screening rules.²⁹ However, the assessment also noted that the programs remained susceptible to fraud risks that required further enhancements to the current mitigation strategies. The contractor identified 25 active fraud risks in PPP and 21 in COVID-19 EIDL. It made four recommendations to help SBA establish a fraud governance process and inform its fraud tolerance approach.

In addition, we reported in March 2021 that SBA had not designated a dedicated entity to lead fraud risk management activities, which contributed to the lack of a timely fraud risk assessment of the programs.³⁰ In February 2022, SBA designated such an entity, which is responsible for the oversight and coordination of SBA's fraud risk prevention, detection, and response activities.

SBA has since made some changes to its fraud governance structure. According to SBA, the agency created an Office of Enterprise Integrity in January 2024, led by its Chief Risk Officer, that is responsible for overseeing SBA's enterprise risk management and fraud risk management functions. The Chief Risk Officer is responsible for ensuring that risk management activities across SBA are coordinated, internal controls are designed and implemented to ensure accuracy in SBA's financial reporting, and SBA is complying with laws and regulations.

Developing a strategy for managing fraud risks—implemented. In March 2021, we recommended that, once SBA had completed a

²⁸GAO-21-387.

²⁹Treasury's Do Not Pay service is an analytics tool that helps federal agencies detect and prevent improper payments.

³⁰As discussed in our Fraud Risk Framework, designating an entity to design and oversee fraud risk management activities is a leading practice. In carrying out its role, the antifraud entity, among other things, manages the fraud risk-assessment process.

comprehensive fraud risk assessment for PPP and COVID-19 EIDL, it should also document an antifraud strategy for each program.³¹

As discussed in our Fraud Risk Framework, an antifraud strategy describes the agency's approach for addressing the prioritized fraud risks identified during a fraud risk assessment.³² The antifraud strategy describes how the agency will prevent, detect, and respond to fraud, as well as monitor risks. Without an antifraud strategy based on the results of a fraud risk assessment, SBA was not positioned to ensure that it was strategically addressing the most significant fraud risks in either program.

In August 2023, SBA finalized a fraud risk management strategy that identified approaches to prevent, detect, and respond to instances of active and potential fraud in PPP and COVID-19 EIDL. For example, the strategy described data analytic methods for reviewing the PPP loan portfolio to manage fraud risks by reducing false positives, prioritizing identified fraud typologies and behaviors, and uncovering areas of fraud risk not previously identified. For COVID-19 EIDL, the strategy described SBA's efforts to use advanced data analytics, machine learning technologies, and cross-program data analytics to screen for potential fraud and ineligibility.

Analyzing portfolio-level data—implemented. We recommended in January 2021 that SBA develop and implement portfolio-level data analytics across COVID-19 EIDL program loans and advances to detect potentially ineligible and fraudulent applications.³³ SBA fully implemented this recommendation by developing and implementing data analytics. For example, SBA identified applications submitted with foreign telephone area codes, which is an indicator of ineligibility.

In addition, in July 2022, we found that SBA had not proactively used data analytics or information from enforcement entities to identify potentially fraudulent Restaurant Revitalization Fund award recipients.³⁴ Therefore, we recommended that SBA develop and implement data analytics across these awards. SBA has fully addressed this recommendation. Specifically, it conducted data analytics for the program that included

³¹[GAO-21-387](#).

³²[GAO-15-593SP](#).

³³[GAO-21-265](#).

³⁴[GAO-22-105442](#).

cross-checking recipient identifiers (such as address and tax identification number) against recipients flagged for fraud or identity theft.

Using enforcement data—implemented. We recommended in July 2022 that SBA develop, document, and implement procedures to use enforcement data on suspected fraud in other SBA programs, such as PPP, to identify potential fraud by Restaurant Revitalization Fund recipients.³⁵ SBA has fully addressed this recommendation. In April 2024, SBA provided us with documentation demonstrating that it uses enforcement data from a variety of sources—including the Department of Justice and SBA's OIG—to flag potentially fraudulent awards. In addition, SBA ran monthly cross-program analysis to identify all Restaurant Revitalization Fund awards associated with PPP loans that had been flagged because of enforcement activity.

Developing a plan to respond to improper awards—not implemented. In July 2022, we recommended that SBA develop and implement a plan to respond to potentially fraudulent and ineligible Restaurant Revitalization Fund awards in a prompt and consistent manner.³⁶ SBA disagreed with this recommendation, stating that its planned efforts were sufficient. However, in April 2024, SBA officials said they had prioritized reviewing flagged Restaurant Revitalization Fund awards and had conducted initial reviews of all flagged awards for which recipients had submitted post-award reports. This recommendation will remain unaddressed until SBA provides us with documentation of its procedures for prioritizing flagged awards and evidence of implementing these procedures.

Identifying fraud across multiple programs—not implemented. We found in May 2023 that SBA had used data analytics to facilitate fraud detection for PPP and COVID-19 EIDL.³⁷ However, it had not fully leveraged information to help prevent fraud and identify applicants who tried to defraud multiple programs. We therefore recommended that SBA (1) develop and use mechanisms to facilitate cross-program data analytics and (2) identify external data sources that can facilitate the

³⁵GAO-22-105442.

³⁶GAO-22-105442.

³⁷GAO-23-105331.

verification of applicant information and the detection of potential fraud across its programs. SBA agreed with these two recommendations.

As of November 2024, SBA's Fraud Risk Management Board—which oversees and coordinates SBA's fraud risk prevention, detection, and response activities—continued to work on policies related to program office actions for cross-program analysis results, management of inventory, and parameters of operation. One SBA office began performing cross-program data analytics using taxpayer identification numbers for new loan approvals. In addition, SBA reported that it has engaged with other federal agencies regarding data sharing to improve its fraud risk management capabilities. We will continue to monitor SBA's progress in this area, and we have ongoing work examining data sharing efforts between the Internal Revenue Service and SBA.

Improving fraud referrals to SBA's OIG—not implemented. SBA developed and implemented oversight plans for PPP and COVID-19 EIDL that include automated and manual reviews to help identify and refer potentially fraudulent loans and advances to the SBA OIG. This four-step approach involves (1) initial automated screening that compares each file with several public- and private-sector databases, (2) data analytics to examine anomalies, (3) human-led review of files not cleared through data analytics, and (4) referral of files identified as likely fraudulent to the OIG.

Our March 2025 review found a weakness in step four—SBA's process for referring cases of likely fraud to its OIG.³⁸ We recommended that SBA develop a plan for referring potential or likely fraud for the COVID-19 EIDL program. SBA agreed with the recommendation and noted that it has worked with the OIG to put an effective process in place. We will review the evidence of this process once SBA provides it and will continue to monitor SBA's efforts in this area.

SBA Can Take Steps to Manage Fraud Risks in Small Business Research Programs

We reported on fraud risks for the SBIR/STTR programs in September 2024 and found control vulnerabilities and fraud risks with a range of

³⁸[GAO-25-107267](#).

financial and other impacts.³⁹ We consequently made four recommendations to SBA to address these concerns, none of which have yet been implemented.

Identifying, sharing, and reporting fraud-related convictions—not implemented. SBA uses several tools—including its monthly program manager meetings, annual survey to participating agencies, and listing of fraud convictions and civil liabilities on SBIR.gov—to monitor and support agencies' fraud, waste, and abuse prevention efforts.⁴⁰ However, we identified opportunities for SBA to better leverage these tools. We made two recommendations that SBA expand its methods and sources to identify, share, and report fraud-related convictions and its findings on SBIR.gov. SBA agreed with the recommendations. In March 2025, SBA officials told us that SBA would continue to report final adjudicated fraud-related settlements, convictions, and findings of civil liability on SBIR.gov. SBA also planned to add related information to its program guidance. We will continue to monitor the status of SBA's updates to its guidance.

Providing guidance on risk assessments—not implemented. Most of the agencies that participate in SBIR/STTR had not conducted fraud risk assessments in alignment with our leading practices. Some of those agencies identified lack of guidance, training, and resources as related challenges with respect to conducting program-specific fraud assessments. We therefore made two recommendations in September 2024 that SBA provide guidance to participating agencies to conduct comprehensive SBIR/STTR program fraud risk assessments that include all key elements.⁴¹ SBA agreed and said it would provide training to program managers and reinforce the information in its program guidance. SBA told us in August 2025 that it had provided the training to program managers. We will continue to monitor the status of SBA's updates to its guidance.

³⁹GAO, *Small Business Research Programs: Opportunities Exist for SBA and Agencies to Reduce Vulnerabilities to Fraud, Waste, and Abuse*, [GAO-24-105470](#) (Washington, D.C.: Sept. 9, 2024).

⁴⁰SBIR.gov is SBA's primary government-wide website for the SBIR/STTR programs.

⁴¹GAO-24-105470.

SBA's Financial Statement Auditor Has Raised Concerns

In November 2024, SBA's independent financial statement auditor issued a disclaimer of opinion on SBA's fiscal year 2024 financial statements.⁴² The financial statement auditor reported that material weaknesses existed in SBA's controls over its pandemic relief programs that contributed to SBA's inability to support a significant number of transactions and account balances related to these programs. For example, the auditor found that SBA had not sufficiently designed the review process for PPP loan forgiveness. SBA also had not adequately designed and implemented controls to ensure that COVID-19 EIDL loans were issued to eligible borrowers and were accurately recorded.

The auditor also identified concerns about SBA's controls beyond its pandemic relief programs. For example, the auditor found weaknesses that limited SBA's ability to effectively manage its information system risks. Collectively, these deficiencies increased the risk of unauthorized use, modification, or destruction of financial data.

According to SBA, it has made efforts to strengthen internal controls. In January 2025, SBA finalized a remediation strategy for its financial statement audit. Among other things, the strategy identifies the highest priority target areas, remediation steps, and target dates to complete those steps.

In September 2025, the SBA OIG reviewed SBA's new strategy.⁴³ It found that some elements would substantially address related audit recommendations but that the strategy did not fully prioritize other material weaknesses, such as those related to certain pandemic relief programs. For example, SBA's OIG reported that SBA had not developed a plan to perform a comprehensive review of all COVID-19 EIDL transactions flagged for eligibility concern. SBA also had not prioritized addressing the auditor's recommendations related to the material weaknesses for the other pandemic-relief programs. According to SBA's OIG, although SBA acknowledged the importance of its pandemic relief programs, SBA's strategy instead concentrated resources on other areas.

⁴²Small Business Administration, Office of Inspector General, *Independent Auditors' Report on SBA's Fiscal Year 2024 Financial Statements*, 25-05 (Washington, D.C.: Nov. 15, 2024). SBA's auditor also had issued a disclaimer of opinion on SBA's financial statements for fiscal years 2020 through 2023.

⁴³Small Business Administration, Office of Inspector General, *SBA's Controls to Address Financial Statements Audit Disclaimers and Material Weaknesses*, 25-25 (Washington, D.C.: Sept. 29, 2025).

The OIG made four recommendations to enhance the strategy's implementation.

We support the recommendations the financial statement auditor provided to address control weaknesses related to SBA's pandemic relief programs, as well as the OIG's recommendations to enhance SBA's financial audit remediation strategy. We encourage SBA to address these recommendations and continue to work toward obtaining a clean financial statement audit opinion.

SBA Has Taken Some Steps to Manage Improper Payments, but Additional Work Remains

An improper payment occurs when a payment should not have been made or was made in the incorrect amount.⁴⁴ These payments can stem from various causes, including fraud. Developing reliable improper payment estimates is essential for understanding and addressing financial vulnerabilities.

SBA Reported Improper Payment Estimates, but Work Remains on Overpayments

We have previously identified problems related to SBA's estimates of improper payments, particularly for its pandemic relief programs. Accordingly, we made four recommendations to address these concerns, one of which has been implemented and three of which have not.

Estimating improper payments in pandemic relief programs—implemented. In November 2020, we reported that the lack of initial safeguards for PPP contributed to the increased risk of improper payments.⁴⁵ Because of concerns about the timely reporting of improper payments, we recommended that SBA expeditiously estimate improper payments and report estimates and error rates for PPP. In response to our recommendation, SBA began reporting an estimated improper

⁴⁴An improper payment is defined by law as any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements. It includes any payment to an ineligible recipient, any payment for an ineligible good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts. 31 U.S.C. § 3351(4). When an executive agency's review is unable to discern whether a payment was proper because of insufficient or lack of documentation, that payment must also be included in the improper payment estimate. 31 U.S.C. § 3352(c)(2)(A).

⁴⁵GAO-21-191.

payment rate and amount for PPP in its fiscal year 2022 agency financial report.

SBA has continued reporting these estimates, but some of the estimates remain high. For example, in March 2025, we reported that SBA's estimated improper payment rates in fiscal year 2024 for three pandemic relief programs—the Restaurant Revitalization Fund, PPP Loan Forgiveness, and PPP Loan Guaranty Purchases—were at least 24 percent.⁴⁶

Documenting and tracking overpayment reviews—not implemented.

In November 2024, we reported on SBA's efforts to identify and recover overpayments in PPP and COVID-19 EIDL.⁴⁷ We found that SBA's loan review processes for these programs were not effectively identifying overpayments, and that SBA did not have sufficient processes to track identified overpayments and subsequent recoveries. We made three recommendations to SBA, including that it expand and document overpayment review procedures and expand its tracking process. SBA partially agreed with these recommendations, and we will continue to monitor its progress in addressing them.

SBA's OIG Has Raised Concerns About SBA's Improper Payment Reporting

SBA's OIG reported in May 2025 that SBA was not in compliance with the Payment Integrity Information Act of 2019 and related OMB requirements.⁴⁸

The OIG found that SBA did not comply with eight of the act's 10 criteria for fiscal year 2024. For example, it found that SBA did not report an improper payment estimate for the Shuttered Venue Operators Grant program as required, and did not design and implement adequate review procedures to produce reliable sample results used to develop improper payment estimates for several programs, including PPP Loan Forgiveness and PPP Loan Guaranty Purchases.

⁴⁶The estimated improper payment rate for the Restaurant Revitalization Fund was 30.3 percent (about \$8.7 billion of the \$28.6 billion in awards), the second-largest estimated improper payment rate reported for a federal program in fiscal year 2024. [GAO-25-107753](#).

⁴⁷[GAO-25-106199](#).

⁴⁸Small Business Administration, Office of Inspector General, *Independent Auditors' Report on SBA's Fiscal Year 2024 Compliance with the Payment Integrity Information Act of 2019*, 25-15 (Washington, D.C.: May 15, 2025).

SBA Has Taken Steps to Improve Administration of Contracting Programs

We have ongoing work for this committee examining SBA's improper payment estimation methods and recovery audits for its pandemic relief and standard programs. We will continue to monitor SBA's actions to address these issues.

We have reported on challenges related to SBA's oversight of its contracting programs, including the 8(a) program.⁴⁹ SBA has addressed seven of the 21 recommendations we have made to address these challenges.

Reporting on procurement center representatives—implemented. SBA's procurement center representatives advocate for small businesses when agencies are procuring goods and services. In a June 2020 report, we found that SBA did not maintain complete documentation to support data on the activities of these representative; these data are used to oversee the representatives and assess their performance.⁵⁰ Storing the complete documentation would help SBA verify the accuracy of the reports. SBA also did not submit required reports to Congress on the agency's rationale for assigning the representatives to cover buying activities. We made two recommendations that SBA address these issues. In early 2021, SBA began using a central repository to store its data and submitted the required report to Congress.

Documenting reviews of small business subcontracting plans—implemented. Contractors that receive certain federal contracts are required to have small business subcontracting plans. Under these plans, contractors must make a good-faith effort to offer subcontracting opportunities to small businesses. Contracting officers are required to provide SBA staff with an opportunity to review the proposed contract. However, in a May 2020 report, we found that SBA could not provide documentation or information on almost all compliance reviews conducted by SBA in fiscal years 2016 through 2018.⁵¹ We recommended

⁴⁹In June 2025, the SBA Administrator announced a review of fraud in the 8(a) program. According to SBA, the audit would be led by its Office of General Contracting and Business Development, beginning with high-dollar and limited-competition contracts and going back over a period of 15 years, in collaboration with various federal agencies that award contracts to 8(a) participants.

⁵⁰GAO, *Small Business Contracting: Better Documentation and Reporting Needed on Procurement Center Representatives*, [GAO-20-462](#) (Washington, D.C.: June 30, 2020).

⁵¹GAO, *Small Business Subcontracting: Oversight of Contractor Compliance with Subcontracting Plans Needs Improvement*, [GAO-20-464](#) (Washington, D.C.: May 28, 2020).

that SBA address these issues. In response, SBA issued two guidance memos in November 2020. These memos instructed SBA staff to use a single electronic repository to store compliance review information and to conduct performance reviews.

Submitting 8(a) Business Development Program annual reports—implemented. In a 2022 report, we found that SBA had not submitted any of its required annual 8(a) program reports to Congress on time for 2016 to 2021.⁵² We made two recommendations to SBA related to documenting its report process and developing a plan to address report delays. In response to our recommendations, SBA updated its standard operating procedures for the program to include a chapter on submitting the annual report, including a timeline for completing the report on time. SBA also developed a process map to help streamline report development.

Accurately documenting nonmanufacturer rule waiver reviews—implemented. In December 2023, we reported on issues related to SBA's oversight of waivers to the nonmanufacturer rule.⁵³ We found that SBA data on these waivers included inaccurate or incomplete information, and that SBA did not have policies on how management should review analysts' decisions. We made two recommendations that SBA address these issues. In response to our recommendations, SBA updated its program guidelines in July 2025 to address these concerns.

Identifying and addressing risks associated with the small business certification platform—not implemented. In a November 2024 report, we found problems with SBA's management of the Unified Certification Platform project, which is intended to allow small businesses to more efficiently apply for and maintain certifications to SBA's contracting

⁵²GAO, *Small Business Administration: Recent Changes to the 8(a) Program's Financial Thresholds Need Evaluation*, [GAO-22-104512](#) (Washington, D.C.: Aug. 30, 2022).

⁵³The nonmanufacturer rule allows federal agencies to award contracts to small business contractors to supply products manufactured by another small business if the contractors do not manufacture those products themselves. If no small business manufacturers exist, federal agencies can request a waiver from SBA, allowing a small business to supply the product of any sized manufacturer. 15 U.S.C. § 637(a)(17), 15 U.S.C. § 637(a)(17)(B)(iv). GAO, *Small Business Contracting: SBA Could Improve Oversight of Individual Waiver Requests to the Nonmanufacturer Rule*, [GAO-24-106196](#) (Washington, D.C.: Dec. 14, 2023).

assistance programs, including the 8(a) program.⁵⁴ We identified critical management gaps in the project. For example, SBA did not have a project-level risk management strategy or a risk mitigation plan, and did not fully identify and document risks. These issues increased the likelihood of a successful cyberattack. Consequently, we made 14 recommendations, including that SBA expeditiously address critical risk management and cybersecurity issues. SBA agreed with three, partially agreed with three, and disagreed with the other eight recommendations. We are monitoring SBA's efforts to address our recommendations.

Chair Ernst, Ranking Member Markey, and Members of the Committee, this concludes my statement. I would be pleased to respond to any questions you may have.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this testimony, please contact Courtney LaFountain, Acting Director, Financial Markets and Community Investment, at lafountainc@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this statement. GAO staff who made key contributions to this testimony are Marshall Hamlett (Assistant Director), Daniel Newman (Analyst in Charge), Seto Bagdoyan, Marcia Carlsen, Dan Flavin, Hannah Padilla, Jennifer Schwartz, and Jessica Sandler. Key contributors to the previous work discussed in this statement are listed in each of the cited reports.

⁵⁴GAO, *IT Modernization: SBA Urgently Needs to Address Risks on Newly Deployed System*, [GAO-25-106963](#) (Washington, D.C.: Nov. 6, 2024).

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CHAIR. Thank you everyone for the testimony, and we'll move into the question-and-answer portion of today's hearing. And I now recognize myself for five minutes for questions. And Mr. Rosiak, we'll start with you.

Today, the 8(a) program allows Washington insiders to sell government access and contract awards. What's your assessment of the program's current oversight mechanisms and how effective have they been in preventing abuse?

Mr. ROSIAK. So, oversight hasn't worked and it's not going to work. Set asides are inherently extraordinarily vulnerable to corruption and fraud and waste. Wherever there's the prospect of millions of dollars going to somebody without the usual competitive process, the free market is going to find creative ways to get that money to where it would otherwise have gone, which unfortunately, often means big companies.

This waste is massive. If you look at, for example, the women-owned businesses in certain industries, say, construction, asphalt paving, things like that. Anecdotally, everybody that I talk to says the vast majority of these companies are actually owned by the husband of the woman that's the supposed owner. But realistically, how would the government ascertain who's really in control of the company? You'd almost have to—the government would practically have to be in the bedroom with them there to see who's exerting control over this business. It's not realistic.

In cases of pass throughs, the disadvantaged company is supposed to retain 51 percent of the proceeds, but it's virtually impossible to stop pass throughs without having the sort of information that the government would realistically never see. There's so many ways around it.

For example, if you partner with a non-disadvantaged company that's supposed to get 49 percent or less, you could put a lot of the expenses on the disadvantaged side, including maybe even taking some of the staff from the non-disadvantaged company, and temporarily hiring them, and putting them on the books of the disadvantaged company.

It's trivial to hit that 51 percent marker. Not to mention that, you know, in some cases, they may just keep 51 percent if they're too lazy to cook the books a bit. Just keep 51 percent as essentially—you know, Senator Markey made a *Godfather* reference earlier. That's what I've heard. Some of these 8(a), a contractor likened himself to the mafia and said it's basically like the protection money or whatever you have to pay the mobsters to get these contracts.

The big companies kind of know they have an unspoken agreement with the procurement officers and these 8(a) contractors that you got to cut them in on that. And I think that's not going to change. I don't see any way around that without basically just ending the practice of set asides.

CHAIR. Wow. Thank you for that response. Mr. Hart, I want to go to something that you referenced in your testimony. You mentioned that your former boss, Senator Tom Coburn, someone that many of us respected so much, he worked with then-Senator Barack Obama. You know, one of these instances where we have

people of different parties that are coming together to really do something good for our taxpayers.

And what they did, they wrote the law creating USAspending.gov, and that's a searchable public website of government spending. My team spends a lot of time on that website. Was it their intent for other transaction agreements, or the OTAs, to be omitted from the website?

Mr. HART. Absolutely not. Senator, that was never their intention. And as you've noted, that's a tremendous problem right now with USAspending. And that is one of the reforms that we need to do is immediately fix and patch that so that money cannot be hidden from taxpayers.

But we have to look at why did the Founders write transparency into the Constitution? It's important to note they used the word "shall" in Article I, section 9, clause 7. "Shall provide a regular accounting of receipts." They didn't say you can provide that if you feel like it, if it's convenient for you, and your political opponents and will punish your enemies. They said shall. So, it's a requirement, and that language precedes the Bill of Rights in the First Amendment itself.

So, transparency is a foundational first principle. It's the oxygen in the public square. We can't speak if we can't breathe. So, if they wrote that today, I'm convinced they would demand real time transparency be the norm. And our ambition 20 years ago wasn't just to pass a law, it was to create a norm and to create this assumption that, of course, government spending's online, of course we can search what government is doing.

You know, government always lags behind technology. So, we need to move very quickly to upgrade our transparency laws today.

CHAIR. Yeah, I agree. Because bottom line, if we don't know who is receiving taxpayer dollars and why, then there's no way for us to track that and hold recipients responsible for delivering what they've promised to our taxpayers. So, I'm in complete agreement with that. My time is expiring, and I'll reserve the rest of my questions for another round. And with that, I will turn to Senator Hirono of Hawaii.

Senator HIRONO. Thank you, Madam Chair. As we're focusing on waste, fraud, and abuse, you know, there's just so much of that rampant in this regime that I hardly know where to begin. And while this is a Small Business Committee, and you want to focus on waste, fraud, and abuse in small business segment, there is massive waste, fraud, and abuse going on in our government.

And I only need to point out to things such as the destruction of the White House and a ballroom being paid for by individuals and corporations that seek to get support from this administration. If that isn't pay to play, I don't know what is. You have the Border Czar accepting \$50,000 and what looks like bribes to him lending contracts to people that he has a relationship or even ownership interest in. Talk about ethical problems. There's all that.

And meanwhile, this regime has gotten rid of all of the entities, the independent entities such as the IGs, who might be able to point out to us overseers that this kind of waste, fraud, and abuse is going on. I am also aware that the chair has sent letters to almost two dozen agencies and departments asking for—I don't

know, demanding, asking for a pause on the 8(a) program. I don't even know if these agencies or departments have the authority to do such a pause.

Because we're talking about contracts and who knows—you know, I don't even know what that means to pause, but to know that the 8(a) program consists of entity-owned businesses, which mean we are Alaska Native corporations, Native Hawaiian organizations, tribal organizations, these are entities that have to give back to the communities and who can access contracts, large contracts up to \$100 million. And the 8(a) also includes individual-owned businesses, and they have to show that they are economically and socially disadvantaged.

So, Madam Chair, when you write a letter saying you want to pause on the 8(a) program, you are basically focusing your attention on the native-owned businesses who hire thousands of people giving back to the communities, all alleging massive fraud. I would like to see that if there is fraud going on in the 8(a) program, as if there is fraud in any other program, we should go after these people. You don't go in there and say wipe out the entire program. So, I'd say that is definitely overkill, and I want to record my serious concern about what you are doing, Madam Chair.

I have a question for Mr. Hedtler-Gaudette. So, would you say that you have an awareness of the 8(a) program? Would you say that it is fraught with rampant fraud and abuse?

Mr. HEDTLER-GAUDETTE. No, no. I would say that, as you just mentioned, with any program in the federal government, especially ones that deal with money, there are going to be people who take advantage of the system, bad actors.

Senator HIRONO. Yeah. And considering that the 8(a) program consists of maybe \$25 billion or so in contracts versus, what is it? \$755 billion?

Mr. HEDTLER-GAUDETTE. That's right.

Senator HIRONO. I should think that there might be concerns about waste, fraud, and abuse in all those entities getting the \$755 billion in government contracts. And I am very aware of the need for contract reform within the Armed Services Committee. Because I have sat on that committee for over 12 years, and the former chair of that committee has spent his entire time chairing that committee trying to figure out how to do contracting reform.

So, we know that there are issues relating to oversight of all of these that the amounts of federal dollars that go out. Now, this is a desire to help entities that would otherwise have a hard time getting a fair shake and getting a share of federal contracts. This committee is actually supposed to be supporting those efforts not to support waste and fraud, of course not, but to enable entities that would otherwise have a difficult time getting their opportunity to provide services to our country.

When I think of all of the obvious conflict of interest and pay-to-play activity that is going on, not to mention the President wanting \$200 million from the Department of Defense, which he considers his law firm, he considers Pam Bondi, his lawyer. He wants the DOD to go after all his enemies. Well, what is that but abuse? Why don't we pay attention to those things.

CHAIR. You have two seconds, Senator.

Senator HIRONO. I have run out of time.

CHAIR. Yes, thank you. And just because the member has brought into question my motives. I did say pause on the 8(a) program. I did not say cancel the 8(a) program, because of the recent abuse that has been brought to light through various investigative pieces of journalism.

Senator HIRONO. Why don't you [Off mic.]

CHAIR. You are out of order Senator Hirono. Thank you.

So, because of the abuse that has existed in the system, and I think most Americans, and especially, our small businesses, would want us to open the books and provide transparency. So, that's what we were asking is a complete audit. Those that are fearing audits perhaps shouldn't be participating in federal government programs. I began my political career as an auditor. I believe in transparency and oversight.

So, next, we will recognize Senator Husted of Ohio.

Senator HUSTED. Thank you, Chair Ernst. And I appreciate what you're doing by raising this issue, and giving us an opportunity to talk about it today. I'm just blown away by the idea that the people think that given the events of the recent events, that fraud is not an issue.

The COVID fraud in the system was outrageous, including unemployment compensation. We're dealing with an issue in Minnesota right now where perhaps as much as a billion dollars was stolen and money diverted away from what was supposed to be a food program for poor kids into the hands of criminals.

And I was just on the Senate floor talking about the Affordable Care Act premium subsidies, which we know have been ripped off between—well, \$21 billion and \$27 billion according to different reports, including one from the GAO. And this is a huge issue because people lose trust in government when they think their programs don't work.

And I'm going to ask each to answer a yes or no question because I'm interested in your take. Because I'll tell you quick story. I was with a road contractor that does aggregates, asphalts, and things like that. And I asked him about—which he's not part of any set aside program. I said, "What do you think about these set aside programs?" He said, "They don't really bother me because everybody who has a set aside just brings their trucks here, fills them up with my stuff, my aggregates, marks up the price, and then delivers it to the same place that I would."

So, I'm going to ask a question. Is that illegal?

Mr. ROSIAK. Do you want one word?

Senator HUSTED. One word.

Mr. ROSIAK. Yes.

Senator HUSTED. Legal, Mr.—

Mr. HEDTLER-GAUDETTE. No.

Senator HUSTED [continuing]. Gaudette? No?

Mr. HART. Yes.

Dr. LAFOUNTAIN. Based on our work, I actually don't know the answer, but I'd be happy to connect you with our experts on that.

Senator HUSTED. So, the answer I received back when I asked questions about it is that that's not illegal. It is offensive. It's not how these programs would be designed, and it's a ripoff to the tax-

payers. I think we could all agree with that, though. And it may not be illegal, but I hope, Chair, we work on this. That we make that kind of stuff illegal because it's not, in my opinion, what the programs are supposed to be about.

And I know finding the fraudsters in the act is a hard thing to do. But we have new technologies at our disposal, things like AI tools. And so, I'm interested, I'll start with you, Dr. LaFountain. What tools could—tech tools like AI, is it possible that we could do a better job with tools like that?

Dr. LAFOUNTAIN. So, let me share a couple of things that we've learned from looking at the role of data analytics and similar tools in fraud detection and prevention. We have definitely learned that leveraging big amounts of information and big data across multiple programs is really important for helping agencies detect and prevent fraud.

We have also learned that leveraging external data, so an agency needs to look outside of it of itself and, you know, find other ways to validate information that it's receiving. That's another important way for agencies to detect fraud. So, we do have some work looking at how AI can be used for this purpose and in other in other purposes. And we'd be happy to share the findings of that when we're completed our work.

Senator HUSTED. Okay. Mr. Hart, you have thoughts on that? Or what other tools should we use? Because we have this fraud. I mean, a lot of it apparently is in the missed design of these programs, right? That while they may be well intended and noble in their pursuit, the practical application is that the fraudsters always seemed to outwit government and misuse these programs, and don't use them for the purposes that they were intended.

Mr. HART. Well, thank you for that. I'll try to be very brief, but I have some experience in this. So, between stints when I worked in the Senate, now to Open the Books, I was a consultant and worked quite a bit with Silicon Valley companies who people who've designed these technologies.

So, I'm excited about the technology for a couple reasons. What AI can do is pattern recognition and pattern prediction. So, I was just in London recently, and there are live facial recognition vans everywhere. So, I found that very dystopian rather than reassuring. But what inspired me to think about is, can we do live spending recognition? In other words, what we need to be doing and what our organization is actually doing is using our data set. We have the biggest data set of government's spending ever assembled.

To do AI, you need three things. You need big data, you need an algorithm, and processing power. So, we're actively working on building tools that can do pattern recognition and then pattern prediction. So, in a year or five years from now, we can run circles around CBO and provide those tools to individual taxpayers and make sure that that authority and that technology belongs with we the people. That is achievable. And that's what we're working on at Open the Books. Okay. Thank,

Senator HUSTED. Thank you for your time.

CHAIR. Thank you, Senator Husted. I will now recognize Senator Markey.

Senator MARKEY. Yeah. Thank you, Madam Chair. And before I begin my questions, I want to take note of who is here serving as an expert on supposed fraud in the 8(a) program. I'll let his words behind me speak for themselves as to why he is unqualified to speak on this program. Even Elon Musk suspended him from Twitter for his extreme views. Mr. Rosiak's history shows he starts with a point of view, one which I find abhorrent, then spreads misinformation and conspiracy theories to support his views, and that is not journalism.

For the past almost 50 years, the 8(a) Business Development Program has broken down historical barriers that underserved small business owners face when trying to contract with the federal government. Decades of research backed by real stories of discrimination and statistical analysis, show that historical discrimination has created an unequal playing field in government contracting. It also shows that discrimination continues to this day working against minority contractors.

Yet, programs like 8(a) are under an all-out attack from opponents within the government and outside the government who claim the programs are ripe with fraud. While it is important to root out instances of genuine fraud, these opponents aim to tear down programs that address historical discrimination.

Mr. HEDTLER-GAUDETTE, how do programs like 8(a) program, and other small business contracting programs, help competition help to ensure that in the federal contracting space that there is room that is made for access for the groups that historically had been left out?

Mr. HEDTLER-GAUDETTE. Thank you for the question, Senator. Small businesses are, as everyone on this committee I think would agree, the backbone of the American economy. However, they're not the backbone of the federal contracting system. And that is because there are a handful of extraordinarily large, extraordinarily well connected and powerful corporations who vacuum up the vast majority of federal contracting dollars. This is particularly true in the defense industry space, but it's true everywhere also.

So, SBA programs, and generally speaking, small business set asides, are critical to trying to unlock the sort of stranglehold that that small cadre of very large companies has on federal contracting dollars. And when you expand and diversify and broaden the industrial base, you make it healthier and more resilient. And then when you have an eye toward broadening and diversifying even within the small business contracting space and trying to make sure that the playing field is the level for those who might want to be in that space, you do an even better job of increasing the health and the resiliency of the industrial base.

Senator MARKEY. Yeah. So, Mr. Hedtler-Gaudette, do you believe small, disadvantaged businesses contracting programs make up for make up the most fraud or waste in the federal government? Do you believe they make up the most within just the federal contracting space?

Mr. HEDTLER-GAUDETTE. And that's a categorical no. No, it's not even close.

Senator MARKEY. Do you believe the Trump administration's actions towards 8(a) program are efficient or effective oversight?

Mr. HEDTLER-GAUDETTE. I do not. I think if they cared deeply about looking into 8(a) or any other program, they would have an Inspector General do it because that's who should be doing it. I also think it's a little bit too convenient that the program they're targeting happens to fall into a category of a sort of ideological or political viewpoint that they disagree with.

Senator MARKEY. Yeah. And they fired the best Inspector General in America in January who oversaw the SBA. They just fired him. In June, the SBA announced the so-called audit of the 8(a) program. And this month, SBA ordered all 8(a) firms to submit extensive documentation within 30 days over the holidays as a part of their investigation. Oversight is important to make sure that government programs are working properly, but I'm concerned that the SBA's investigation is politically motivated.

Dr. LaFountain, the GAO provides the standards for government audits through what's known as the Yellow Book. Can you tell us how audits are done, and how your office typically conducts them?

Dr. LaFountain. So, thank you for the question. I love to talk about the Yellow Book. The Yellow Book is our nickname for the Generally Accepted Government Auditing Standards, or GAGAS. And this is a framework for conducting high quality audits with competence, integrity, objectivity, and independence.

The Yellow Book is a big book, and it covers a lot of territory. It explains the purpose of government auditing, which is to provide objective analysis and information needed to improve government performance and accountability. It includes standards for conducting audits ethically, independently, and with sound professional judgment and other matters related to making sure we do our work in a manner that's transparent, independent, and accountable throughout our auditing process.

Senator MARKEY. Yeah. Thank you. So, as I spoke about in my opening statement, it is ironic that we're here today to talk about waste, fraud, and abuse, and are ignoring the elephant in the room. President Trump's supercharged pay-to-play system designed to benefit his billionaire buddies and hurt small businesses.

Mr. Hedtler-Gaudette, as an expert in oversight, could you explain how President Trump is using the federal contracting system to reward donors and political supporters?

Mr. HEDTLER-GAUDETTE. Sure. One especially brazen example of this, and it's been mentioned a couple times, but I think it's worth underscoring because of how conscious shocking it should be to everybody, is the East Wing Ballroom Project.

Recently a report came out from one of our colleague organizations, Public Citizen, that scanned all of the corporations and individuals who were donating to that vanity project. And it turned out that a large number of them were big, prime contractors who, on aggregate, held about \$280 billion worth of federal contracts. I think there's a bit of a clear wink, nod, pay-to-play at the very least, the appearance of such a relationship there.

Senator MARKEY. Yeah. And what effect do you see that pay-to-play system having on small businesses?

Mr. HEDTLER-GAUDETTE. I think the more the already well-connected and the already powerful companies who receive contracts,

the more they receive, the more you crowd out and close off opportunities for smaller businesses.

Senator MARKEY. And how does corruption or fraud in the 8(a) program compare to what the administration is doing with its big business contracting and backroom deals?

Mr. HEDTLER-GAUDETTE. I think in terms of scale and scope, it doesn't really compare at all.

Senator MARKEY. Yeah. Like an elephant to a mouse. Huh?

CHAIR. Thank you.

Senator MARKEY. So, yeah, we thank you. We thank you for your great work on this. And I think you've helped to clarify what is going on here today and how we still haven't had hearing in any one of the Republican-controlled committees on what the Trump administration is doing to instill waste, fraud, and corruption into the heart of the federal government. Thank you, Madam Chair.

CHAIR. Thank you. And Mr. Rosiak, because your name was brought up, if you would like to respond, you may respond.

Mr. ROSIAK. I can't see it, but if I could have a copy of that poster framed, if possible, that would be amazing. You mentioned the prospect of a President giving contracts to his friends. I think that's of concern to all of us. The mechanism to do it is when we have safeguards against.

But let's say purely hypothetically speaking, President Trump wanted to steer a contract to SpaceX or to somebody who donated a bunch of money to him. He can't do that under the competitive bidding process. He needs a mechanism to do it. So, what could happen is you have a low-level SpaceX employee, have his wife create a women-owned small 8(a) firm, and they get the sole source contract, and then they sub it out, of course, to the people that they work with closely. And it's easy for the government to do with a wink and nod, or just read between the lines that this is going to wind up with SpaceX.

So, that's the concern here. Is that procurement is like water. It follows the path of least resistance. And when you have a loophole like this, it creates all those things that nobody supports.

So, the other thing is, it's not that there's a couple reasons that 8(a) is in the spotlight now, but one of it is the Supreme Court. So, students for fair admissions, the big Supreme Court dealing with race that showed that this program is illegal. There's a court case called *Ultima* that has subjected 8(a) to an injunction right now. So, we can't have a hearing about 8(a) and talk about, oh, Trump is against DEI, whatever, without recognizing it's literally under injunction right now.

So, this committee is going to have to go back and revisit the legislation. And the SBA is going to have to, as the terms of a legal settlement or a final court order, do a rulemaking process. But right now, the government cannot treat people differently based on race. So, if you have a minority set aside program without the minority, you're left with just a random set aside program, which is just rife for all sorts of exploitation.

CHAIR. Thank you. I appreciate—

Senator MARKEY. Madam Chair.

CHAIR. I'm on my five minutes of questioning.

Senator MARKEY. Well, you gave him more time—

CHAIR. This is part of my questioning.

Senator MARKEY. Oh, what you mean is I get recognized again?

CHAIR. You'll get recognized again, Ranking Member Markey. Thank you. So, I just want to get this straight. So, we were talking—in Ranking Member Markey's line of questioning. He said, you know, the largest amount of fraud, waste, abuse is not in the Small Business Administration and its programs, I might be paraphrasing a little bit. This is, however, the Small Business Committee, and that's what we are focusing on today.

So, Mr. Hedtler-Gaudette, you said that no, that doesn't happen the most in the 8(a) programs. However, I did annotate or go through quite a few billions of dollars of fraud or waste that happened within the 8(a) program, the PPP, and the EIDL loan programs. So, you are not saying to this committee that we should not go after people committing fraud in these small business programs of which the small business committee has jurisdiction. Am I correct?

Mr. HEDTLER-GAUDETTE. Yes, absolutely, you should go after fraud and waste wherever it exists. I think the point I was making was more about sort of prioritization of resources than doing so.

CHAIR. Thank you for that clarification. And I would state as well, I have focused on fraud, waste, and abuse for the past 11 years of my Senate career, regardless of what agency or what president was at the helm. So, I think it's fair to say that we fight for American taxpayers, regardless of whether we have an -R, a -D, or an -I behind our name. And that's the purpose of today's committee, is that we're focusing on fraud that has cured with occurred within these programs.

So, a question for the entire panel, just very quickly. Just last week in my home state of Iowa, just to show I don't pick on everybody without recognizing issues in my own home state, there was a former Cuban military sergeant who came to the U.S. illegally after crossing the southern border and was sentenced to four years in federal prison for his role in orchestrating a pandemic benefits fraud conspiracy involving \$2.4 million in fraudulently obtained PPP loans. An illegal Cuban militant in Iowa applied for, and got, \$2.4 million in PPP loans.

Meanwhile, many of our Iowans were struggling to keep their lights on during the COVID pandemic. So, because I only have 20 seconds left, we have a lot of egregious examples, but wouldn't you agree this is someone that should have been prosecuted? Mr. Rosiak?

Mr. ROSIAK. Yes.

CHAIR. Mr. Hedtler-Gaudette?

Mr. HEDTLER-GAUDETTE. Yes.

CHAIR. Mr. Hart?

Mr. HART. Yes.

CHAIR. Ms. LaFountain?

Ms. LAFOUNTAIN. Based on our work, yes, it should be investigated.

CHAIR. Thank you. And I'll recognize Ranking Member Markey for a second round.

Senator MARKEY. Well, thank you. And again, I wasn't going to put it in the record, but I will. You know, one of Mr. Rosiak's

tweets just says, “Turns out lots of DEI hires are both dumber and vastly moral than their competent predecessors.” And I don’t think that the evidence would actually bear that out. I just think that basically continues to reflect a preexisting bias.

So, Mr. Hart, in your testimony, you call for transparency surrounding contracting. A recent study found that donors to the President’s Ballroom Project have received \$279 billion in federal contracts over the last five years. Mr. Hart, do you think those donors to the ballroom should have to disclose their names?

Mr. HART. Well, Mr. Markey, what I believe is that in our Constitution, the Founders describe transparency not as a two-way street, but a one race, one-way street. In other words, as taxpayers, we have the right to inspect the government’s checkbook.

However, the government does not have the right to inspect our checkbook. I think that’s the constitutional standard of transparency. And when we conflate those two, we actually dilute the meaning of transparency in the Constitution.

So, I’m an equal opportunity oversight person. I think we should look at the spending of everything. But if we expand the aperture of the hearing to look at ballroom spending, we should also look at healthcare fraud. And the Peterson Foundation found that there’s \$925 billion in healthcare fraud. So, the other title of the hearing could be the Opportunity Cost of Fraud for Small Business, which is extreme all over the federal government, particularly in the healthcare sector.

Senator MARKEY. No, thank you. And this year I have sent a number of letters to the SBA asking about DOGE’s activities. And I requested a meeting with DOGE in February that has yet to occur. And I’ve asked for that meeting with DOGE and the SBA led by the chair over, and over, and over again. We haven’t had it. DOGE is in like a witness protection program. You know, we know they’re someplace they’re inside of SBA.

And by the way, the same thing is true over the Environment Committee. No hearings over at Labor. No hearings. No hearings, no hearings. They’re inside, you know, but we don’t have any hearings on it. And we know there’s a lot of waste, and fraud, and abuse, corruption going on. We just aren’t going to have any hearings on it. And I think we’re going to finish the whole term without ever having had a hearing on DOGE inside of these federal agencies.

And that’s a crime in and of itself. You know, that we’re not going to look at that. It’s hiding in plain sight right in front of us. DOGE inside of these agencies, what kind of self-serving activities are they engaging in? Who are they helping by the decisions which they are making? What’s going on? Well, we’re the committee of jurisdiction, and we haven’t had a hearing yet. We haven’t had a joint investigation yet. We have done nothing, you know, to find out what is going on.

So, what little we do know about DOGE’s dealings at SBA is coming from the media rather than SBA’s responses to my Congressional request. I made this request over, and over, and over again. And in rare cases, where I’ve received a response, there is no helpful information, which we get. They write their answer es-

entially in invisible ink—they don't provide the information which the public, Mr. Hart, is entitled to the transparency.

It's a one-way street. It's coming out of the federal government to the American people, then they can judge what's going on. They're not going to provide that information. And it's my understanding that GAO also has had some trouble getting Administrator Loeffler and her team to respond to requests for information of that is necessary for your work.

And I'm very glad to hear that GAO was conducting a government-wide review of the administration's efforts to implement the President's executive orders, including how DOGE has been used to access data and make policy decisions without any transparency. Who are they helping? What businesses are they helping? What friends of the President are they helping? We don't know. And it's not just SBA, it's every agency. It's the entire federal government.

So, Dr. LaFountain, is GAO looking to see how DOGE complied with privacy and information law?

Dr. LAFOUNTAIN, Yes. We have a body of work, at least eight engagements, ongoing on issues related to DOGE. And we do have one engagement on DOGE and data protections that is looking at compliance with privacy and information law.

Senator MARKEY. Okay. So, again, I reiterate to you, Madam Chair, I request that this committee hold a hearing on GAO's findings about DOGE, specifically about their compliance with data and information security laws. This would be especially helpful since we never heard from DOGE, despite our efforts to get them to brief our committee. And I make that again, as a special request to you. I think the American public is waiting for the answers to the questions they are asking about what's going on inside of the SBA.

CHAIR. Yes, and thank you. And DOGE does happen to be the Democrat's favorite boogeyman out there. And I do want to be clear that under this administration, we are finally reining in government spending and rooting out waste, fraud, and abuse.

So, during the pandemic and under the Biden Administration, SBA loans were given out like candy. Let's not forget that individuals who used Barbie dolls as their photo identification were approved for SBA loans. This is totally unacceptable. In March, it was announced that, due to DOGE's hard work in this area, they have uncovered more than 5,000 SBA loans equivalent to millions of dollars where the listed borrower was 11 years old or younger.

Again, DOGE is the Democrat's favorite boogeyman. If updating outdated systems and saving taxpayers time and money scares them, that says more about their priorities than ours. Are my Democratic colleagues saying that we should be ignoring billions of dollars of waste, fraud, and abuse because we're focusing only on SBA today and not the entire federal government?

The Biden administration tried to sweep this problem under the rug. We aren't doing that. In fact, we are going to do everything we can to stop it from happening again and recollect every penny that was stolen or misspent. As Chair of the Senate DOGE Caucus, I agree with the aim of DOGE, which is to ensure that taxpayer dollars are being used effectively and that waste, fraud, and abuse in the federal government is rooted out.

And this demonstrates why, to truly create change within the federal government, DOGE has been given access to many federal agencies and department systems, which has allowed them to cut through longstanding hurdles to find waste within each government entity. And all Americans should know that DOGE employees are federal employees. They are federal employees, subject to the same background checks, privacy laws, and restrictions regarding data sharing as any other federal employee.

So, if we want to discuss hypotheticals and leaked data, whatever might be out there, let's talk about real leaks and failures, starting with how a former IRS contractor leaked the private data of more than 400,000 taxpayers, including President Trump's.

Additionally, I've heard my colleagues question if DOGE has saved money, and the answer is a resounding yes, and it's transparently listed on their website. DOGE is working to generate real savings and estimates that it has saved about \$214 billion so far.

DOGE is saving Americans money at across the federal bureaucracy. The Department of Veterans Affairs was paying \$56,000 to water eight plants. Yes, eight household plants for five years. \$56,000. I would've loved to have had that contract. Thanks to DOGE, this contract was canceled, and those plants will be watered for free.

So, while DOGE keeps delivering more savings every day, Democrats are more upset by the effort to stop wasteful spending than by the misuse of Americans taxpayer dollars. As I've always said, if you can't find waste in Washington, D.C., there can only be one reason: you are not looking. Shouldn't we be pulling the plug on government waste instead of those who are finding it?

I have one minute left. And I will go to Mr. Hart talking about waste. I gave the egregious example of a Cuban illegal migrant militant who scammed the federal government for \$2.4 million. Can you provide any other egregious examples of where there has been scams in the federal government?

Mr. HART. Well, Senator, unfortunately, I think one example we haven't touched on is that in Atlanta. There was a mail carrier who stole paycheck protection program checks from people's mailboxes along as routes and used it to provide personal clothing, personal expenses for himself.

And we have to ask why did that happen? And I believe it happens because when government gets in the business of deciding it can pick winners and losers, what it ends up doing is punishing the winners and rewarding the losers. And maybe instead of having a federal Small Business Administration, we should return business to business and business to the states and let them navigate the questions, the economics of it.

CHAIR. And that is pretty profound. So, thank you for that. I would also like to make sure the Ranking Member is aware that on October 30th, I requested the SBA Inspector General to do an audit of the 8(a) program. So, I ask unanimous consent that my letter be entered into the record. And without objection, so ordered.

You want another round—

Senator MARKEY. Yes, please.

CHAIR [continuing]. Ranking Member.

Senator MARKEY. Yes.

CHAIR. You're recognized for five minutes.

Senator MARKEY. Yeah. I would love to see the DOGE representative from SBA sitting here at a witness table under oath. Love to see who that is. I think you and I right now would have about a 50 percent chance of picking that person out of a two-person lineup. We have no idea who it is. We have no idea what their name is. We don't even know who they are, and we're supposed to take their word for it. We don't even know their name.

How in the world can we give any respect to people who are too afraid to have us know their names, too afraid to appear before this committee? You know, they beg to be put in a witness protection program so that they can hide out, you know, from any scrutiny from the public. And yet, we're supposed to respect the numbers which they've given us and we don't even respect them. We don't even know who they are.

You know, this is like anonymity. This is like Soviet Russia. This is like the deepest, darkest Kafkaesque-kind of a proceeding that we're operating on that we don't have any information to give any kind of respect to any number, which again, although I do know one thing that the biggest part of the COVID fraud occurred in 2020 when Trump was President, although we're not going to hear that from—is that not correct from the GAO? Is that not an early conclusion that you've reached?

Dr. LAFOUNTAIN. So, we did find that PPP and COVID Idle were both more vulnerable to fraud early in the program. But I checked with our experts, and we don't have estimates that kind of break it down from one year to the next.

Senator MARKEY. No, I get it. Very vulnerable to fraud during the Trump administration. And you know, but we're not going to have a hearing on that, that's for sure. That's not going to happen either. We're putting Trump into a witness protection program as well. And anyone who represents him and who would've had a responsibility for any of that.

But we're not beyond like taking Black and Brown citizens who have small businesses and somehow rather being able to smear them. When the vast amount of all of the fraud, the elephants still isn't willing to come in here and to sit down. So, you know, maybe we could let them come in, like they were ICE agents and just put bags over their head. You know, maybe they could wear masks so we wouldn't identify them. You know, maybe we could just have them sit out there and maybe mumble through their masks what, what they found.

But we could at least cross-examine them. You know, we got to at least hold them to an oath. But if they're afraid to be recognized the way ICE agents are maybe, you know, and that's kind of a characteristic of the Trump administration. People want to put on their mask almost like they are in fact engaging in criminal behavior. They are engaging in behavior which is unconstitutional, abhorrent to the rule of law in our nation that abhorrent to the due process protections, which all of these people who are in all of these programs are, are entitled to.

So, that's pretty much my take on this. You know, unless, and until we have these people in here and testifying, we don't owe them any honest respect at all, any numbers, any representations,

which they are making. And it is the GAO, it is the Inspector Generals who have to conduct the proper independent oversight of federal programs.

And unfortunately, this is not a hearing focused upon finding bipartisan solutions to problems that are relative. That's what I would like to do, rather than turning this into a star chamber, you know, into a Kafka's Trial where it's impossible for us to actually get to the accusers who are inside of DOGE and sending out information, but without any ability to cross examine them.

So, we should be having real oversight hearings, Madam Chair. We should be calling on the administration to make sure that SBA programs are running the way they are supposed to. We should be collaborating with the SBA Inspector General, with the GAO, so that we can get to the bottom of what's going on right now. Congressional oversight is critical. It's absolutely essential. And we can't do it if we don't have the facts. We can't do it if we can't get the information.

Otherwise, it just turns into political targeting of programs and individuals who have invoked the political ire of particular segments of the Trump empire. And that's just not real oversight. And as members of this committee, we should do everything we can to uplift small businesses. That's not what this hearing is all about. It's stigmatizing those who are already most vulnerable historically in terms of the durability.

So, again, we're ignoring the elephant in the room, and we know it's the Trump administration officials who are inside all of these agencies. Until we get to that GOP elephant, we're not having real hearings. We're not doing real oversight. We're just allowing for the demonization of those who have always historically been most vulnerable. Thank you, Madam Chair.

CHAIR. Thank you. And with that, we will go ahead and wrap the committee. I will take a little bit of issue in describing the United States of America as Soviet Russia. Those of us that served in uniform for this great nation feel otherwise. So, I just wanted to make that very clear that I'm proud of my country, regardless of who is at the helm, because our country is made of incredible men and women from all walks of life.

So, if there are no further questions, I want to thank our witnesses for being with us today. I ask unanimous consent that the record of today's hearing remain open for two weeks for members to submit questions, revise and extend their remarks, and submit additional information into the record. And without objection, so ordered.

With that, the Committee on Small Business and Entrepreneurship stands adjourned.

[Whereupon, at 3:55 p.m., the hearing was adjourned.]



ALEUT FEDERAL, LLC

www.aleutfederal.com

December 10, 2025

The Honorable Sean Duffy
 Acting Administrator
 National Aeronautics and Space Administration
 300 E Street, SW
 Washington, D.C. 20546

Dear Acting Administrator Duffy,

Aleut Federal, LLC (“Aleut Federal”), a wholly-owned subsidiary of The Aleut Corporation (“Aleut”), is in receipt of a copy of Senator Joni Ernst’s letter to you dated December 8, 2025 (the “Letter”) that made serious and incorrect statements regarding two of our companies: Aleut Construction LLC (formerly known as ARS Aleut Construction, LLC) and Aleut Field Services, LLC (collectively the “Companies”). Aleut Federal shares the objective of ensuring that SBA 8(a) rules are followed. To that end, we respectfully submit this response addressing factual inaccuracies in the Letter.

In particular, the Letter states, “It appears the Aleut Corporation is operating several 8(a) subsidiaries with the same primary NAICS code at the same time, potentially violating SBA’s rules.”

This statement is not accurate. Each 8(a) subsidiary of Aleut operates under a separate primary NAICS code, and no Aleut 8(a) subsidiaries are operating under the same primary NAICS code.

Aleut takes seriously its responsibilities to the federal government and the American taxpayer. We maintain robust policies and procedures to ensure compliance with all federal regulations — including the SBA’s 8(a) regulations. Additional details are provided below.

Aleut Construction LLC (formerly known as ARS Aleut Construction, LLC)

The Letter says that “ARS Aleut [Construction, LLC] is a subsidiary of [Aleut]” and that Aleut “currently operates 8(a) participant Aleut Construction, LLC ... which shares the same active 8(a) certification dates ... and claims the same primary NAICS code.”

This stems from a name change. The subsidiary in question changed its name from ARS Aleut Construction, LLC to Aleut Construction LLC in 2024. Contrary to the Letter, there is simply no NAICS code overlap between two companies here – the 8(a) participant is a single entity that updated its name.

12355 Sunrise Valley Drive, Suite 300
 Reston, VA 20191

667 Emory Valley Road
 Oak Ridge, TN 37830

5775 Mark Dabbling Blvd, Suite 105
 Colorado Springs, CO 80919



ALEUT FEDERAL, LLC

www.aleutfederal.com

The Letter further asserts that ARS Aleut Construction, LLC received a \$1.1 million order on an 8(a) multiple award contract (PIID: 80KSC024FA124) on September 6, 2024. The underlying Indefinite Delivery/Indefinite Quantity ("IDIQ") No. 80KSC021DA005 for which the order was issued was originally awarded to "ARS Aleut Construction, LLC." However, per Modification No. P00005, dated December 23, 2024, the IDIQ was updated to identify "Aleut Construction LLC" as the IDIQ contract holder per this subsidiary's name change. Subsequently, on January 28, 2025, Modification No. P00001 to the order reflected the name change.

In sum, ARS Aleut Construction, LLC and Aleut Construction LLC are not two separate entities operating simultaneously within the same NAICS code, but rather the same entity having undergone a name change.

Aleut Field Services, LLC

The Letter also asserts that Aleut Field Services, LLC may have simultaneously operated under the same primary NAICS Code as Aleut Construction LLC (f/k/a ARS Aleut Construction, LLC) in violation of 13 C.F.R. 124.109(c)(3)(ii).

Aleut Field Services, LLC applied for early graduation from the 8(a) program on or about October 1, 2020, and this application was accepted by SBA on January 22, 2021. During its time in the 8(a) program, Aleut Field Services, LLC's primary NAICS Code was 236220.

The primary NAICS code of Aleut Construction LLC (f/k/a ARS Aleut Construction, LLC) was updated to 236220 in the summer of 2021, well after SBA approved Aleut Field Services, LLC's application for early graduation from the 8(a) program.

Because Aleut Field Services, LLC graduated from the 8(a) program on January 22, 2021, Aleut Construction LLC currently is permitted to use the primary NAICS Code of 236220 under 13 CFR § 124.109.

Conclusion

Aleut appreciates and shares your commitment to ensuring that federal contractors in the 8(a) program comply with the applicable regulations as well as the spirit of the program's underlying policy objectives.

We take this opportunity to note that we value our strong relationship with NASA. As an Alaska Native contractor, we are committed to providing top quality service in a cost effective, efficient, and timely manner. Our robust compliance program ensures that all applicable federal regulations are satisfied. We look forward to continuing our relationship with NASA into the future, and we thank you for the opportunity to provide this response.

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ALEUT FEDERAL, LLC

www.aleutfederal.com

Very Respectfully,

DocuSigned by:
Nicholas St. J. Trzcinski
ED68103F75974CC...

Nick Trzcinski
President, Aleut Federal, LLC

Cc: U.S. Small Business Administration
Office of Senator Joni Ernst
Offices of Senators Dan Sullivan and Lisa Murkowski
Office of Representative Nicholas Begich



ASSISTANT SECRETARY OF DEFENSE
3011 DEFENSE PENTAGON
WASHINGTON, DC 20301-3011

INDUSTRIAL BASE POLICY

AUG 25 2025

The Honorable Dan Sullivan
Chairman
Subcommittee on Readiness
Committee on Armed Services
United States Senate
Washington, DC 20510

Dear Chairman Sullivan:

Thank you for your letter dated July 12, 2025, on the Small Business Administration's (SBA) 8(a) Business Development Program. I share your view on the program's significant value and positive outcomes, particularly for Alaska Native Corporations, Indian Tribes, and Native Hawaiian Organizations, as it enhances their ability to thrive in the American economy. The Department of Defense (DoD) awarded approximately \$29 billion to over 4,200 8(a) program participants from Fiscal Year 2024 through the second quarter of Fiscal Year 2025.

The Department is also strategically leveraging its programs to connect 8(a) firms with prime contractors, thereby injecting speed and innovation into the defense industrial base. Specifically, the DoD Mentor-Protégé Program (DoD MPP), authorized in title 10 U.S.C. §4902, serves as a crucial link, strengthening and modernizing the defense industrial base with the goal of transferring knowledge, improving performance, and positioning small firms for long-term success. This creates broader and deeper capabilities within the military supply chain. Successful Mentor-Protégé Agreements reward the protégé, the mentor, and the Department. In fact, over the past five years, this program has supported more than 190 small businesses in strengthening their technical capacity and becoming more competitive. As a result of recent process reforms, contracting timelines have been reduced from 18+ months to 60 days or less, while enabling protégé firms' contributions to the defense industrial base to grow to \$4.9 billion (6% of total small business contracts).

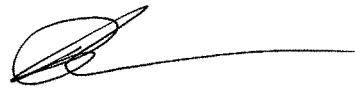
The APEX Accelerator Program, authorized in title 10 U.S.C. §§ 4951-4959, and 10 U.S.C. § 4961, provides a critical front door for industry and 8(a) program participants. APEX Accelerators collaborate with federal, state, and local partners to bring in new government contractors by helping businesses acquire the essential skills and know-how. Importantly, many APEX centers are co-located or work closely with the SBA's Small Business Development Centers, facilitating 8(a) training and certification efforts. A strong defense industrial base creates a strong military that deters potential adversaries. APEX Accelerators serve approximately 23,000 new business clients annually, averaging over 62 per day. Consequently, APEX Accelerator clients land contracts and subcontracts worth approximately \$80 billion annually, with a return on each federal dollar invested exceeding \$1,450.

The Indian Incentive Program (IIP), authorized by section 504 of the Indian Financing Act of 1974, also serves as an important link between the Department and 8(a) participants. This program incentivizes contracting with native-owned firms by providing a 5 percent incentive payment to a prime contractor on the total amount subcontracted to a Native American-owned Economic Enterprise or Native American Organization, in accordance with defense federal regulations. The latest incentive payment data indicates a substantial number of native-owned business enterprises are serving as first tier subcontractors in support of these prime contracts. Therefore, through the generation of subcontract opportunities, the IIP serves as an economic multiplier for Native American communities and strengthens the nation's defense industrial base.

The Department also has a resource – Project Spectrum – to help 8(a) participants adapt to federal cybersecurity requirements, including the National Institute of Standards and Technology (NIST) security requirements and the forthcoming Cybersecurity Maturity Model Certification (CMMC) requirements. In addition to providing these and other small and mid-size firms with tools, training, and education to adapt to these important cybersecurity protections, Project Spectrum also assesses and helps mitigate business risk presented by foreign ownership, control, or influence (FOCI) threats. Nearly 50% of cyberattacks in the defense industrial base are linked to FOCI. To date, Project Spectrum has helped 8,400 businesses and 19,000 individuals with tools and training courses, cyber readiness checks and risk assessments, and policy guidance and security system plan reviews.

Thank you again for your letter in support of the 8(a) program. I am sending an identical letter to the other signatories of your letter.

Sincerely,

A handwritten signature in black ink, appearing to read 'Vic S. Ramdass', with a long horizontal line extending to the right.

Vic S. Ramdass, PhD.
Acting Assistant Secretary of Defense
for Industrial Base Policy



The fraud that could bring down the 8(a) program wasn't for millions. It was \$22,000.

SBA is auditing every 8(a) firm, but it's not because of hundreds of millions in fraudulent contracts

Sam Le

Dec 16, 2025

Participants in SBA's 8(a) program now have less than three weeks to respond to SBA's sweeping audit letter. The letter accuses the 8(a) program of being "a vehicle for institutionalized abuse at taxpayer expense." As a result, the 4,300 participants must submit 13 categories of financial documents by January 5. One of the documents—a "sub-ledger schedule"—isn't even a typical accounting report. Most of the Google hits for the term "sub-ledger schedule" point back to SBA's letter. (One of the unexpected benefits of running a law office is that I've become really familiar with small-business accounting.)

Meanwhile, on Capitol Hill, the Senate Small Business Committee held a 90-minute hearing about fraud in SBA programs. The Chair introduced a "Stop 8(a) Contracting Fraud" bill to suspend the program while SBA conducts the audit. The primary witness, Luke Rosiak, called for ending all set-aside programs—not just the 8(a) program—because they are "vulnerable to corruption." Another witness went even further. John Hart of Open the Books said the U.S. Small Business Administration shouldn't even exist. We should "return business to business," Hart testified. Committee Chair Joni Ernst replied, "That is pretty profound."

It's now a very real possibility that Federal agencies may reduce or even stop the use of the 8(a) program, based on this aura of fraud and corruption. Ernst wrote letters to 22 agency heads requesting that they pause all 8(a) sole-source contracting. SBA already has the playbook for slowing the program to a trickle: It can pull the 8(a) partnership agreement, as it did for USAID earlier in the year.

You would think, then, that this massive audit, Congressional inquiry, and talk of corruption are premised on hundreds of millions, or even billions, of dollars in fraudulent in 8(a) contracts. They're not. There's one contract. It was worth \$22,000.

The \$22,000 sole-source contract at the center of the scandal

But what about the "\$550 million" in fraud that SBA Administrator Kelly Loeffler cited in ordering a "full-scale audit" of the 8(a) program? Go back and read the DOJ's June press release closely: The \$550 million figure refers to *government contracts*, not 8(a) contracts.

The company at issue in the fraud, Apprio Inc., reportedly bribed a USAID contracting officer to win the contracts. The bribes included cash, laptops, and NBA tickets, totaling \$1 million in value. In exchange, the USAID contracting officer, Roderick Watson, reportedly funneled sole-source 8(a) contracts to Apprio. Watson pleaded guilty and is awaiting sentencing.

When Apprio graduated from the 8(a) program in 2015, the scheme allegedly shifted to using another 8(a) firm, Vistant. Vistant would then subcontract to Apprio.

Apprio has received \$262 million in Federal contracts, and Vistant has received \$221 million. So that's within the range of that \$550 million figure. But very little of that was from 8(a) contracts. An even smaller amount was on 8(a) sole-source contracts from USAID, where Watson worked. Of the \$262 million to Apprio, only \$22,244 was awarded by USAID to Apprio using the 8(a) program. That all came through a single contract:

Transaction Information					
Award Type:	Purchase Order	Prepared Date:	08/20/2015 07:31:22	Prepared User:	USAIDNEGOTIATOR
Award Status:	Final	Last Modified Date:	08/21/2015 09:40:36	Last Modified User:	SUKHAN
Closed Status:	No	Closed Status Date:		Closed By:	
		Approved Date:	08/21/2015 09:40:36	Approved By:	SUKHAN
Document Information					
Agency	Procurement Identifier	Modification No	Trans No		
Award ID:	7200 AID0AA01500009	3	0		
Referenced IDV ID:					
Reason For Modification:	EXERCISE AN OPTION				
Solicitation ID:					
Agency Main Sub Identifier Account Account	Initiative				
Treasury Account Symbol:	72	1000	000	Select One	
Dates		Amounts			
Date Signed (mm/dd/yyyy) :	08/20/2015	Action Obligation:	Current	Total	
Period of Performance Start Date (mm/dd/yyyy) :	08/20/2015	Base And Exercised Options Value:	\$2,495.84	\$22,244.39	
Completion Date (mm/dd/yyyy) :	12/07/2015	Base And All Options Value (Total Contract Value):	\$2,495.84	\$22,244.39	
Est. Ultimate Completion Date (mm/dd/yyyy) :	12/07/2015	Fee Paid for Use of IDV:	\$0.00		
Purchaser Information					
Contracting Office Agency ID:	7200	Contracting Office Agency Name:	AGENCY FOR INTERNATIONAL DEVELOPMENT		
Contracting Office ID:	72000	Contracting Office Name:	AGENCY FOR INTERNATIONAL DEVELOPMENT		
Funding Agency ID:	7200	Funding Agency Name:	AGENCY FOR INTERNATIONAL DEVELOPMENT		
Funding Office ID:	72000	Funding Office Name:	AGENCY FOR INTERNATIONAL DEVELOPMENT		
Foreign Funding:	Not Applicable				

The \$22,000 contract to Apprio (FPDS.gov)

That \$22,000 contract to Apprio was for a website to be used by USAID lawyers. Apprio would “create a fully-functional internal intranet website accessible to USAID’s attorneys in USAID’s Office of the General Counsel.” I remember trying to procure a similar website when I was an attorney with SBA’s Office of General Counsel. The price does not sound outrageous. If USAID had bought monthly Clio subscriptions for 100 lawyers instead, that would cost roughly \$10,000 *per month*. And the Apprio contract was probably for a perpetual license.

Even if USAID lawyers didn’t get the website at the end of the \$22,000 contract, it’s not a huge amount of money. It’s about the cost of a new Toyota Corolla.

All the other contracts to Apprio—the company at the center of the scheme—were with other agencies or outside of the 8(a) program. Based on its settlement—Apprio paid \$500,000—Apprio was a bad apple. But it couldn’t have used the 8(a) program for “institutionalized abuse.” The USAID 8(a) contracts were less than 0.01% of its contracts.

Vistant paid \$100,000 to settle its allegations. Vistant has more 8(a) contracts at USAID to its name: four altogether. But three of those were competitive 8(a) contracts. The DOJ allegation was that Watson, the USAID contracting officer, was able to steer contracts to Apprio “without a competitive bid process.” So

the competitive contracts aren't the fraud. It's questionable that bribing a contracting officer would help a company win a competitive award. As most people in contracting know, an agency's contracting officer usually awards to the company selected by an evaluation panel of program officials.

That leaves one remaining USAID contract to Vistant. That contract, a \$13 million award from June 2020, was coded by USAID as an 8(a) sole-source contract. But I'm not sure that it was actually an 8(a) contract.

For individual-owned 8(a) firms like Vistant, 8(a) sole-source awards are capped at (back then) \$7.5 million.¹ The only way that Vistant could have received a \$13 million sole-source award—almost double that threshold—was to be a Native-owned firm (it's not), or for USAID and SBA to jointly determine that Vistant was the only 8(a) contractor available to do the work. That determination is extremely rare. Of the 9,000 sole-source contracts to individual-owned 8(a) firms in fiscal year 2020, the contract to Vistant *was the only one across all Federal agencies* that exceeded \$7.5 million at award. That's right: Vistant's was one out of 9,000. So it was an exceptionally strange contract, a data-entry error, or—just as likely—a strange consequence of that weird early COVID period.

And, even if the unusual \$13 million sole-source contract was fraudulent, it wasn't because of the Biden Administration. In 2021, the Biden Administration started raising the contracting goal for small disadvantaged businesses, first to 11% and then eventually to 15%. Ernst suggested that Biden's goal increase led to "exploitation by wrongdoers." But Vistant's \$13 million sole-source contract was awarded by USAID in June 2020, at the tail end of the first Trump Administration.

So I'm skeptical that Vistant's was actually an 8(a) contract. But maybe it was. If Congress wants to address fraud of this sort, it should ban sole-source contracts to individual-owned firms above the sole-source threshold. That process is in section 8(a)(1)(D)(i)(I) of the Small Business Act. The repeal would have virtually no impact on how the program operates. I found only 39 awards—out of 215,000—that met the same criteria: 8(a) sole source to an individual-owned firm above \$7.5 million at award. It's not a common thing.

Let's assume that the \$22,000 contract and the \$13 million contract were both fraudulent 8(a) contracts.² That doesn't make the 8(a) program a "fraud magnet." The total amount of the Apprio fraud was \$550 million. The 8(a) sole-source portion of that was \$13.022 million, or just 2%. Since the 8(a) program is 4% of government spending, proportionately *fewer* 8(a) contracts were a part of the bribery scheme. For more about why the 8(a) program is actually less susceptible to fraud, see Holly Mathnerd's excellent deep-dive:

If the numbers don't show widespread fraud, why is this scandal threatening to end the 8(a) program?

Why ATI Solutions might be compliant

The immediate answer is that the James O'Keefe video also suggests 8(a) fraud. In the video, an employee of ATI Government Solutions states the company does "about 20%" of the work on 8(a) contracts. SBA recently stated in a press release that the video represents "mounting evidence" that the 8(a) program is "a pass-through vehicle for rampant abuse and fraud."

Yes, if true, 80% of pass-through works seems like a lot. But it's not necessarily fraud. It struck me, when reading initial reports about the video, that the figure the employee cited was oddly precise. That number, 20%, represents the minimum amount that a small business can do *legally* through a mentor-protégé joint venture. SBA rules allow the joint venture as a whole to do as little as 50% of the work of a services contract. Then the small business can do as little as 40% of the work of the joint venture. You can stack those minimums, so the minimum legal amount of self-performance is 40% times 50%, which equals 20%.

ATI Government Solutions could also have complied with the rules against pass-throughs by using the "similarly situated entity" rule. That allows an 8(a) firm to subcontract to other 8(a) firms without the work counting against the maximum subcontract limit. These subcontracts are quite common. And that's even more the case with a Native-owned firm like ATI. Individual-owned 8(a) firms can't access high-dollar sole-source contracts, so they can team with Native-owned firms to perform larger sole-source opportunities. That is all legal too.

I'd be surprised if a sophisticated contractor like ATI *wasn't* doing one of those things: mentor-protégé and subcontracting to other 8(a) firms. That doesn't mean that ATI wasn't also doing something wrong. But the 20% number by itself does not categorically equate to fraud. Maybe it is shocking to the conscience. In that case, though, the solution is to change the rules—raise the protégé's required work or restrict the use of similarly situated entities. Don't punish the company for abiding by the rules.

If 20% can be legal, there has to be something more. There could be a concerted scheme, as with Roderick Watson. The facts haven't come out yet. But it already sounds like the Senate Committee and SBA have made up their minds.

The focus on Indian Americans

So what is this really about? The Senate hearing on Wednesday raised an intriguing possibility: The opponents of the 8(a) program don't want Indian Americans in the program. I hadn't remotely considered this, but the first witness went on and on about how "Indian Americans are the wealthiest demographic in America with a higher median income than whites." He said, "Indians have never been underrepresented in the field of IT; they're actually overrepresented in that field."

Rosiak even named a specific 8(a) owner and the location of the owner's house. Rosiak described the owner's house. He showed a photo of the house. At an open Senate hearing!

The allegation from Rosiak was that "people from the country of India gobble up a lion's share of 8(a) contracts." That's not true, by the way. Black-owned firms receive more in 8(a) contract dollars than South-Asian-owned firms (\$2.6 billion vs. \$2.3 billion in 2024). And they both receive far less than firms owned by Alaska Native Corporations, Indian Tribes, and Native Hawaiian Organizations. Together, those three categories receive over 60% of 8(a) dollars.

And, even if Indian-American-owned businesses were receiving a disproportionate share of 8(a) dollars, one owner's large house isn't fraud. In fact, the 8(a) program encourages this. By law, all 8(a) owners must be "economically disadvantaged." This means their calculated net worth and total assets must be less than legal thresholds. But, in the 8(a) statute, Congress forbade SBA from including the value of the owner's primary personal residence in the calculation. This encourages successful 8(a) owners to pump earnings into their homes. Other successful business owners might buy art, fund college savings, or

invest in rental properties. Owners of 8(a) firms that do that risk their economically disadvantaged status. So they buy bigger houses and renovate them. There's nothing fraudulent about a *small-business owner* having a big house. Remember the Chris Rock joke?

This isn't the only recent issue involving Indian Americans to be politicized. The New York Times recently reported on Nalin Haley, Nikki Haley's son, calling for a complete ban on H1-B visas. Between two-thirds and three-quarters of H1-B visas go to workers from India. Nikki Haley's parents immigrated from India. But 8(a) participation can't be based on visas. By law, all 8(a) owners must be U.S. citizens. That includes the owner named in Rosiak's testimony.

The bigger point about Rosiak's testimony is that it revives the practice of putting 8(a) owners into racial groups. This is a form of, as Noah Smith called it, racial collectivism. SBA doesn't do it anymore. After the Supreme Court's college-admissions ruling, SBA stopped automatically qualifying owners based on racial status. (SBA was following a directive from a lower court that found the practice unconstitutional.) Now, all current and future 8(a) owners have to submit a narrative. The narrative explains how the owner, *as an individual*, experienced discrimination. The narrative process—which the Department of Transportation recently adopted for the state-level DBE program—gets the Federal government away from treating people as members of groups. Instead, the narrative treats the owners as individuals. The business owner that Rosiak named had to submit a narrative, describing incidents of discrimination. SBA found the narrative compelling enough to allow his firm to continue in the 8(a) program, based on the owner's individual circumstances.

Maybe in the future, admission to the 8(a) program can be more closely tied to the program's goals of business growth and community development. It seems strange to me that SBA—the government agency tasked with supporting small businesses—is deciding who has suffered discrimination and who hasn't. So the narrative process isn't perfect. It's probably an interim solution while lawmakers decide on the future of the program.

That future is less bright today than it was a few months ago, with this ongoing audit and the Congressional letters. The audit is very likely to find *something*; as Dean Jessica Tillipman and I recently discussed, business owners might not fully understand how these complex rules work (though, in some cases, the rules can work in their favor, such as with the similarly situated-entity rule). The audit might find fraud. But, so far, the total amount of confirmed 8(a) fraud is barely enough to buy a Corolla.

THE PROBABILITY OF WINNING
FEDERAL CONTRACTS:
**AN ANALYSIS OF SMALL
MINORITY OWNED FIRMS**

Office of Policy Analysis and Development
June 2022



THE PROBABILITY OF WINNING FEDERAL CONTRACTS:
AN ANALYSIS OF SMALL MINORITY OWNED FIRMS

Daniel Chow, *Senior Economist*

Minority Business Development Agency
Office of Policy Analysis and Development
June 2022





Foreword

On November 15, 2021, the President signed the Minority Business Development Act of 2021 (“Act”) as part of the Infrastructure Investment and Jobs Act, P.L. 117-58. The Act codifies the Minority Business Development Agency (MBDA) and many of its existing programs for the first time since its inception in 1969. Among many things, the Act calls upon MBDA to conduct research, and collect and analyze data, including data related to the success or failure of minority business enterprises (MBEs). It instructs MBDA to evaluate the impact of federal support of socially or economically disadvantaged businesses and to consult with other Federal agencies and departments to develop policies, comprehensive plans, and specific goals.

MBDA is a longstanding advocate for the utilization of MBEs in public and private sector contracting. In 2016, MBDA commissioned and published a report highlighting contract disparities between minority-owned and nonminority-owned business enterprises in state and local government contracting. Complementing this work, MBDA recently undertook a study to assess federal contracting outcomes for small-disadvantaged businesses similar to the original work conducted in 2012 by Robert N. Rubinovitz, Ph.D., former Deputy Chief Economist, Economics and Statistics Administration, U.S. Department of Commerce.

The recent MBDA study, conducted by MBDA’s Senior Economist, Daniel Chow, focuses on the probability of certain classifiable businesses’ attainment of federal contracts using more recent Federal contracting data. Consistent with the original study, MBDA’s analysis finds that on an industry-by-industry basis, in nearly all cases, *the odds of non-8(a) minority-owned small disadvantage businesses winning contracts*, all else equal (size, age, legal organization, level of government clearance), *were lower than the odds of other small firms winning contracts*. These findings reinforce MBDA’s responsibility to assist and support MBEs to seek Federal contracting, in particular through the 8(a) program.

MBDA is pleased to release this study and support the President’s Executive Order 13985 *Advancing Racial Equity and Support for Underserved Communities Through the Federal Government*, and subsequent Office of Management and Budget guidance M-22-03 *Advancing Equity in Federal Procurement*.

On behalf of MBDA, we thank Daniel Chow for his expertise and dedication to completing this important work.

Efrain Gonzalez, Jr.
Associate Director
Office of Policy Analysis and Development
Minority Business Development Agency



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Abstract

Mr. Daniel Chow, Senior Economist in the Office of Policy Analysis and Development (OPAD) of the Minority Business Development Agency (MBDA) at the Department of Commerce is the author of this report. This study reviews data on federal government contracting and assesses the relationship between contracting outcomes for small businesses and the type of ownership of the businesses. The study is limited in scope and evaluates the probability of certain classifiable businesses' attainment of federal contracts in a specific period, including minority-owned businesses and small disadvantaged businesses (including businesses that participate in the Small Business Administration's Section 8(a) business development program).

The present analysis is modeled after an original study conducted in 2012 by Robert N. Rubinovitz, Ph.D., the former Deputy Chief Economist at the U.S. Department of Commerce, Economics and Statistics Administration.¹ In that study, Dr. Rubinovitz analyzed data on government contracts for small businesses for FY 2012 and looked at whether firms that were "small disadvantaged businesses" (SDBs) were more or less likely to win federal prime contracts relative to other small businesses, holding constant various factors that might influence the award of a contract.² The study found the odds of winning contracts for SDBs not participating in the Small Business Administration's (SBA) 8(a) business development program are estimated to be roughly 11 percent lower relative to the odds of winning contracts by firms that were not identified as SDBs.³ The difference was statistically significant at the 95 percent significance level. Minority-owned firms (which include minority-owned small businesses, SDBs that are minority-owned and minority-owned 8(a) participants) had roughly 30 percent lower odds of winning a contract than other small firms.

In 2013, Dr. Rubinovitz provided a subsequent analysis in the *Rothe Development, Inc. v. Department of Defense* case.⁴ Using an identical method as in his original 2012 study, the subsequent analysis looked at the relationship between contracting outcomes for non-8(a) minority-owned SDBs compared to all other small businesses. He found that, in virtually all cases, on an industry-by-industry basis, the odds of non-8(a) minority-owned SDBs winning contracts, all other factors being equal (size, age, legal organization, level of government clearance), were lower than the odds of other small firms winning contracts, to a statistically significant degree.

Following the methodology utilized by Rubinovitz in his 2012 study, Mr. Chow studied data on government contracts for small businesses and factors that might influence the award of a contract to determine whether SDBs were more or less likely to win federal prime contracts relative to other small businesses. Using data from April 2019 to August 2020, the study considered the impact on the "odds ratio" of small firms winning contracts, holding other factors constant.

¹ See Report of Robert N. Rubinovitz at 2, *Rothe Dev., Inc. v. Dep't of Defense, et al.*, No. 1:12-cv-00744-KBJ (D.D.C. Jan. 31, 2014), ECF No. 45-2 (hereinafter "Rubinovitz Report").

² SDBs are defined as (1) businesses that are 51% or more owned and controlled by one or more disadvantaged persons; (2) the disadvantaged person or persons must be socially disadvantaged and economically disadvantaged; and (3) the firm must be small, according to SBA's size standards. See SBA SDB Definitions, available at <http://www.sba.gov/contracting/government-contracting-programs/small-disadvantaged-businesses>. As shown in Table 4 below, the vast majority of SDBs during the time period relevant to this study are minority-owned.

³ Some SDBs may be eligible to participate in the SBA's 8(a) Business Development program, which is for certain small businesses that are at least 51% owned and controlled by U.S. citizens who are socially and economically disadvantaged. See SBA 8(a) Business Development program, available at <https://www.sba.gov/federal-contracting/contracting-assistance-programs/8a-business-development-program>. The complete eligibility criteria for the 8(a) program are set out in Title 13 Part 124 of the Code of Federal Regulations.

⁴ See Rubinovitz Supplemental Report, *Rothe Dev., Inc. v. Dep't of Defense, et al.*, No. 1:12-cv-00744-KBJ (D.D.C. June 16, 2014), ECF No. 64-11.



The analysis of the data found that the odds of winning contracts for SDBs not participating in the 8(a) business development program are estimated to be roughly 37 percent lower relative to the odds of winning contracts by firms that were not identified as SDBs. The difference was statistically significant at the 95 percent significance level. Minority-owned firms (which include minority-owned small businesses, SDBs that are minority-owned, and minority-owned 8(a) participants) had roughly 15 percent lower odds of winning a contract than other small firms.

Overview of Results

As in the prior study, the ultimate question of interest is whether the data show differences in the odds of contracts being won by minority-owned small businesses, especially those identified as SDBs and those participating in the 8(a) program, compared to other small businesses. This study used the logit regression analysis that was implemented in the earlier study to produce odds ratios for the same set of independent variables. The odds ratio is the estimated relationship between the dependent variable (whether a firm wins or does not win a contract) and the independent variables (such as ownership type, type of organization, and firm characteristics).

Table 1 shows that woman-owned, minority-owned, and other veteran-owned firms have lower odds than other firms to win a contract, all else being equal. Most of the standard errors (17 out of 18) in Table 1 are small relative to their estimated odds ratios. The odds of winning a contract for SDBs who do not participate in the 8(a) program is about 37 percent less than for other firms, and this result is statistically significant. Firms in the 8(a) program, in a certified HUBZone, or owned by service-disabled veterans have statistically significant and larger odds of winning a contract. The firm size and age ratios favor the larger and older firms, reflecting their greater likelihood at competing for and thus winning contracts. Among ownership types, partnership, corporate not-tax exempt, and corporate tax-exempt firms had lower odds and were statistically significant. Sole proprietorship was the only group that had odds that were not statistically significant. The type of security clearance held by a firm had a strong positive effect on the firm's odds of winning a contract, which is understandable because clearances are often prerequisites for competing for many types of government contracts.

Table 2 summarizes the results when the same model is estimated separately for each three-digit NAICS code (Table 5 is a more detailed list of the industry estimates and Table 6 defines the NAICS codes used in Table 5). In about 90% of industries, accounting for over 99% of contracts, non-8(a) SDB firms' odds of winning contracts are lower, all else equal, than other firms. In 50% of industries, representing over 93% of contracts, the odds of winning are statistically significantly lower.

Table 2a shows the same information for minority-owned firms. Minority-owned firms' odds of winning contracts are lower in about 67% of industries, representing over 50% of contracts. In about a quarter (23.6%) of industries, the odds of winning are statistically significantly lower, accounting for 16.8% of contracts.

Methodology

The Rubinovitz study constructed a database of firms that were reasonably expected to compete for federal contracts, along with information on which of these firms won contract awards, firm characteristics, and whether firm owners belonged to a specially identified group for which the federal government has contracting goals. The SBA provided data on firms in its 8(a) and/or HUBZone⁵ programs and which were

⁵ SBA's HUBZone program provides federal contracting assistance for qualified small businesses located in historically underutilized business zones in an effort to increase employment opportunities, investment, and economic development in such areas. See SBA's HUBZone Program, available at <https://www.sba.gov/federal-contracting/contracting-assistance-programs/hubzone-program>. The complete eligibility criteria for the HUBZone program are set out in Title 13 Part 126 of the Code of Federal Regulations.



matched to the Federal Procurement Data System (FPDS). In addition, the Rubinovitz study obtained from Bloomberg Government an extract of FPDS data for contracts covered by federal contracting goals for specially defined groups. These sources provided data elements about the form of organization, contract awards, level of security clearance, registration dates, SDB status, industry, race and ethnicity of the registrant (or with which the registrant is affiliated), and ownership type (minority, woman, service-disabled veteran, or other veteran).

Rubinovitz used the logit model of regression to analyze the odds of an event occurring, in this case the odds of being awarded a federal contract. A logit model of regression estimates the relationship between a variable to be explained (the “dependent” variable) and one or more explanatory variables (the “independent” variables). The resulting estimated relationship between the dependent and independent variables is called the odds ratio, which is expressed by the general logit model: $Y = \exp(\beta \cdot X + \epsilon)$. As expressed in this model, Y is the dependent variable; X is one or more independent variable(s) that might explain Y ; β is the unknown parameter(s) to be estimated (which measures the degree to which the independent variable(s) is related to the dependent variable); ϵ is the error term (which represents statistical “noise” of other elements that influence the dependent variable); and $\exp(\cdot)$ is the exponential function. The model was run to obtain estimated odds ratios for winning contract awards in various industries and for a number of different variables.

As in the Rubinovitz study, the independent variables are the ownership of the firm (minority-owned, women-owned, and veteran-owned); the type of organization (whether the firm is a corporation, a partnership, or some other type); other firm characteristics (size, in terms of numbers of employees and revenues, level of security clearance of the firm, and firm age); and whether the firm identifies itself as a SDB and if so, whether the firm is part of the SBA’s 8(a) program.

This study follows, to the maximum extent possible, the same methodology and techniques used in Rubinovitz’s 2012 analysis. However, this analysis encountered some changed circumstances since Rubinovitz completed his study nine years ago, such as changes in agency data collection and data availability, as well as my independent efforts. This study also uses more updated statistical programming codes that were developed after the Rubinovitz analysis.

Key Elements in the Present Study Data

Availability

Data provided by the SBA originated from the System for Award Management (SAM) for registered companies containing firm-level information such as size, employment, location, dates of operation, industry, and Dunn and Bradstreet data universal numbering system (DUNS) numbers. SBA also provided two datasets from the FPDS for contract awards: one each for small businesses and for non-small businesses. Both the small and non-small business files contain information about business type, organizational type, ownership, dollars awarded, SDB status, and DUNS numbers. The data for registrants and awards were extracted for firms registered in SAM, or that had recorded transactions, from April 2019 to August 2020.

From the original raw datasets, this study compiled a list of relevant variables from both SAM registrants’ data (7,466,447 observations and 42 variables) and FPDS awards (5,104,224 observations and 55 variables).



SAM registrant data contains reported six-digit North American Industry Classification System (NAICS)⁶ codes and DUNS numbers. Size standards were based on the parent company's six-digit NAICS code as reported in the SAM database. Each company was designated as "small" in each industry if it was small in any of its corresponding six-digit NAICS codes.⁷ Firms were designated "not small" if they were not flagged as small in their six-digit NAICS codes. As in the Rubinovitz study, industry-level comparisons were at the three-digit NAICS level.⁸ Unique observations for SAM registrants were identified by DUNS number and collapsed by three-digit NAICS code. A given DUNS number may have more than one NAICS code, indicating a firm may register in SAM to compete in one or more industries. Merging and removal of redundant and extraneous observations by DUNS number resulted in a combined file of 5,659,740 registration observations and 64 variables.

Bloomberg Government data, utilized in the Rubinovitz study, were not needed here because the FPDS datasets provided by SBA included the necessary obligations amounts, contract details, three-digit NAICS codes, and business characteristics. For Official Use Only (FOUO) and Freedom of Information Act (FOIA) data were not needed because SBA datasets have the necessary 8(a) and HUBZone (also by DUNS number) identifiers to indicate participating firms in these programs. A separate list of excluded firms was also not necessary because firms excluded from doing business with the federal government were flagged in the SAM dataset and dropped from the analysis.

As in the prior method used by Rubinovitz, this study accounted for firms' expiration and renewal dates for registration in SAM. Unlike the previous study, which covered a single fiscal year, here the expirations/renewals spanned portions of two fiscal years, FY2019 and FY2020, which included firms that were registered in SAM between April 2019 and August 2020. The maximum value of continuous variables was chosen if a firm belonged to a particular group in either year.

Several NAICS industry groups were excluded from the Rubinovitz study because of incomplete data, irrelevance, or because data issues in a given NAICS code prevented the regression model from producing reliable estimates. Among those, three industries were not included in this study for the reasons explained in Table 3: 521 (Monetary Authorities-Central Bank), 814 (Private Households), and 921-928 (Public Administration). The balance of industry groups that were excluded from the prior study were eligible for inclusion in this update because they had one or more non-8(a) SDB firm(s) winning a contract (see Table 3 for these re-included industries).

Table 4 summarizes the owner characteristics of the 32,038 recorded SDBs used in this study. About 88% of SDB owners are self-identified as minority, with roughly equal percentages as non-minority female and non-minority male.

⁶ NAICS is a numbering system developed for use by statistical agencies for the collection, analysis, and publication of statistical data related to the U.S. economy. NAICS codes classify business establishments by type of economic activity, process, or production. A NAICS code indicates aggregation levels by the number of digits (2 digit Sector, 3 digit Subsector, 4 digit Industry Group, 5 digit Industry, and 6 digit National Industry).

⁷ Size standards vary by industry and are generally based on the number of employees or the amount of annual receipts the business has. See <https://www.sba.gov/federal-contracting/contracting-guide/size-standards>.

⁸ As noted in the Rubinovitz Report, as more digits are added to the code, the industry classifications become more narrowly defined and data become sparser. Using three-digit NAICS codes provides a compromise between having sufficient data in each industry grouping with the recognition that firms can switch production within the broader three-digit category. See Rubinovitz Report at 4.



Table 1
Pooled Regression Results

	Odds Ratios
SDB not 8(a)	0.632*** (0.0100)
8(a)	2.606*** (0.1013)
woman-owned	0.899*** (0.0147)
minority-owned	0.858*** (0.0163)
Hubzone	1.746*** (0.0662)
service-disabled veteran	1.215*** (0.0320)
other veteran	0.902*** (0.0242)
log age	1.167*** (0.0085)
log employment	1.037*** (0.0045)
log receipts	1.055*** (0.0028)
sole proprietor (omitted: "other" orgs)	1.030 (0.0318)
Partnership	0.753*** (0.0237)
corporate not tax-exempt	0.820*** (0.0217)
corporate tax-exempt	0.530*** (0.1166)
government non-classified	1.630*** (0.0310)
government confidential	1.993*** (0.1011)
government secret	1.841*** (0.0590)
government top secret	2.186*** (0.0591)
Constant	0.00229*** (0.0001)
No. Observations	504,819

Standard errors in parentheses: (***) $p < 0.01$, (**) $p < 0.05$, (*) $p < 0.1$



Regressions

As noted in the Rubinovitz study, because some degree of error exists in regression models, it is necessary to measure the degree of uncertainty between the dependent and independent variables and whether their relationships are statistically significant or not. In the logit regression, which analyzes probabilities rather than continuous values, a statistically significant estimate is one in which the odds ratio is different from the value 1.0.⁹ At 1.0, the odds ratio for winning is essentially equal between, for example, a non-8(a) SDB and an 8(a) SDB. An estimate that is not statistically significant indicates the odds ratio cannot be distinguished as being different from the odds of winning a contract with another variable.

Regression analysis using the logit model, plus a variant procedure applied in the previous study called firthlogit, produced odds ratios in similar manner as the original study when using the more recent data. Firthlogit is a variant of the logit model that mitigates problematic situations in which an independent variable is perfectly associated with only one outcome value of the dependent variable.¹⁰ Firthlogit adjusts for possible estimation biases for industries that have a very low contract win rate and in cases where winning or not winning a contract is perfectly or nearly perfectly equal to a linear function of one of the control variables (for example, in industries where no women-owned businesses won any contracts). The firthlogit method minimizes the generation of the extremely large standard errors or highly inflated coefficients that might occur from these perfectly associated relationships during logistic regression estimation.

Pseudo R-squared results are not reported because the firthlogit procedure used in this updated study does not produce them.¹¹ Pseudo R-squared methodologies vary widely for different purposes. The Pseudo R-squared is one class of R-squared statistics which are measures of the proportion of variance for a dependent variable that is explained by the independent variable(s) in a regression. R-squared values do not measure model adequacy and higher or lower values alone do not fully measure the fit of the model and data. The presence or lack of a Pseudo R-squared or an R-squared does not alter the accuracy or validity of regression results.

One reason that industry regressions might change categories from the Rubinovitz study relates to sample size. The number of observations¹² is a key factor in the size of a standard error, which is used in determining if an estimate is considered to be sufficiently precise to be considered statistically significant.¹³ With the large number of observations in this study, the data very likely reflects the odds of winning.

⁹ The statistical significance of odds ratios is determined by calculating their p-values. A p-value is a test for whether a coefficient is equal to zero or not equal to zero. A low p-value (less than or equal to 0.5) indicates the coefficient is not equal to zero and so a statistically significant relationship exists between the response and predictor variable(s). A high p-value (greater than 0.5) indicates changes in the predictor(s) are not associated with changes in the response variable and are not statistically significant.

¹⁰ See Firth, D. 1993, "Bias reduction of maximum likelihood estimates," *Biometrika* 80:27-38; Heinze, G. and Schemper, M. 2002, "A solution to the problem of separation in logistic regression," *Statistics in Medicine* 21:2409-19. This analysis also used the firthlogit Stata module written by Joseph Coveney to make these estimates. (<http://econpapers.repec.org/software/bocbocode/s456948.htm>).

¹¹ R-squared is an equation that measures the proportion of the total percentage of variance attributed to all the independent variables. An R2 value is between 0 (the regression model does not explain any variation in the dependent variable) and 1 (the regression model explains all the variation in the dependent variable).

¹² The Rubinovitz study had a total of 765,163 industry observations compared to the current study of 1,171,497 industry observations.

¹³ Statistical significance occurs when the point estimate of the odds ratio, plus or minus the standard errors, are sufficiently far from one. The formula for computing standard errors is inversely proportional to the square root of the number of observations, which means that there is a direct inverse relationship between a larger number of observations and smaller standard errors. Also note that the closer the point estimate of the odds ratio is to one, the smaller the standard errors need to be for the range defined by the point estimate and standard errors to not include one.



One way to see this relationship is to split the industry regression into groups by the number of observations in that industry regression. In Table 5, there are 31 three-digit NAICS code industries with at least 9,000 observations (and up to 177,411 observations). In 27 of these 31 industries with a larger sample size, the estimate for the odds ratios of SDBs is statistically significant (the estimates range between 0.326 and 0.803 and have p-values between 0 and 0.019). Among the industry regressions with smaller sample sizes, there are 17 three-digit NAICS code industries with fewer than 2,000 observations, and in only one of these is the odds ratio on the SDB variable statistically significant (p-value of 0.011, and the estimate of the odds ratio is less than 0.5).

Table 2
Summary Results from Industry Regressions: Difference in Odds of Non-8(a) SDB's*
Winning Contracts

	Contracts		Awards		Industries	
Lower odds statistically significant	278,492	93.6%	\$47,513,256,560	91.6%	45	50.6%
Lower odds not statistically significant	17,790	6.0%	\$4,250,817,536	8.2%	35	39.3%
Higher odds statistically significant	0	0.0%	\$0	0.0%	0	0.0%
Higher odds not statistically significant	1,253	0.4%	\$112,927,496	0.2%	9	10.1%
Totals	297,535	100.0%	\$51,877,001,592	100.0%	89	100.0%

*SDBs are counted once for each industry in which they are registered or won contracts. Percents may not sum to 100% due to rounding.
Data Sources: SAM.gov Entity Registration Records, Federal Procurement Data System

Table 2a
Summary Results from Industry Regressions: Difference in Odds of Minority-Owned Businesses* Winning Contracts

	Contracts		Awards		Industries	
Lower odds statistically significant	50,249	16.9%	\$18,453,358,912	35.6%	21	23.6%
Lower odds not statistically significant	103,510	34.8%	\$19,657,230,336	37.9%	39	43.8%
Higher odds statistically significant	21,195	7.1%	\$8,289,815,552	16.0%	1	1.1%
Higher odds not statistically significant	122,581	41.2%	\$5,476,597,760	10.6%	28	31.5%
Totals	297,535	100.0%	\$51,877,002,560	100.0%	89	100.0%

*Minority Owned Businesses are counted once for each industry in which they are registered or won contracts. Percents may not sum to 100% due to rounding.
Data Sources: SAM.gov Entity Registration Records, Federal Procurement Data System



Table 3
Three-digit NAICS Codes Not Included In Analysis:*

<u>Code</u>	<u>Description</u>	<u>Reason Dropped</u>
521	Monetary Authorities-Central Bank	This industry only consists of one entity—the Federal Reserve System
814	Private Households	No SBA small business definition
921-928	Public Administration	No SBA small business definition

* The re-included industries in this study are: 221 Utilities, 482 Rail Transportation, 486 Pipeline Transportation, 487 Scenic Sightseeing Transportation, 491 Postal Service, 522 Credit Intermediation, 525 Funds, Trusts, and Other Financial Vehicles, 533 Lessors of Nonfinancial Intangible Assets, and 551 Management of Companies and Enterprises.

Table 4
Owner Characteristics Among All Small Disadvantaged Businesses

	<u>Number of SDBs</u>	<u>Percent of SDBs</u>
Grand Total	32,038	100.0%
Total Minority*	28,325	88.4%
Black	7,573	23.6%
Hispanic	3,138	9.8%
Asian Pacific	8,623	26.9%
American Indian or Alaska Native	4,490	14.0%
Asian Subcontinent	3,135	9.8%
Not classified	1,366	4.3%
Non-Minority Female-Owned	1,877	5.9%
Non-Minority Male-Owned	1,836	5.7%
Non-Minority Male-Owned in Other Special Categories**	404	1.3%
Non-Minority Male-Owned not in Other Special Categories	1,432	4.5%

*Minority categories may overlap.

**Firms in Other Special Categories are those located in HUBZones, Service Disabled Veteran-Owned, or Other Veteran-Owned

Data Sources: SAM.gov Entity Registration Records, Federal Procurement Data System



Table 5: Industry Specific Regression Results

	111	112	113	114	115	211	212	213	221	236	237
SDB not8(a)	0.933 (0.835)	0.601 (0.257)	0.637 (0.311)	0.648 (0.459)	0.690*** (0.000)	0.778 (0.832)	0.936 (0.811)	0.180*** (0.000)	0.506*** (0.000)	0.740*** (0.002)	0.781*** (0.006)
8(a)	5.515 (0.116)	1.907 (0.705)	2.325 (0.236)	0.405 (0.630)	0.636 (0.144)	583.2** (0.056)	1.959 (0.280)	0.225* (0.096)	0.468** (0.008)	5.340*** (0.000)	3.748*** (0.000)
woman-owned	0.472 (0.117)	1.255 (0.619)	0.748 (0.580)	0.731 (0.619)	0.748*** (0.004)	2.956 (0.208)	0.867 (0.661)	2.299*** (0.002)	0.945 (0.760)	1.233** (0.015)	0.878 (0.174)
minority-owned	0.379* (0.100)	0.733 (0.610)	2.227 (0.115)	1.100 (0.894)	0.696*** (0.005)	0.712 (0.848)	0.680 (0.283)	1.730** (0.095)	0.926 (0.704)	0.868 (0.134)	0.494*** (0.000)
hubzone	1.432 (0.721)	1.085 (0.396)	0.771 (0.716)	8.519* (0.033)	1.766*** (0.000)	3.125 (0.497)	1.507 (0.271)	0.908 (0.871)	1.253 (0.459)	2.076*** (0.000)	2.887*** (0.000)
service-disabled veteran	0.916 (0.898)	0.760 (0.729)	1.014 (0.987)	1.106 (0.908)	0.646** (0.021)	1.637 (0.793)	0.794 (0.651)	0.904 (0.862)	1.154 (0.538)	2.986*** (0.000)	1.381*** (0.005)
other veteran	0.141 (0.171)	0.199 (0.258)	0.290 (0.358)	0.363 (0.517)	0.670** (0.022)	3.136 (0.499)	0.397 (0.268)	0.850 (0.748)	0.748 (0.394)	1.174 (0.342)	0.846 (0.747)
log age	1.513** (0.017)	0.990 (0.961)	1.698** (0.027)	0.672 (0.177)	1.371*** (0.000)	2.658 (0.118)	1.209 (0.209)	1.258 (0.133)	1.008 (0.915)	1.240*** (0.000)	1.171*** (0.001)
log employment	0.852* (0.055)	1.200* (0.064)	1.279* (0.076)	1.086 (0.754)	0.896*** (0.000)	0.506 (0.102)	0.812* (0.061)	1.063 (0.535)	0.727*** (0.000)	0.919*** (0.007)	0.893*** (0.000)
log receipts	1.079 (0.204)	0.976 (0.647)	0.913* (0.054)	1.774*** (0.006)	1.032** (0.028)	1.320 (0.256)	1.073 (0.229)	1.099 (0.153)	1.203*** (0.000)	1.176*** (0.000)	1.045*** (0.008)
sole proprietorship	0.998 (0.998)	0.950 (0.946)	1.177 (0.828)	5.729 (0.270)	1.085 (0.595)	0.038 (0.104)	0.688 (0.406)	0.905 (0.865)	0.836 (0.592)	0.589*** (0.003)	0.705** (0.048)
partnership	0.538 (0.332)	0.884 (0.867)	1.106 (0.900)	0.570 (0.789)	0.817 (0.240)	0.0330* (0.067)	0.531 (0.235)	0.465 (0.134)	0.724 (0.286)	0.536*** (0.000)	0.552*** (0.000)
corporate not tax-exempt	0.703 (0.540)	0.684 (0.577)	0.965 (0.958)	5.073 (0.278)	0.914 (0.540)	0.0228** (0.027)	0.600 (0.207)	0.545 (0.120)	0.755 (0.262)	0.646*** (0.000)	0.664*** (0.002)
corporate tax-exempt	5.318 (0.307)	13.130 (0.154)	6.983 (0.275)	44.38* (0.094)	0.035 (0.760)	0.000 (0.000)	2.071 (0.646)	2.008 (0.370)	0.0450** (0.041)	0.0940* (0.090)	0.0940* (0.099)
government non-classified (omitted: no security recored)	1.233 (0.754)	1.135 (0.879)	0.945 (0.935)	7.435*** (0.001)	0.969 (0.840)	2.165 (0.496)	0.784 (0.592)	2.558*** (0.001)	1.016 (0.940)	1.579*** (0.000)	1.132 (0.247)
government confidential	5.079 (0.277)	2.740 (0.492)	2.579 (0.537)	8.195** (0.021)	0.997 (0.996)	140.100 (0.153)	1.681 (0.545)	2.420 (0.204)	3.219*** (0.001)	2.269*** (0.000)	0.860 (0.671)
government secret	0.391 (0.525)	5.725* (0.082)	0.454 (0.556)	3.214 (0.296)	0.202* (0.054)	0.446 (0.723)	0.898 (0.941)	0.278 (0.373)	0.869 (0.773)	1.971*** (0.002)	1.094 (0.652)
government top secret	1.249 (0.810)	6.591* (0.064)	0.455 (0.599)	8.526 (0.299)	0.993 (0.989)	0.819 (0.902)	4.048 (0.131)	1.824 (0.334)	1.585 (0.120)	1.241 (0.190)	0.505** (0.032)
Constant	0.000627*** (0.00000)	0.0150*** (0.00019)	0.000328*** (0.00000)	3.97e-08*** (0.00000)	0.0187*** (0.00000)	0.03520 (0.22100)	0.0130*** (0.00011)	0.000151*** (0.00000)	0.00361*** (0.00000)	0.000182*** (0.00000)	0.00284*** (0.00000)
Observations	3,771	2,444	2,894	734	8,969	198	3,384	4,296	13,160	41,199	35,596



Table 5: Industry Specific Regression Results

	238	311	312	313	314	315	316	321	322	323	324
SDB not 8(a)	0.704*** (0.000)	0.819 (0.185)	0.474 (0.208)	0.564** (0.012)	0.575*** (0.000)	0.543*** (0.000)	0.899 (0.779)	0.695 (0.118)	0.782 (0.220)	0.419*** (0.001)	0.753 (0.192)
8(a)	3.927*** (0.000)	0.269 (0.370)	7.552* (0.087)	0.301 (0.189)	0.662 (0.244)	0.548 (0.198)	3.006 (0.227)	0.678 (0.584)	0.415 (0.309)	0.386 (0.294)	0.429 (0.123)
woman-owned	1.054*** (0.843)	0.554*** (0.001)	2.055 (0.185)	1.121 (0.579)	0.996 (0.977)	0.851 (0.305)	0.840 (0.632)	1.090 (0.710)	1.110 (0.578)	0.743 (0.196)	0.868 (0.528)
minority-owned	0.680*** (0.000)	0.651** (0.020)	0.323* (0.085)	0.835 (0.485)	0.987 (0.938)	0.861 (0.428)	0.547 (0.233)	0.525** (0.045)	0.677* (0.090)	1.082 (0.711)	1.110 (0.657)
hubzone	1.866*** (0.000)	2.773*** (0.002)	11.64*** (0.001)	2.365*** (0.000)	1.071 (0.776)	2.086*** (0.004)	0.988 (0.984)	0.837 (0.695)	1.644 (0.110)	1.380 (0.570)	0.799 (0.581)
service-disabled veteran	1.982*** (0.000)	0.713 (0.271)	0.813 (0.786)	0.566 (0.132)	1.341 (0.122)	1.099 (0.669)	0.586 (0.374)	1.438 (0.240)	1.002 (0.994)	0.716 (0.440)	0.562* (0.089)
other veteran	1.042 (0.673)	0.265*** (0.006)	1.020 (0.983)	0.749 (0.497)	0.724 (0.214)	0.658 (0.172)	0.467 (0.254)	0.974 (0.947)	1.008 (0.982)	0.436 (0.134)	0.210*** (0.016)
log age	1.097*** (0.001)	0.899* (0.097)	1.196 (0.467)	1.146 (0.174)	1.001 (0.994)	1.168** (0.038)	0.988 (0.943)	1.020 (0.866)	1.003 (0.977)	1.096 (0.450)	1.052 (0.594)
log employment	1.030 (0.109)	0.826*** (0.000)	0.692** (0.013)	0.8310*** (0.005)	0.975 (0.609)	0.845*** (0.002)	1.348*** (0.004)	0.677*** (0.000)	0.613*** (0.003)	0.778*** (0.007)	0.904* (0.098)
log receipts	1.064*** (0.000)	1.157*** (0.000)	0.934 (0.222)	1.159*** (0.004)	1.182*** (0.000)	1.195*** (0.000)	1.026 (0.670)	1.282*** (0.000)	1.168*** (0.000)	1.263*** (0.002)	1.080*** (0.015)
sole proprietorship	0.748** (0.016)	0.422** (0.014)	0.402 (0.260)	0.568 (0.275)	0.734 (0.344)	0.421** (0.020)	0.454 (0.267)	0.747 (0.514)	0.399** (0.023)	0.316** (0.011)	1.488 (0.342)
(omitted: "other" orgs)	0.823* (0.080)	0.702 (0.155)	0.257* (0.092)	0.565 (0.203)	0.574* (0.064)	0.569* (0.064)	0.361* (0.089)	0.403* (0.056)	0.404*** (0.012)	0.329*** (0.006)	1.044 (0.903)
partnership	0.841* (0.061)	0.280* (0.068)	0.741 (0.056)	0.852 (0.056)	0.860** (0.043)	0.345** (0.021)	0.718 (0.325)	0.386*** (0.001)	0.252*** (0.000)	0.734 (0.000)	0.312 (0.312)
corporate not tax-exempt	0.166** (0.031)	0.283 (0.459)	0.783 (0.889)	3.435 (0.471)	0.486 (0.640)	0.711 (0.825)	0.000 (0.000)	2.609 (0.536)	0.282 (0.461)	1.021 (0.990)	0.484 (0.629)
corporate tax-exempt	1.666*** (0.000)	1.235 (0.389)	2.256 (0.257)	1.471 (0.114)	1.905*** (0.000)	1.510** (0.022)	1.313 (0.539)	1.644* (0.061)	1.849*** (0.003)	2.210*** (0.002)	1.294 (0.331)
government non-classified (omitted: no security reported)	1.732*** (0.001)	0.294 (0.400)	3.880 (0.373)	4.430*** (0.005)	1.166 (0.765)	1.071 (0.921)	3.543 (0.198)	1.130 (0.885)	0.584 (0.527)	1.947 (0.430)	2.254 (0.177)
government confidential	1.444*** (0.004)	0.260 (0.351)	14.38*** (0.012)	1.190 (0.776)	1.212 (0.549)	0.651 (0.326)	1.601 (0.509)	2.179 (0.175)	2.624* (0.057)	2.395 (0.140)	1.672 (0.877)
government top secret	0.967 (0.810)	1.123 (0.900)	1.218 (0.905)	6.156** (0.017)	2.347*** (0.047)	0.0733* (0.067)	1.873 (0.525)	1.353 (0.722)	1.818 (0.348)	1.064 (0.917)	0.875 (0.818)
Constant	0.00153*** (0.00000)	0.0308*** (0.00000)	3.09700 (0.62300)	0.0225*** (0.00001)	0.00773*** (0.00000)	0.00739*** (0.00000)	0.00142*** (0.00000)	0.00378*** (0.00000)	0.0155*** (0.00000)	0.00558*** (0.00000)	0.0235*** (0.00000)
Observations	82,747	4,725	1,503	1,897	4,404	4,171	1,513	4,549	2,949	5,527	2,728



Table 5: Industry Specific Regression Results

	325	327	331	332	333	334	335	336	337	339	423
SDB not 8(a)	0.571*** (0.000)	0.488*** (0.000)	0.583*** (0.000)	0.464*** (0.000)	0.568*** (0.000)	0.594*** (0.000)	0.496*** (0.000)	0.564*** (0.000)	0.616*** (0.000)	0.609*** (0.000)	0.634*** (0.000)
8(a)	0.650 (0.156)	0.337*** (0.045)	0.373*** (0.051)	0.419*** (0.000)	0.531*** (0.001)	0.636*** (0.001)	0.362*** (0.000)	0.468*** (0.001)	1.054 (0.839)	0.647*** (0.037)	0.878 (0.572)
woman-owned	0.935 (0.523)	1.080 (0.666)	1.296* (0.065)	1.107** (0.092)	1.037 (0.559)	0.972 (0.604)	1.091 (0.271)	1.064 (0.363)	1.094 (0.447)	0.859*** (0.017)	1.110 (0.234)
minority-owned	0.888 (0.310)	1.045 (0.832)	1.296 (0.113)	1.078 (0.309)	1.094 (0.227)	0.908 (0.110)	1.110 (0.253)	1.200** (0.023)	0.863 (0.312)	0.962 (0.602)	0.949 (0.613)
hubzone	1.054 (0.811)	0.636 (0.228)	1.423 (0.144)	1.241* (0.074)	1.257* (0.079)	1.301** (0.020)	1.286* (0.097)	1.334** (0.034)	1.219 (0.369)	1.020 (0.894)	1.829*** (0.000)
service-disabled veteran	1.112 (0.435)	1.059 (0.814)	0.840 (0.448)	1.097 (0.314)	1.046 (0.630)	0.921 (0.305)	0.876 (0.260)	0.883 (0.245)	1.298* (0.098)	1.287*** (0.003)	1.011 (0.937)
other veteran	0.889 (0.517)	0.951 (0.873)	0.674 (0.133)	1.007 (0.936)	1.046 (0.621)	0.842** (0.038)	0.776* (0.058)	0.957 (0.664)	0.768 (0.267)	0.968 (0.747)	0.722* (0.050)
log age	0.762*** (0.000)	0.874 (0.103)	1.021 (0.750)	0.912*** (0.000)	0.941** (0.022)	1.198*** (0.000)	1.040 (0.282)	1.147*** (0.000)	0.971 (0.653)	0.929*** (0.006)	0.938 (0.112)
log employment	0.772*** (0.000)	0.797*** (0.001)	0.814*** (0.000)	0.903*** (0.000)	0.884*** (0.000)	0.917*** (0.000)	0.909*** (0.000)	0.853*** (0.000)	0.767*** (0.000)	0.960** (0.046)	0.841*** (0.000)
log receipts	1.224*** (0.000)	1.216*** (0.000)	1.142*** (0.000)	1.082*** (0.000)	1.124*** (0.000)	1.109*** (0.000)	1.081*** (0.000)	1.084*** (0.000)	1.286*** (0.000)	1.119*** (0.000)	1.174*** (0.000)
sole proprietorship (omitted: "other" orgs)	0.580** (0.014)	1.245 (0.528)	0.592* (0.098)	0.797* (0.074)	0.682*** (0.004)	0.658*** (0.000)	0.825 (0.278)	0.790* (0.095)	0.748 (0.300)	0.679*** (0.005)	0.541*** (0.004)
partnership	0.467*** (0.000)	0.601 (0.136)	0.617* (0.081)	0.717*** (0.004)	0.748** (0.011)	0.642*** (0.000)	0.664** (0.016)	0.709*** (0.006)	0.929 (0.756)	0.686*** (0.002)	0.757 (0.102)
corporate not tax-exempt	0.592*** (0.001)	0.762 (0.282)	0.648** (0.043)	0.785*** (0.009)	0.755*** (0.002)	0.717*** (0.000)	0.828 (0.119)	0.733*** (0.002)	0.785 (0.222)	0.750*** (0.004)	0.747*** (0.037)
corporate tax-exempt	0.339 (0.466)	0.906 (0.355)	0.938 (0.349)	0.126 (0.148)	1.034 (0.954)	0.393 (0.158)	0.764 (0.758)	0.119 (0.137)	0.541 (0.491)	0.411 (0.300)	0.195 (0.255)
government non-classified (omitted: no security reported)	1.423*** (0.002)	2.431*** (0.000)	1.920*** (0.000)	1.808*** (0.000)	1.372*** (0.000)	1.243*** (0.000)	1.518*** (0.000)	1.263*** (0.000)	1.429*** (0.012)	1.380*** (0.000)	1.719*** (0.000)
government confidential	2.675*** (0.000)	1.877 (0.218)	1.582 (0.211)	1.686*** (0.000)	1.391*** (0.040)	1.275* (0.083)	2.148*** (0.000)	1.330* (0.071)	0.772 (0.601)	1.560** (0.029)	2.245*** (0.003)
government secret	2.190*** (0.000)	2.990*** (0.008)	1.718 (0.116)	2.224*** (0.000)	1.721*** (0.003)	1.239*** (0.000)	1.986*** (0.000)	1.073 (0.461)	1.054 (0.872)	1.651*** (0.000)	1.717*** (0.009)
government top secret	0.920 (0.792)	4.778*** (0.002)	2.186* (0.090)	1.201 (0.172)	1.064 (0.641)	0.767*** (0.000)	1.304** (0.042)	0.702*** (0.001)	0.924 (0.813)	0.971 (0.866)	3.080*** (0.000)
Constant	0.00871*** (0.000000)	0.00148*** (0.000000)	0.0129*** (0.000000)	0.0214*** (0.000000)	0.0134*** (0.000000)	0.0107*** (0.000000)	0.0219*** (0.000000)	0.0306*** (0.000000)	0.00682*** (0.000000)	0.0106*** (0.000000)	0.00205*** (0.000000)
Observations	14,579	4,653	3,820	31,295	27,081	33,320	14,334	18,763	6,527	23,588	58,281



Table 5: Industry Specific Regression Results

	424	425	441	442	443	444	445	446	447	448	451
SDB not 8(a)	0.716* (0.098)	0.611 (0.274)	0.520** (0.037)	1.039 (0.927)	1.015 (0.975)	0.326*** (0.000)	1.658 (0.843)	0.635 (0.305)	0.980 (0.991)	0.319* (0.075)	0.589 (0.424)
8(a)	1.722 (0.281)	9.444** (0.082)	0.695 (0.700)	0.634 (0.765)	1.568 (0.614)	0.112** (0.015)	321.400 (0.142)	0.269 (0.391)	10.630 (0.311)	0.461 (0.684)	1.072 (0.966)
woman-owned	1.007 (0.969)	0.518 (0.172)	1.084 (0.806)	0.706 (0.417)	1.014 (0.972)	0.681* (0.054)	0.640 (0.838)	0.906 (0.819)	2.500 (0.636)	1.128 (0.846)	1.416 (0.539)
minority-owned	0.724 (0.174)	0.169** (0.020)	1.289 (0.488)	0.833 (0.697)	1.760 (0.254)	1.108 (0.665)	0.803 (0.944)	0.848 (0.733)	0.982 (0.994)	0.147** (0.043)	1.449 (0.624)
hubzone	1.207 (0.657)	0.501 (0.643)	3.865** (0.014)	1.319 (0.758)	2.208 (0.270)	0.956 (0.912)	15.650 (0.347)	3.828* (0.060)	11.140 (0.294)	7.417** (0.042)	0.795 (0.883)
service-disabled veteran	0.756 (0.413)	0.665 (0.556)	1.137 (0.786)	1.468 (0.475)	0.550 (0.408)	0.315*** (0.001)	5.290 (0.522)	1.402 (0.523)	2.749 (0.613)	1.251 (0.776)	2.374 (0.259)
other veteran	0.824 (0.590)	1.840 (0.243)	1.260 (0.583)	2.115 (0.187)	0.176 (0.221)	0.903 (0.752)	6.243 (0.352)	0.642 (0.602)	2.345 (0.732)	0.161 (0.294)	1.188 (0.844)
log age	0.956 (0.622)	0.891 (0.545)	0.868 (0.266)	0.799 (0.270)	1.658** (0.048)	0.729*** (0.000)	1.084 (0.894)	0.689** (0.020)	0.745 (0.707)	0.562** (0.022)	1.792* (0.084)
log employment	0.866** (0.049)	1.551*** (0.000)	0.924 (0.402)	0.799 (0.128)	0.826 (0.160)	0.678*** (0.000)	1.820* (0.058)	1.198 (0.135)	1.639 (0.335)	0.569*** (0.002)	0.761 (0.249)
log receipts	1.218*** (0.000)	0.972 (0.586)	1.047 (0.344)	1.043 (0.538)	1.000 (0.995)	1.212*** (0.000)	0.910 (0.549)	1.105 (0.168)	0.847 (0.252)	1.053 (0.535)	1.429** (0.021)
sole proprietorship (omitted: "other" orgs)	1.086 (0.843)	0.218 (0.107)	0.284** (0.025)	0.587 (0.514)	0.0388** (0.092)	0.359** (0.017)	0.385 (0.672)	0.390 (0.267)	0.666 (0.857)	0.318 (0.350)	0.225 (0.349)
partnership	0.875 (0.716)	0.169 (0.102)	0.239*** (0.003)	0.693 (0.623)	0.396 (0.169)	0.214*** (0.001)	0.325 (0.494)	0.336 (0.157)	0.303 (0.540)	0.741 (0.779)	0.356 (0.533)
corporate not tax-exempt	0.815 (0.495)	0.267*** (0.007)	0.340*** (0.001)	0.559 (0.359)	0.191*** (0.003)	0.605* (0.063)	0.142 (0.102)	0.573 (0.343)	0.111 (0.135)	0.892 (0.904)	0.593 (0.475)
corporate tax-exempt	1.349 (0.840)	1.876 (0.765)	2.183 (0.706)	2.302 (0.706)	2.550 (0.610)	8.844 (0.157)	4.552 (0.629)	22.30* (0.087)	1.110 (0.973)	4.43*** (0.000)	107.5** (0.034)
government non-classified (omitted: no security reported)	1.985*** (0.004)	0.500 (0.298)	2.003* (0.069)	2.915** (0.019)	3.177*** (0.008)	5.607*** (0.000)	2.777 (0.565)	2.412* (0.069)	2.640 (0.666)	4.171** (0.017)	2.798 (0.112)
government confidential	2.476 (0.164)	1.655 (0.731)	3.203 (0.174)	2.107 (0.609)	4.706* (0.095)	9.160*** (0.000)	24.350 (0.280)	2.933 (0.461)	12.790 (0.369)	28.27** (0.034)	4.181 (0.353)
government secret	2.678* (0.081)	0.500 (0.633)	3.196* (0.058)	2.045 (0.618)	2.161 (0.270)	22.09*** (0.000)	8.058 (0.453)	4.685 (0.105)	13.040 (0.445)	7.341* (0.091)	3.128 (0.466)
government top secret	1.725 (0.401)	0.254 (0.348)	0.576 (0.752)	4.292 (0.168)	0.192** (0.047)	37.69*** (0.000)	12.730 (0.409)	3.410 (0.181)	2.738 (0.734)	14.020 (0.127)	5.654 (0.267)
Constant	0.000178*** (0.00000)	0.00152*** (0.00000)	0.0230*** (0.00011)	0.26100 (0.33300)	0.0678* (0.07430)	0.0129*** (0.00000)	0.00708 (0.20500)	0.000355*** (0.00000)	0.51400 (0.86700)	0.22100 (0.40800)	0.0000957*** (0.00010)
Observations	18,368	3,718	5,720	3,229	2,041	9,013	1,222	4,457	484	2,606	2,382



Table 5: Industry Specific Regression Results

	452	453	454	481	482	483	484	485	486	487	488
SDB not 8(a)	4.309 (0.261)	0.594 (0.116)	2.089 (0.178)	0.974 (0.919)	0.927 (0.963)	0.936 (0.863)	0.654** (0.048)	0.425*** (0.000)	0.374 (0.139)	0.194 (0.179)	0.395*** (0.000)
8(a)	1.510** (0.042)	0.269 (0.371)	2.445 (0.571)	0.852 (0.904)	6.451 (0.543)	2.743 (0.319)	3.045*** (0.001)	1.246 (0.687)	0.619 (0.788)	15.700 (0.436)	0.374*** (0.008)
woman-owned	0.104 (0.221)	1.269 (0.423)	0.797 (0.693)	0.878 (0.668)	1.190 (0.911)	0.669 (0.370)	0.835 (0.383)	0.789 (0.243)	0.847 (0.853)	0.501 (0.444)	1.195 (0.167)
minority-owned	0.164 (0.259)	1.618 (0.151)	0.655 (0.499)	0.218*** (0.003)	1.393 (0.849)	0.445* (0.094)	1.227 (0.375)	0.304*** (0.000)	0.517 (0.387)	0.350 (0.530)	1.124 (0.451)
hubzone	3.794 (0.587)	0.960 (0.963)	4.376 (0.121)	3.028** (0.066)	3.419 (0.595)	0.962 (0.964)	0.441* (0.077)	3.045*** (0.003)	2.275 (0.469)	8.620 (0.217)	1.466 (0.109)
service-disabled veteran	0.206 (0.403)	1.158 (0.750)	0.191 (0.358)	0.526 (0.215)	1.628 (0.779)	0.272 (0.130)	0.967 (0.312)	0.842 (0.511)	1.153 (0.364)	1.185 (0.916)	0.779 (0.249)
other veteran	0.613 (0.830)	1.352 (0.525)	1.041 (0.964)	1.223 (0.498)	2.505 (0.670)	0.104 (0.113)	0.699 (0.349)	0.895 (0.707)	0.388 (0.400)	2.724 (0.327)	0.936 (0.734)
log age	2.367 (0.179)	0.793 (0.128)	1.300 (0.291)	1.692*** (0.000)	1.050 (0.960)	1.160 (0.396)	1.474*** (0.000)	1.299*** (0.003)	1.784** (0.079)	1.294 (0.607)	1.384*** (0.000)
log employment	0.564 (0.228)	0.728*** (0.005)	0.731* (0.069)	1.057 (0.496)	0.929 (0.903)	0.880 (0.224)	0.976 (0.715)	0.997 (0.953)	1.047 (0.757)	1.131 (0.708)	0.939 (0.106)
log receipts	0.992 (0.965)	1.265*** (0.002)	1.097 (0.379)	1.020 (0.674)	0.981 (0.908)	1.034 (0.538)	1.094*** (0.034)	0.973 (0.235)	0.966 (0.612)	0.894 (0.295)	1.189*** (0.000)
sole proprietorship (omitted: "other" orgs)	0.056 (0.104)	0.297*** (0.037)	0.328 (0.278)	0.341** (0.051)	0.819 (0.931)	0.742 (0.585)	0.995 (0.991)	2.638*** (0.004)	0.167* (0.085)	2.175 (0.677)	0.932 (0.784)
partnership	0.0371* (0.065)	0.655 (0.399)	0.349 (0.244)	0.383** (0.048)	1.216 (0.939)	0.315** (0.016)	0.709 (0.383)	0.625 (0.224)	0.0114*** (0.005)	1.873 (0.740)	0.616** (0.047)
corporate not tax-exempt	0.0666** (0.044)	0.395** (0.034)	0.513 (0.288)	0.500** (0.049)	0.433 (0.689)	0.317*** (0.002)	0.754 (0.337)	0.434** (0.010)	0.157*** (0.004)	0.557 (0.711)	0.697** (0.049)
corporate tax-exempt	14.430 (0.443)	2.810 (0.566)	3.066 (0.572)	40.82** (0.039)	0.000 (0.000)	3.301 (0.440)	0.611 (0.744)	3.786 (0.507)	0.000 (0.000)	0.000 (0.000)	0.411 (0.542)
government non-classified (omitted: no security reported)	1.068 (0.368)	2.237** (0.045)	2.074 (0.304)	0.716 (0.372)	3.225 (0.519)	1.200 (0.723)	3.002*** (0.000)	0.726 (0.330)	4.141** (0.010)	1.102 (0.848)	1.828*** (0.000)
government confidential	60.380 (0.140)	3.785 (0.117)	5.466 (0.267)	2.216 (0.256)	8.674 (0.213)	5.336** (0.020)	5.005*** (0.000)	2.746 (0.107)	4.879 (0.347)	21.640 (0.184)	1.524 (0.274)
government secret	39.030 (0.140)	6.614*** (0.000)	6.526* (0.057)	1.284 (0.475)	4.683 (0.418)	3.979*** (0.000)	2.220** (0.036)	0.528 (0.333)	0.917 (0.957)	3.625 (0.447)	0.914 (0.666)
government top secret	4.614 (0.413)	3.321*** (0.040)	5.067 (0.113)	1.234 (0.582)	6.266 (0.447)	2.303 (0.178)	1.308 (0.640)	1.884 (0.193)	1.446 (0.822)	3.490 (0.655)	0.857 (0.451)
Constant	1.85300 (0.84400)	0.0167*** (0.00099)	0.0326* (0.04810)	0.00948*** (0.00000)	0.32300 (0.82000)	0.0246*** (0.00085)	0.000342*** (0.00000)	0.0125*** (0.00000)	0.00161*** (0.00061)	0.06070 (0.38300)	0.000343*** (0.00000)
Observations	424	7,117	3,983	2,927	404	1,987	15,302	4,871	992	901	16,219



Table 5: Industry Specific Regression Results

	491	492	493	511	512	515	517	518	519	522	523
SDB not 8(a)	11.47** (0.086)	0.727 (0.354)	0.495** (0.034)	0.478*** (0.003)	1.045 (0.886)	0.968 (0.931)	0.657** (0.023)	0.537*** (0.006)	0.368*** (0.003)	0.162* (0.074)	0.502 (0.285)
8(a)	52.48** (0.039)	1.336 (0.657)	0.824 (0.725)	0.672 (0.131)	10.92*** (0.001)	1.844 (0.541)	1.111 (0.766)	1.271 (0.489)	1.388 (0.493)	0.291 (0.451)	2.263 (0.635)
woman-owned	0.612 (0.670)	1.061 (0.865)	1.382 (0.260)	0.658*** (0.003)	0.463** (0.025)	0.517 (0.141)	0.833 (0.338)	0.540*** (0.007)	0.710 (0.148)	1.693 (0.500)	0.445 (0.237)
minority-owned	0.101 (0.130)	0.666 (0.258)	1.076 (0.828)	0.078*** (0.001)	0.169*** (0.002)	0.596 (0.295)	0.483*** (0.001)	0.664* (0.076)	0.389*** (0.002)	0.959 (0.961)	0.189* (0.072)
hubzone	3.430 (0.288)	1.074 (0.917)	1.171 (0.754)	1.802*** (0.004)	0.322 (0.426)	0.784 (0.870)	1.841** (0.043)	1.112 (0.783)	0.884 (0.824)	0.656 (0.776)	1.009 (0.993)
service-disabled veteran	0.896 (0.938)	1.744 (0.139)	1.180 (0.658)	0.870 (0.406)	0.114 (0.129)	0.318 (0.181)	0.974 (0.910)	0.601 (0.123)	0.747 (0.429)	2.009 (0.475)	0.438 (0.359)
other veteran	0.871 (0.940)	1.609 (0.359)	1.084 (0.872)	0.961 (0.817)	1.324 (0.578)	0.441 (0.337)	0.795 (0.462)	0.998 (0.995)	0.897 (0.793)	1.571 (0.760)	0.748 (0.757)
log age	2.465 (0.262)	1.637** (0.012)	1.219 (0.196)	1.554*** (0.003)	1.304 (0.116)	0.738** (0.031)	1.083 (0.269)	1.302*** (0.009)	1.400*** (0.001)	0.721 (0.207)	1.937*** (0.001)
log employment	1.507*** (0.008)	1.153 (0.172)	0.916 (0.318)	0.070*** (0.003)	1.162* (0.092)	1.103* (0.084)	1.070 (0.145)	0.896 (0.104)	0.936 (0.252)	1.135 (0.295)	0.842* (0.064)
log receipts	0.984 (0.927)	1.082 (0.233)	1.122* (0.085)	1.124*** (0.003)	0.988 (0.808)	0.995 (0.902)	1.093*** (0.005)	1.270*** (0.003)	1.080* (0.074)	0.961 (0.583)	0.986 (0.837)
sole proprietorship	0.175 (0.373)	0.330 (0.127)	0.777 (0.503)	0.735* (0.001)	0.664 (0.653)	0.344*** (0.035)	1.181 (0.193)	0.614 (0.420)	0.644 (0.349)	0.219 (0.172)	0.546 (0.249)
partnership	0.566 (0.675)	0.696 (0.521)	0.777 (0.547)	0.735* (0.091)	0.664 (0.491)	0.344*** (0.047)	1.181 (0.350)	0.614 (0.199)	0.644 (0.240)	0.219 (0.122)	0.546 (0.330)
corporate not tax-exempt	0.225 (0.242)	0.397** (0.041)	0.391*** (0.007)	0.806 (0.154)	0.677 (0.429)	0.551 (0.123)	0.891 (0.622)	1.013 (0.804)	0.304* (0.966)	0.534 (0.060)	0.546 (0.264)
corporate tax-exempt	1.883 (0.787)	3.841 (0.479)	0.861 (0.920)	0.243 (0.327)	23.46* (0.059)	1.416 (0.838)	0.417 (0.548)	0.745 (0.840)	1.855 (0.679)	10.030 (0.310)	235.9*** (0.004)
government non-classified (omitted: no security reported)	4.707 (0.180)	0.754 (0.526)	1.600 (0.164)	1.109 (0.292)	2.220*** (0.009)	0.246** (0.033)	0.888 (0.526)	0.939 (0.765)	0.928 (0.731)	2.093 (0.304)	0.228 (0.282)
government confidential	18.31** (0.044)	1.407 (0.694)	0.561 (0.686)	0.747 (0.418)	0.584 (0.708)	0.556 (0.683)	0.416 (0.291)	0.862 (0.787)	0.737 (0.641)	5.130* (0.072)	0.707 (0.815)
government secret	2.186 (0.534)	0.945 (0.755)	2.001* (0.060)	1.133 (0.393)	0.736 (0.719)	0.849 (0.818)	1.112 (0.648)	0.576 (0.127)	0.599*** (0.007)	5.051* (0.087)	4.533** (0.023)
government top secret	0.634 (0.774)	0.676 (0.435)	1.446 (0.348)	0.769** (0.012)	0.161*** (0.009)	0.524 (0.139)	0.597*** (0.003)	0.689** (0.038)	0.268*** (0.003)	1.055 (0.953)	3.547*** (0.008)
Constant	6.17e-05** (0.03260)	0.00130*** (0.00000)	0.00089*** (0.00000)	0.00441*** (0.00000)	0.00654*** (0.00000)	0.0774*** (0.00617)	0.00231*** (0.00000)	0.000194*** (0.00000)	0.00471*** (0.00000)	0.00731** (0.01530)	0.0333*** (0.00096)
Observations	743	2,757	7,333	17,744	6,422	1,680	10,367	17,106	11,795	2,056	2,207



Table 5: Industry Specific Regression Results

	534	525	531	532	533	541	551	561	562	611	621
SDB not 8(a)	0.234** (0.020)	1.218 (0.878)	1.036 (0.793)	0.549*** (0.000)	0.898 (0.947)	0.563*** (0.000)	0.398 (0.633)	0.646*** (0.000)	0.621*** (0.000)	0.472*** (0.000)	0.576*** (0.000)
8(a)	1.121 (0.898)	10.280 (0.307)	3.442*** (0.000)	0.831 (0.579)	3.317 (0.753)	2.183*** (0.000)	4.553 (0.467)	2.705*** (0.000)	1.465** (0.023)	2.032*** (0.000)	2.229*** (0.001)
woman-owned	0.307* (0.087)	0.544 (0.696)	0.666** (0.017)	0.876 (0.380)	1.253 (0.894)	0.858*** (0.000)	1.716 (0.742)	0.874*** (0.004)	1.072 (0.458)	0.971 (0.741)	0.771** (0.029)
minority-owned	1.762 (0.338)	0.245 (0.379)	0.344*** (0.000)	1.228 (0.214)	1.226 (0.899)	0.837*** (0.000)	1.174 (0.914)	0.565*** (0.000)	0.646*** (0.000)	0.422*** (0.000)	0.862 (0.279)
hubzone	0.534 (0.672)	5.917 (0.355)	1.152 (0.743)	1.521* (0.086)	2.554 (0.773)	1.163** (0.040)	7.859 (0.310)	1.188* (0.067)	1.196 (0.347)	0.647* (0.090)	1.046 (0.811)
service-disabled veteran	1.952 (0.251)	3.839 (0.296)	0.491* (0.062)	1.064 (0.772)	1.750 (0.751)	0.903** (0.037)	1.834 (0.716)	1.053 (0.417)	0.999 (0.993)	1.246* (0.054)	2.141*** (0.000)
other veteran	0.382 (0.505)	2.213 (0.599)	1.170 (0.485)	0.888 (0.699)	3.893 (0.398)	0.673*** (0.000)	3.244 (0.497)	1.015 (0.848)	1.078 (0.641)	1.203 (0.166)	0.856 (0.446)
log age	0.981 (0.925)	0.783 (0.629)	1.631*** (0.000)	1.011 (0.874)	0.943 (0.990)	1.275*** (0.000)	0.707 (0.524)	1.400*** (0.000)	1.349*** (0.000)	1.299*** (0.000)	1.804*** (0.000)
log employment	1.091 (0.435)	1.306 (0.279)	1.054* (0.061)	1.119*** (0.005)	1.058 (0.917)	1.035*** (0.000)	1.305 (0.305)	1.031** (0.042)	1.005 (0.844)	0.982 (0.525)	0.809*** (0.000)
log receipts	1.075 (0.351)	0.943 (0.569)	1.037* (0.056)	1.030 (0.224)	0.966 (0.812)	1.033*** (0.000)	0.970 (0.824)	0.994 (0.434)	1.084** (0.046)	1.088*** (0.000)	1.084*** (0.000)
sole proprietorship	0.594 (0.260)	0.665 (0.533)	1.148 (0.914)	1.010 (0.835)	0.856 (0.935)	0.889* (0.056)	0.379 (0.822)	0.665*** (0.001)	1.162 (0.700)	0.941 (0.370)	0.627* (0.024)
partnership	0.594 (0.426)	0.665 (0.729)	1.148 (0.515)	1.010 (0.971)	0.856 (0.945)	0.889* (0.093)	0.379 (0.638)	0.665*** (0.000)	1.162 (0.415)	0.941 (0.746)	0.627* (0.057)
corporate not tax-exempt	0.362** (0.040)	0.377 (0.353)	1.224 (0.316)	1.026 (0.910)	0.527 (0.769)	0.989 (0.849)	0.156* (0.095)	0.717*** (0.000)	1.045 (0.783)	0.879 (0.424)	0.787 (0.211)
corporate tax-exempt	38.61*** (0.041)	60.040 (0.189)	1.554 (0.772)	0.830 (0.899)	0.000 (0.000)	0.369** (0.016)	4.421 (0.564)	0.707** (0.018)	0.178 (0.218)	1.207 (0.906)	0.274 (0.374)
government non-classified (omitted: no security reported)	1.036 (0.951)	0.714 (0.818)	1.333 (0.193)	1.235 (0.213)	2.440 (0.568)	1.534*** (0.000)	1.428 (0.822)	1.307*** (0.000)	1.209* (0.078)	0.975 (0.824)	1.303* (0.088)
government confidential	0.746 (0.840)	3.918 (0.413)	2.651** (0.020)	1.498 (0.330)	10.880 (0.377)	1.836*** (0.000)	18.380 (0.155)	2.140*** (0.000)	1.507 (0.158)	0.972 (0.931)	1.265 (0.491)
government secret	0.998 (0.998)	2.951 (0.566)	0.856 (0.753)	0.650 (0.328)	1.911 (0.728)	2.412*** (0.000)	1.896 (0.704)	1.503*** (0.000)	0.599** (0.046)	1.064 (0.689)	0.538*** (0.008)
government top secret	0.583 (0.430)	0.927 (0.965)	1.014 (0.972)	0.514* (0.064)	3.484 (0.617)	2.671*** (0.000)	4.191 (0.223)	1.688*** (0.000)	0.466*** (0.000)	0.852 (0.178)	1.287 (0.322)
Constant	0.00504*** (0.00026)	0.14400 (0.39700)	0.000614*** (0.00000)	0.00417*** (0.00000)	0.45600 (0.89000)	0.00936*** (0.00000)	0.04690 (0.15800)	0.00417*** (0.00000)	0.00236*** (0.00000)	0.00162*** (0.00000)	0.00215*** (0.00000)
Observations	3,059	734	22,905	11,520	145	177,409	1,013	84,841	21,813	45,801	25,034



Table 5: Industry Specific Regression Results

	622	623	624	711	712	713	721	722	811	812	813
SDB not 8(a)	0.492 (0.133)	0.847 (0.503)	0.481*** (0.000)	0.307*** (0.000)	0.407** (0.015)	0.216*** (0.001)	0.733*** (0.004)	0.708* (0.084)	0.661*** (0.000)	0.527*** (0.000)	0.740 (0.235)
8(a)	3.532** (0.045)	5.168* (0.052)	1.156 (0.724)	1.392 (0.548)	0.572 (0.557)	2.620 (0.247)	0.749 (0.625)	1.523 (0.215)	0.752* (0.084)	0.806 (0.706)	6.709*** (0.000)
woman-owned	1.055 (0.896)	0.904 (0.771)	1.020 (0.840)	0.769 (0.246)	1.076 (0.814)	0.430* (0.071)	0.996 (0.977)	1.821*** (0.001)	0.709*** (0.000)	0.539*** (0.000)	0.808 (0.351)
minority-owned	0.479 (0.150)	0.254*** (0.006)	0.358*** (0.000)	1.178 (0.531)	1.136 (0.767)	1.022 (0.963)	0.842 (0.158)	0.754 (0.160)	0.670*** (0.000)	0.410*** (0.000)	0.660 (0.138)
hubzone	1.391 (0.650)	0.392 (0.514)	0.410* (0.080)	1.392 (0.709)	2.989 (0.225)	0.520 (0.654)	1.361 (0.533)	1.701 (0.191)	1.190 (0.211)	1.773 (0.214)	2.247 (0.159)
service-disabled veteran	2.119* (0.079)	0.152 (0.189)	0.412*** (0.000)	1.411 (0.355)	0.187 (0.242)	0.558 (0.384)	0.560** (0.049)	0.677 (0.300)	0.681* (0.001)	0.579 (0.078)	0.579 (0.182)
other veteran	1.001 (0.999)	1.172 (0.510)	0.531*** (0.001)	0.995 (0.991)	0.965 (0.958)	2.198** (0.050)	1.158 (0.479)	1.322 (0.411)	0.785*** (0.004)	0.618 (0.157)	1.110 (0.760)
log age	1.214 (0.284)	0.887 (0.174)	2.746*** (0.000)	1.115 (0.354)	1.143 (0.420)	1.095 (0.577)	1.052 (0.248)	1.734*** (0.000)	1.168*** (0.000)	0.800*** (0.001)	1.394*** (0.003)
log employment	0.915 (0.372)	1.133** (0.046)	0.475*** (0.000)	0.957 (0.601)	0.775** (0.028)	1.095 (0.317)	1.066*** (0.003)	1.164*** (0.005)	1.101*** (0.000)	1.022 (0.620)	0.953 (0.441)
log receipts	1.304*** (0.009)	1.062 (0.211)	0.993 (0.604)	0.976 (0.427)	0.980 (0.655)	1.020 (0.719)	0.996 (0.764)	0.973 (0.306)	1.040*** (0.000)	1.076*** (0.003)	0.953* (0.084)
sole proprietorship	0.475 (0.358)	1.059 (0.118)	0.385*** (0.021)	0.545 (0.292)	0.575 (0.203)	0.431* (0.125)	0.954 (0.000)	0.339*** (0.908)	0.786** (0.596)	0.392*** (0.564)	0.251** (0.138)
partnership	0.107 (0.107)	0.319 (0.319)	0.000 (0.000)	0.387 (0.387)	0.445 (0.445)	0.000 (0.000)	0.954 (0.908)	0.339*** (0.908)	0.786** (0.596)	0.392*** (0.564)	0.251** (0.138)
corporate not tax-exempt	0.411** (0.040)	0.723 (0.194)	0.552*** (0.003)	1.122 (0.842)	0.504 (0.258)	0.366** (0.016)	0.935 (0.709)	0.617 (0.125)	0.762*** (0.002)	0.530*** (0.013)	0.534 (0.128)
corporate tax-exempt	0.338 (0.485)	0.934 (0.969)	1.372 (0.831)	14.400 (0.169)	6.257 (0.264)	352.3** (0.015)	2.485 (0.544)	0.843 (0.910)	0.464 (0.361)	4.899 (0.120)	4.039 (0.373)
government non-classified (omitted: no security reported)	1.037 (0.933)	0.967 (0.959)	1.426*** (0.009)	0.978 (0.950)	1.542 (0.324)	1.258 (0.631)	1.480** (0.047)	2.396*** (0.000)	1.043 (0.516)	1.283 (0.314)	1.679* (0.091)
government confidential	3.577 (0.166)	8.559** (0.019)	3.046*** (0.000)	1.159 (0.873)	1.304 (0.854)	2.629 (0.292)	1.266 (0.678)	0.323 (0.430)	1.072 (0.708)	0.865 (0.862)	4.404*** (0.004)
government secret	0.895 (0.874)	5.315* (0.091)	1.465 (0.300)	0.925 (0.909)	0.376 (0.495)	1.156 (0.871)	0.890 (0.860)	0.919 (0.867)	1.101 (0.380)	1.720* (0.066)	1.445 (0.480)
government top secret	0.461 (0.256)	0.944 (0.969)	0.706 (0.457)	0.099 (0.112)	2.080 (0.412)	0.679 (0.678)	1.442 (0.524)	0.390 (0.263)	0.460*** (0.000)	0.535 (0.261)	1.931 (0.108)
Constant	0.000834*** (0.00002)	0.00600*** (0.00000)	0.0413*** (0.00000)	0.0561*** (0.00064)	0.0916** (0.03280)	0.0135*** (0.00005)	0.00818*** (0.00000)	0.000500*** (0.00000)	0.00659*** (0.00000)	0.0390*** (0.00000)	0.0327*** (0.00000)
Observations	2,486	4,935	15,115	7,415	2,708	3,103	12,836	6,470	36,540	10,519	9,000



Table 6
NAICS Codes Referenced in Table 5

211 – Crop Production	327 – Nonmetallic Mineral Product Manufacturing	492 – Couriers and Messengers
112 – Animal Production	331 – Primary Metal Manufacturing	493 – Warehousing and Storage
113 – Forestry and Logging	332 – Fabricated Metal Product Manufacturing	511 – Publishing Industries (except Internet)
114 – Fishing, Hunting and Trapping	333 – Machinery Manufacturing	512 – Motion Picture and Sound Recording Industries
115 – Support Activities for Agriculture and Forestry	334 – Computer and Electronic Product Manufacturing	515 – Broadcasting (except Internet)
211 – Oil and Gas Extraction	335 – Electrical Equipment, Appliance and Component Manufacturing	517 – Telecommunications
212 – Mining (except Oil and Gas)	336 – Transportation Equipment Manufacturing	518 – Data Processing, Hosting, and Related Services
213 – Support Activities for Mining	337 – Furniture and Related Product Manufacturing	519 – Other Information Services
221 – Utilities	339 – Miscellaneous Manufacturing	522 – Credit Intermediation and Related Activities
236 – Construction of Buildings	423 – Merchant Wholesalers, Durable Goods	523 – Financial Investments and Related Activities
237 – Heavy and Civil Engineering Construction	424 – Merchant Wholesalers, Nondurable Goods	524 – Insurance Carriers and Related Activities
238 – Specialty Trade Contractors	425 – Wholesale Electronic Markets and Agents and Brokers	525 – Funds, Trusts, and Other Financial Vehicles
311 – Food Manufacturing	441 – Motor Vehicle and Parts Dealers	531 – Real Estate
312 – Beverage and Tobacco Product Manufacturing	442 – Furniture and Home Furnishings Stores	532 – Rental and Leasing Services
313 – Textile Mills	443 – Electronics and Appliance Stores	533 – Lessors of Nonfinancial Intangible Assets
314 – Textile Product Mills	444 – Building Material and Garden Equipment and Supplies Dealers	541 – Professional, Scientific and Technical Services
315 – Apparel Manufacturing	445 – Food and Beverage Stores	551 – Management of Companies and Enterprises
316 – Leather and Allied Product Manufacturing	446 – Health and Personal Care Stores	561 – Administrative and Support Services
321 – Wood Product Manufacturing	447 – Gasoline Stations	562 – Waste Management and Remediation Services
322 – Paper Manufacturing	448 – Clothing and Clothing Accessories Stores	611 – Educational Services
323 – Printing and Related Support Activities	451 – Sporting Good, Hobby, Book and Music Stores	621 – Ambulatory Health Care Services
324 – Petroleum and Coal Products Manufacturing	452 – General Merchandise Stores	622 – Hospitals
325 – Chemical Manufacturing	453 – Miscellaneous Store Retailers	623 – Nursing and Residential Care Facilities
326 – Plastics and Rubber Products Manufacturing	454 – Nonstore Retailers	624 – Social Assistance
327 – Nonmetallic Mineral Product Manufacturing	481 – Air Transportation	711 – Performing Arts, Spectator Sports and Related Industries
331 – Primary Metal Manufacturing	482 – Rail Transportation	712 – Museums, Historical Sites and Similar Institutions
332 – Fabricated Metal Product Manufacturing	483 – Water Transportation	713 – Amusement, Gambling and Recreation Industries
333 – Machinery Manufacturing	484 – Truck Transportation	721 – Accommodation
334 – Computer and Electronic Product Manufacturing	485 – Transit and Ground Passenger Transportation	722 – Food Services and Drinking Places
335 – Electrical Equipment, Appliance and Component Manufacturing	486 – Pipeline Transportation of Natural Gas Industry	811 – Repair and Maintenance
324 – Petroleum and Coal Products Manufacturing	487 – Scenic and Sightseeing Transportation	812 – Personal and Laundry Services
325 – Chemical Manufacturing	488 – Support Activities for Transportation	813 – Religious, Grantmaking, Civic, Professional and Similar Organizations
326 – Plastics and Rubber Products Manufacturing	491 – Postal Service	





Testimony for the Record

The Montgomery County Chamber of Commerce (MCCC)
GovConNet Council

Senate Committee on Small Business and Entrepreneurship

“Running Government Like a Small Business: Cut Waste, Crush
Fraud”

December 10, 2025



December 23, 2025

The GovConNet Council (Council) of the Montgomery County Chamber of Commerce (MCCC) submits the following testimony with respect to the Senate hearing on December 10, 2025 “Running Government Like a Small Business: Cut Waste, Crush Fraud.” Montgomery County, Maryland represents the second highest number of federal contractors in the country. As a result, many of our members compete to sell goods and services to the federal government, striving to provide excellence and competitive pricing to government agencies. The Council is a group of government contracting experts who guide the Chamber's initiatives, develop programs, provide advocacy, and offer insights to help businesses succeed in the competitive federal market, focusing on boosting opportunities, tackling challenges like subcontracting, and connecting contractors with agencies and prime partners.

We appreciate the Committee's commitment to oversight and welcome the opportunity for discussion. We respectfully disagree with the Committee's characterization of the SBA's 8(a) Business Development program.¹ Without small business development programs, we would not see near as many companies emerging to become midsize companies and we would not see midsize firms growing to become "large," enabling them to compete with the most entrenched, largest businesses in America. Small business programs are therefore a long-term investment in competition and ingenuity. They are building our industrial base, and a competitive marketplace is good for the U.S taxpayer and the overall economy.

The committee hearing focused on the idea of "no-bid" contracts, implying that these no-bid contracts somehow fleece the American taxpayer. The “no-bid” contracts are referring to sole-source contracts, enacted by *The Competition in Contracting Act (CICA)*, which established the general requirement for full and open competition and authorizes limited exceptions that allow sole-source (noncompetitive) awards.² The reality is, even when awarding sole-source contracts, the Federal Acquisition Regulation (FAR) requires contracting officers to rigorously evaluate proposed pricing to ensure the Government is paying a "fair and reasonable" price.³ And this evaluation requires contractors to submit internal cost and financial data to show how they arrived at their proposed prices. This data is far more detailed than what contractors typically submit when they are bidding competitively, because in those cases contracting officers rely on a comparative analysis among multiple offerors to determine price "reasonableness." This structure means that sole-source awards often yield lower margins than competitive awards, and certainly they do not represent an easy opportunity to price gauge an agency or the taxpayer. This equivalency between "no bid" and "fraud"/"price gauging" is entirely false and not supported by any known data.

The 8(a) regulations are a careful balance between requiring small firms to self-perform the work (so that they gain substantive experience from the contract and develop their qualifications accordingly) and not requiring a company to perform the entire contract, which would eliminate

¹ Sections 7(j)(10) and 8(a) of the Small Business Act (15 U.S.C. §§ 636(j)(10) and 637(a)) authorizes the SBA to establish a business development program, which is known as the 8(a) Business Development program.

² Civilian agencies: 41 U.S.C. § 3301–3309 (2018); Defense agencies: 10 U.S.C. § 3201–3205 (2018)

³ The FAR Overhaul cites 6.104-1 Justification content.



small firms from the competition. Most smaller companies have a limited number of capabilities, whereas most federal projects require many different disciplines. Therefore, finding and leveraging subcontractors, to build and then manage a team that covers all the required disciplines, is essential to successful performance of the contract. Project management skills are also crucial capability development goals that SBA seeks to achieve via its programs. To balance "no subcontracting" and "too much subcontracting," SBA has imposed a maximum subcontracting limit.

This limit, known as the "Limitation on Subcontracting," varies depending on the type of contract awarded. For general services contracts, the limit is 50%, but for construction it falls to 15%, and for specialty trade work it tends to fall between these two figures. Moreover, calculations for the rule are quite complex. The limits apply to the services portion of the contract, so for mixed-type contracts (e.g., for products and services) the Limitation could apply only to a portion of the work. And the rule does not require the companies to always maintain compliance during performance. Compliance is checked at various prescribed intervals, which means that a company could be above the subcontracting limit, but if they get back below it by the end of the measurement period, they are considered in compliance. And to make matters more complicated, for manufacturing contracts, the limit is not a percentage at all but takes the form of a subcontractor vendor qualification test known as the "Non-Manufacturer Rule," which has its own technical requirements and measurements.

The result of the foregoing is that it is very hard to get a sense of compliance with this rule from external data. Companies spend a great deal of time and resources assessing their compliance internally and tweaking performance and teaming relationships to ensure such compliance. And while contracting officers and SBA receive periodic reports demonstrating compliance, there is no public database that produces such information. The databases that do exist (Federal Procurement Data System, USAspending, SAM.gov) are unreliable because they do not show subcontract awards, or if they do, they misstate the value or erroneously show multiple identical subcontracts when there has been in fact only one subcontract award.

Based on information that is widely understood in the contracting community to be highly unreliable, it was disappointing to see the Committee Chair send letters to agency heads that include actual fraud allegations against individual companies. We understand that many companies have already responded to the Chair's letters to correct the record, or they will be responding in the coming days. Reputational harm to these companies will impact their ability to compete for contracts in the future. Agencies are concerned about contracting with these named parties given the allegations against them, which came from the Committee whose mission is to support and protect those businesses.

We found no evidence the 8(a) program has any more "fraud," "waste," or "abuse" than any other government program. Indeed, this program enjoys the most oversight of any of the SBA small business programs because it requires annual evaluations, and constant compliance reviews by SBA business opportunity specialists. 8(a) contractors interact with government regulators as much or more than any other federal contractor and are keenly aware of the regulations governing their management and operations.



We offer the following suggestions for increasing the effectiveness and efficiency of the 8(a) program:

Increase Training for Small Businesses and 8(a) Firms

The statutes and regulations governing government contracts, particularly the regulations which govern small businesses and 8(a) firms, are inherently complex. Given this complexity, oftentimes perceived allegations of fraud are the result of inadvertent and unintentional noncompliance, rather than actual, intentional, and actionable fraud.

Increased ethics and compliance training for small businesses and 8(a) firms on the statutes and regulations governing small business procurement is greatly needed so that they can better understand the complexities of government contracting.

Increased focus on training and compliance will inevitably reduce inadvertent or unintentional noncompliance, allowing agencies to expend their valuable resources on actual, intentional, and actionable fraud.

Broaden Training for Government Personnel

Funding should be provided to the SBA (and procuring agencies) to staff and train personnel to proactively detect potential fraud. With a large turnover in procurement personnel over the years, the government has lost experienced men and women who were very well versed in the complex regulations that must be followed by contractors to not only perform the work agencies need but also comply with program specific regulations.

The training should focus on the investigation of potential red flags indicative of fraud including, but not limited to: (a) Whether the alleged disadvantaged owners of 8(a) firms are truly economically disadvantaged; (b) Whether the alleged disadvantage owner is running his/her company or is a front for another business; (c) Whether the 8(a) participant are performing the requisite amount of work prescribed by the limitation on subcontracting rule; and (d) Whether annual reports and certifications to the SBA and procuring agencies were properly and timely completed.

Increasing Resources for Agency Inspector Generals (IGs) to Increase Accountability

By increasing resources, including funding and manpower, agency IGs can focus on investigating actual allegations of fraud. Due to the lack of resources, agency IGs often find themselves, in addition to investigating actual, intentional fraud, spending their limited resources investigating contractual breaches which have their own remedies. These matters should not be handled by agency IGs under the umbrella of fraud. Rather they should be resolved by the appropriate trained contracting officers and their staff. Agency IGs should be empowered to focus on investigating actual fraud, rather than contract administration issues typically resulting from inadvertent or unintentional noncompliance with government procurement and small business regulations.



Revamping the 8(a) Program

Currently, the focus of the 8(a) program is based on a handful of isolated allegations of fraud that unfairly tarnish and place the 8(a) program in an unfavorable light.

For every bad actor, there are numerous success stories. The 8(a) program offers significant benefits and advantages to the federal government through highly qualified 8(a) firms that: (1) facilitate contracts awards quickly and efficiently, particularly when compared with the more cumbersome alternatives in the FAR; (2) compete with other highly qualified companies (who entered the 8(a) program after demonstrating they were likely to succeed) to offer the government the significant value (iii) receive mentoring and support from larger businesses with which they team to service the federal government's needs while building the small business industrial base; and (iv) provide employment opportunities lowering the unemployment rate, paying taxes which reduces the budget deficit and serve as role models of the partnerships between the public and private sectors.

Rather than focusing on isolated incidents of fraud to the unfortunate detriment of many small businesses that do in fact comply with the regulations and 8(a) program rules, Congress should look at ways to revamp the 8(a) program to achieve its purpose of lifting socially and economically disadvantaged individuals into the mainstream economy.

As part of an overall revamp of the 8(a) program, Congress could focus on, among other things: (i) streamlining the regulations and rules governing the 8(a) program, emphasizing plain language and clarity; (ii) facilitating eligibility for the 8(a) program so that all Americans who are socially and economically disadvantaged feel welcome to participate; (iii) prioritizing competition among 8(a) firms while recognizing that sole-source awards may be appropriate in specific cases where the government needs to make an award quickly and efficiently; and (iv) requiring mandatory ethics and compliance training as a prerequisite for firms wishing to enter the 8(a) program, with annual training requirements and certifications of completion.

SBA Recertification Requirements for 8(a) Certified Companies

An issue not mentioned in the hearing but that concerns the Council is SBA's requirement for 8(a) firms to recertify. Below are five concerns:

1. Ambiguity and conflicting instructions create real compliance risk. The data call is not fully consistent between the letter and the upload site, and the request carries severe consequences, so contractors cannot confidently determine what is required.
2. Some of the required financial statements may not exist for many small businesses. Statements of cash flows and equity are often not prepared unless a contractor has audited financial statements. SBA has not clarified if it is acceptable to note *not applicable*, or what penalties apply if a contractor cannot provide statements that do not exist in their normal reporting.
3. Timely SBA responses are important to contractors. Contractors and advisors have submitted many clarification questions regarding the requirements of recertification. We



encourage the SBA to provide as much detailed information as possible so that companies can produce a complete and accurate submission and increasing the risk of an adverse outcome based on misunderstandings rather than noncompliance.

4. Sensitive data is being requested without clear safeguards. The submission includes payroll details, bank statements, tax returns, and general ledger level data, yet the request does not explain the security controls for upload and storage, who will have access, how access will be limited, the retention period, or the secure disposal process. SBA should clarify whether it will treat contractor submissions as sensitive financial information and, where applicable, as Controlled Unclassified Information (CUI), including what handling and protection standards will be applied.
5. The timing and volume appear set up for failure. We urge additional time beyond January 19, 2026 as the submission date. The short turnaround during the holiday and year end close period, combined with the multi-year transactional scope, creates a practical barrier for many compliant contractors and will likely result in missed deadlines or incomplete submissions.

We urge the Committee to consider the suggested changes offered in our testimony and believe small companies contribute to their community and their employees. They truly represent the backbone of the national economy. Thank you for your continued commitment to the small business contracting community. Should you or your team have any questions or would like additional information, please contact Angela Franco, President and CEO of MCCC, at 301-738-0015 or by email at afranco@mcccmd.com.



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NCAI EXECUTIVE DIRECTOR LARRY WRIGHT STATEMENT FOR THE RECORD BEFORE THE U.S. SENATE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP HEARING ENTITLED "RUNNING GOVERNMENT LIKE A SMALL BUSINESS: CUT WASTE, CRUSH FRAUD"

December 10, 2025

Chairman, Ranking Member, and Members of the Committee:

On behalf of the National Congress of American Indians (NCAI), the oldest and largest national organization of Alaska Native and American Indian Tribal governments and their citizens, NCAI submits this statement for the record to unequivocally support the integrity of federal contracting conducted by American Indian and Alaska Native Tribes, Alaska Native Corporations, and Native Hawaiian organizations (hereinafter referred to as Native-owned businesses).

Waste, fraud, and abuse undermine the very programs designed to fulfill the federal government's trust responsibility to Tribal Nations. Tribal governments understand the necessity of operational efficiency better than most. We are accustomed to stretching limited resources to fund essential services, from law enforcement and healthcare to infrastructure and education.

However, as the Committee explores methods to "crush fraud," NCAI writes to express our grave concerns about recent precipitate enforcement actions, the conflation of technical non-compliance with malicious intent, and a shifting regulatory environment that threatens to dismantle the Small Business Administration (SBA) 8(a) Business Development Program. This program remains the most successful tool for Native economic self-determination.

I. Due Process and the Suspension of ATI Government Solutions

NCAI is aware of the recent suspension of ATI Government Solutions, a firm owned by the Susanville Indian Rancheria, following the release of a video by the O'Keefe Media Group. While NCAI does not defend non-compliance with the limitations on subcontracting, we must vigorously defend the principles of due process and government-to-government respect.

The speed of this suspension raises significant legal concerns. Under the standard established in *Horne Bros., Inc. v. Laird*, 463 F.2d 1268 (D.C. Cir. 1972), the federal government must possess "adequate evidence" before suspending a contractor to protect public funds. A suspension effectively cripples a business immediately. Taking such drastic action based on a selectively edited media clip prior to the conclusion of a formal investigation risks violating the due process rights of the Tribal sovereign.

The Susanville Indian Rancheria has publicly stated it has launched an internal investigation and is fully cooperating with the SBA. This is the action of a responsible government partner. We urge the Committee and the SBA to allow this investigation to follow established legal frameworks rather than responding to media pressure. Preemptive punishment creates irreparable economic harm not just to a company, but to the Tribal community that relies on its revenue.

II. Distinguishing Regulatory Confusion from Intentional Fraud

The hearing title suggests a mandate to eliminate fraud. It is imperative that this Committee distinguish between intentional schemes to defraud the taxpayer and technical non-compliance resulting from complex, shifting regulations.

First, the allegation that Tribal 8(a) firms are merely "pass-throughs" is a persistent trope used to delegitimize Native participation in federal contracting. In reality, legitimate subcontracting is a standard commercial practice utilized by prime contractors of all sizes to leverage specialized expertise.

Second, the "limitations on subcontracting" rule is technically complex. The "Similarly Situated Entity" exception, codified at [13 C.F.R. § 125.6](#), explicitly allows a small business prime contractor to subcontract work to another small business that shares the same socioeconomic status. This is not a loophole; it is a congressionally designed mechanism to allow small firms to pool resources and compete against major defense contractors. Many violations cited in recent audits stem from confusion regarding these calculations rather than malicious intent.

Finally, many Native-owned small businesses operate in rural, remote areas with limited access to high-level legal counsel. Rather than simply expanding punitive audits, the SBA must expand its educational efforts. We recommend increased funding for the SBA Office of Native American Affairs (ONAA) to provide robust compliance training. Fraud is best prevented through clarity and support, not through retroactive enforcement actions against contractors struggling to comply with complex and frequently evolving regulations.

III. The Chilling Effect and the Threat to the 8(a) Program

This suspension occurs within a broader, increasingly hostile context for Native contractors. The SBA is currently conducting a ten-year retrospective review of high-dollar and limited-competition 8(a) awards.

It is critical to remember that the Tribal 8(a) program is grounded in the federal trust responsibility. As the Supreme Court held in *Seminole Nation v. United States*, 316 U.S. 286 (1942), the United States has charged itself with "moral obligations of the highest responsibility and trust" toward Tribal Nations. Furthermore, the Supreme Court's decision in *Morton v. Mancari*, 417 U.S. 535 (1974), established that preferences given to Tribal entities are political, not racial, in nature. Attacks on the Tribal 8(a) program that frame it as an unconstitutional racial preference ignore this settled law.

Unlike individually owned firms, Tribal enterprises return their profits to the community to fund police departments, Head Start programs, and elder care. Dismantling this program through aggressive regulatory attrition is a direct abdication of the federal trust responsibility.

IV. Recommendations

To ensure efficiency while protecting the integrity of the government-to-government relationship, NCAI recommends the following:

- **Enforce Standard Due Process:** The SBA must adhere to the Administrative Procedure Act. Suspensions of Tribal entities should be based on "adequate evidence" per *Horne Bros.*, not unverified media cycles.
- **Invest in Compliance, Not Just Oversight:** Direct the SBA to allocate resources specifically for training Tribal enterprises on the nuances of [13 C.F.R. § 125.6](#) and the limitations on subcontracting.
- **Reaffirm Congressional Intent:** Issue a statement affirming that Tribal 8(a) participation remains a vital, bipartisan component of federal policy, distinct from race-based affirmative action under the *Mancari* doctrine.
- **Preserve the Buy Indian Act:** Enhance the efficiency of federal spending by enforcing the Buy Indian Act ([25 U.S.C. § 47](#)), ensuring that federal resources spent in Indian Country circulate within Indian Country to create a positive economic multiplier effect.

Conclusion

Tribal Nations are resilient and innovative. We support a federal government that is lean and effective. However, efficiency must not become a veil for eroding Tribal sovereignty or discarding due process. We look forward to working with this Committee to ensure that American Indian and Alaska Native entrepreneurs are empowered, not encumbered, by federal policy.



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December 10, 2025

The Honorable Joni Ernst
 Chair, U.S. Senate Committee on Small Business & Entrepreneurship

The Honorable Ed Markey
 Ranking Member, U.S. Senate Committee on Small Business & Entrepreneurship

Dear Chair Ernst, Ranking Member Markey, and Members of the Committee:

On behalf of Old Harbor Native Corporation (OHNC), an Alaska Native Corporation established under the Alaska Native Claims Settlement Act of 1971, I write to convey our strong and unequivocal support for the U.S. Small Business Administration's Native 8(a) Business Development Program. As the Committee convenes its December 10, 2025 hearing, "*Running Government Like a Small Business: Cut Waste, Crush Fraud*," we urge you to recognize the demonstrated record of Native 8(a) enterprises—including OHNC subsidiary companies—in delivering cost-effective, high-quality, and accountable services to the federal government.

Reducing Waste and Increasing Efficiency Through Proven Performance

OHNC subsidiaries operate nationwide across professional services, information technology, construction, environmental services, logistics, and facilities support. Through the Native 8(a) Program, our companies consistently achieve results that directly advance the federal government's objectives to reduce waste, strengthen performance, and ensure responsible stewardship of public funds:

1. **Efficient, Streamlined Procurement.**
 OHNC subsidiaries provide consolidated, turnkey solutions that significantly reduce administrative burdens on federal agencies. By eliminating the inefficiencies of multiple procurements and fragmented vendor management, our companies enable agencies to focus resources on mission execution rather than bureaucratic overhead.
2. **Superior, Verifiable Performance.**
 Our subsidiaries maintain rigorous quality-assurance systems, robust internal controls, and exemplary past-performance ratings. Projects are routinely delivered on time and within budget, preventing unnecessary cost escalations and scheduling failures that have historically plagued federal contracting.

3. **Reinvestment in Workforce and Technical Capability.**
Revenues generated through 8(a) contracting are systematically reinvested into workforce training, advanced technologies, cybersecurity enhancements, and compliance programs. This reinvestment directly increases federal value by ensuring highly skilled, low-turnover teams with the technical capacity to meet evolving federal needs.
4. **Strong Oversight and Accountability.**
As Alaska Native Corporation subsidiaries, we operate under multiple layers of federal oversight—including SBA regulations, independent annual audits, and corporate governance obligations. These frameworks substantially reduce fraud risk and provide a level of transparency and accountability that exceeds typical small-business requirements.
5. **Reliable Mission Continuity.**
Federal agencies rely on OHNC subsidiaries in environments where failure is not an option. Our ability to provide uninterrupted, high-quality service prevents operational disruptions and avoids the downstream costs associated with contractor instability or underperformance.

Specific Examples OHNC subsidiary performance:

The companies of OHNC include fifteen active Alaska Native Corporations supporting various departments of the United States Government, including the Department of Justice and the Department of War. Within our corporate infrastructure, we have fifteen active government services entities, seven of which are 8(a) certified. Our companies provide 100% professional services and do **not** generate “pass-through” revenue. While we occasionally utilize subcontractors to supplement our expertise and offer our customers the highest-quality services at the lowest cost, these arrangements are used only when in the Government’s best interest and never exceed 49% of the contract value. In fact, in most cases we subcontract less than 25% of the services we provide to the United States Government. Specific examples of the services we provide include:

1. **ATF NIBIN and Firearms Tracing:** We support the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) NIBIN program by providing the expertise and nationwide workforce needed to collect, analyze, and exploit ballistic and tracing evidence that helps law enforcement rapidly identify violent offenders. Our work with the National Tracing Center has generated more than 400,000 investigative leads, and in 2025 alone our ballistic analysts processed over 416,530 shell casings and produced 118,847 potential criminal leads.
2. **DEA Financial Investigations & Anti-Money Laundering:** We support the Drug Enforcement Administration in uncovering sophisticated money-laundering operations, including trade-based schemes, cryptocurrency obfuscation, and multi-layered wire networks, by fusing data, import/export records, commercial filings, blockchain analysis, and subpoena results into actionable intelligence. Our team has enabled major operational successes, from assisting in the capture of a money launderer to leading financial analysis on cases with seizures exceeding \$1.5B, as well as advancing investigations that resulted

in multimillion-dollar seizures, arrest warrants, and significant drug interdictions. Between FY20 and FY25, our analysts supported more than 308 investigations worldwide and played key roles in cartel and conspiracy cases involving dozens of arrests and substantial asset seizures.

3. **DEA DOMEX:** We support the Drug Enforcement Agency (DEA) Digital and Document Media Exploitation (DOMEX) Program by providing end-to-end digital forensics services, including device acquisition, forensic imaging, encrypted data recovery, and multi-source artifact analysis, to rapidly extract, preserve, and interpret critical investigative data. Using industry-standard forensic tools and DEA-approved workflows, our team delivers evidentiary-quality intelligence that identifies networks, accelerates targeting, and strengthens prosecutorial outcomes.
4. **NASA LASSO Program:** We support the NASA Laboratory Support Services and Operations (LASSO) contract and were part of the team awarded the prestigious NASA Silver Group Achievement Award for exceptional technical innovation, collaboration, and mission impact. Our team's groundbreaking work, from plasma-based hydrazine production to advanced sensor and detector development, exceeded expectations and drove significant advancements in Kennedy Space Center research, resulting in multiple technology reports, plasma project reports, rapid patent filings, conference presentations, and journal article drafts.
5. **ATF National Services Center:** We support the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) National Services Center (NSC) by delivering high-quality forensic, technical, and data-driven services that enhance ATF's ability to analyze, process, and exploit critical evidence for criminal investigations. As part of the NSC mission team, we contribute to nationwide efforts that include ballistic imaging support, document and digital evidence processing, data validation, evidence intake and tracking, and the production of timely, actionable investigative intelligence that strengthens ATF field operations and prosecutorial outcomes.
6. **U.S. Navy SSMG Depot-Level Support:** We are the only company authorized by the U.S. Navy to perform repairs, overhauls, and depot-level maintenance on Submarine Service Motor Generators (SSMGs), and we ensure these systems meet the fleet's highest standards for safety and readiness. SSMGs provide clean, isolated, and highly reliable power for mission-critical submarine systems, including fire control, navigation, sonar, communications, and combat systems, and are engineered for shock resistance, acoustic quieting, and continuous-duty performance essential to submarine operations worldwide.
7. **DEA Diversion Control Program:** We support the DEA Diversion Control Program by providing the technical, analytical, and investigative expertise required to prevent controlled substances from being diverted into illicit use. Our team enhances DEA's ability to monitor suspicious activity, analyze compliance data, support regulatory actions, and generate actionable intelligence that strengthens investigations, protects public health, and disrupts unlawful pharmaceutical and drug-distribution networks.
8. **U.S. Navy Logistics, Technical Manuals, and Engineering Support:** We provide extensive support to the United States Navy by forecasting spare-parts requirements, planning ship availabilities to ensure parts and equipment are staged and ready on time, maintaining and updating technical manuals, conducting detailed engineering studies, and delivering full-spectrum warehouse and inventory management services. Our work strengthens fleet readiness, improves material availability, and ensures Navy maintenance

and modernization activities are executed with the highest levels of efficiency and technical accuracy.

Advancing Congressional Objectives While Serving Indigenous Communities

The Native 8(a) Program functions exactly as Congress intended: it strengthens federal capacity while promoting economic self-determination for Indigenous peoples. OHNC reinvests proceeds into shareholder benefits, workforce development, scholarships, elder support, community infrastructure, and essential services in Old Harbor—an Alaska Native village with limited economic opportunities and significant logistical challenges. These outcomes are not ancillary; they are core to the congressional purpose behind ANCSA and the Native 8(a) framework.

Conclusion

Old Harbor Native Corporation and its subsidiary companies are delivering real, measurable value to the federal government. We reduce waste. We strengthen accountability. We enhance mission execution. And we do so while advancing economic opportunity for Alaska Native people—an outcome that reflects both the spirit and the letter of federal law.

We respectfully urge the Committee to continue its support of the Native 8(a) Program and to recognize its critical role in ensuring the federal government receives efficient, high-quality, and fraud-resistant services.

Thank you for your attention and leadership.

Respectfully,



Kristina Woolston

Chief Executive Officer



POARCH BAND *of* CREEK INDIANS

December 10, 2025

The Honorable Joni Ernst
Chairman
U.S. Senate Committee on Small Business & Entrepreneurship
428A Russell Senate Office Building
Washington, DC 20515

Dear Chair Ernst:

The Poarch Band of Creek Indians (Tribe) have serious concerns regarding your December 8 letter to the Department of Commerce about Contract No. 1333ND23FNB130083. That contract was awarded to PCI Government Services (PCI-GS), a tribally-owned small business of the Tribe, on April 3, 2023, to support the CHIPS program and help restore American semiconductor leadership. Because your letter contains several inaccuracies about PCI-GS's performance, I appreciate the opportunity to provide clarity.

For decades, federal policy, through programs like the DoD Mentor-Protégé Program (1991), the SBA 8(a) Mentor-Protégé Program (1998), and FAR Subpart 19.7, has explicitly encouraged small businesses to use subcontracting arrangements to build capacity and execute complex federal missions. Contractors who follow these rules and meet the 50% performance requirement should not be conflated with bad actors simply because they use the subcontracting tools the government has long promoted.

PCI-GS provides program management, analytics, and operational support to the National Institute of Standards and Technology (NIST) CHIPS Program Management Office. Our team supports the execution of the \$52.7 billion CHIPS Incentives Program and has been integral to the program's success—from startup through an Administration transition and into 2026. PCI-GS performs essential work across program management, construction oversight, workforce development and planning, Davis-Bacon Act compliance, grants administration, communications, risk, financial and investment analysis, and data analytics. Our team also plays a key role in portfolio management and grantee oversight.

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www.pci-nsn.gov

ALABAMA NATIVES. ALABAMA NEIGHBORS.

While we fully support your commitment to eliminating fraud and abuse in federal contracting, several statements in your letter about PCI-GS's compliance are incorrect.

First, your letter relies on contract obligations (amounts authorized and set aside), but the applicable regulation, FAR 52.219-14(e)(1), expressly requires measuring amounts paid (actual cash flows). The regulation states: "[The Contractor] will not pay more than 50 percent of the amount paid by the Government for contract performance to subcontractors." The regulation is unambiguous: compliance is measured by actual amounts paid by the Government and the prime contractor. Obligations are a ceiling; payments reflect actual performance. Applying the incorrect metric leads to an inaccurate conclusion.

Second, the contract cited is an IDIQ (Indefinite Delivery Indefinite Quantity), essentially a framework with pre-negotiated terms. This contract (PIID 1333ND23FNB130083) is actually "Task Order 01" under that IDIQ. The calculations in the letter are incomplete because they do not account for all task orders issued to PCI-GS under the IDIQ. The limitation on subcontracting rules in the FAR and SBA regulations (specifically FAR 52.219-14(f) and 13 CFR 125.6(d)) provide that for set-aside IDIQ awards, compliance with limitations on subcontracting is generally assessed at the contract level, unless the contracting officer specifies order-level compliance. The cognizant contracting officer for this contract has indicated, in writing, that limitations on subcontracting shall be assessed on the IDIQ in its entirety, consistent with the default approach.

When the correct legal standard is applied to actual cash-basis payments documented through invoices, bank statements, and our general ledger, PCI-GS is fully compliant with FAR 52.219-14:

Category	Amount	Percentage
Total Invoiced & Paid (Cash Basis)	\$24,987,106.02	100%
PCI-GS Performance (Prime)	\$13,489,987.02	53.99%
Oliver Wyman (Subcontractor)	\$11,497,119.00	46.01%
FAR 52.219-14 Requirement	—	≥50%

PCI-GS exceeds the 50% requirement and is in full compliance with federal regulations.



I am concerned that PCI-GS was named publicly in an official congressional letter—suggesting potential misconduct—without any outreach to the Tribe or an opportunity to correct the record. This has real-world consequences for a legitimate tribally owned business, our employees, and the more than 2,700 Tribal Citizens who depend on the revenues these enterprises generate. It also risks creating a chilling effect for tribal small businesses that follow the law and rely on longstanding federal contracting policy.

The Tribe supports strong and fair oversight of federal contracting programs. However, oversight must be based on accurate data, the correct legal standards, and a transparent process that does not unfairly harm compliant small businesses.

I would welcome the opportunity to meet with you and address any further concerns.

Sincerely,



Robbie McGhee
Vice Chairman
Chief Government & Public Relations Officer
Poarch Band of Creek Indians

CC: Members of the U.S. Senate Committee on Small Business and Entrepreneurship



Senate Small Business Committee Hearing on “Running Government Like a Small Business: Cut Waste, Crush Fraud”

Statement by Senator Dan Sullivan | December 10, 2025

Fraud, waste, and abuse have no place in federal programs. We should root out bad actors and hold those violating the law accountable.

But in doing so, we shouldn't jeopardize the thousands of small businesses that are doing critical work for the federal government, particularly through contracting programs such as the Small Business Administration's (SBA) 8(a) Business Development Program. For more than 40 years, this program has been one of the most effective engines of economic mobility for disadvantaged communities.

The 8(a) Program is a voluntary contracting tool established under Section 8(a) of the Small Business Act. Its participants are among the nation's most capable, mission-driven small businesses. Most deliver specialized, high-quality performance; provide pricing transparency; and save the government significant time and money, with lower administrative costs than large contractors and the avoidance of months, if not years, of procurement protests and delays.

Why is the 8(a) Program so important? Many of these firms directly support the Department of Defense, and over a dozen senior DoD leaders have repeatedly told me that the 8(a) Program is central to our national security and to this Administration's goal of restoring lethality at the Pentagon. For example, I visited an 8(a) firm that designed, built, and delivered modified Harpoon MRAP vehicles to the beaches of Taiwan in under a year. Under a large-contractor award, those vehicles would likely have taken many months, if not years, due to higher overhead and the procurement protests that routinely slow traditional contracting. Moreover, contracting with 8(a) firms ensures that the DoD retains ownership of intellectual property (IP), allowing the government to maintain greater control over sensitive technologies and capabilities, thereby safeguarding the nation's security interests. The success of the 8(a) Program in delivering high-quality, mission-critical services is reflected in the consistent exemplary Contractor Performance Assessment Reporting System (CPARS) ratings that these businesses receive. This strong track record is a testament to their ability to meet and exceed the DoD's mission requirements, contributing to a more robust and effective national defense in an era of heightened authoritarian aggression. Don't just take my word for it; here is what *some* Pentagon leaders said in response to my questions during their nomination hearings:

- General Wilsbach, Chief of Staff for the Air Force: We will definitely continue to seek opportunities to match their outstanding capabilities and value with our pressing warfighter requirements. We need to get the best bang for our dollar, so their combination of efficiency and effectiveness – and ability to deliver rapidly and with agility – gives our Air Force warfighters a needed edge. The DAF is firmly committed to leveraging the capabilities of small businesses, including those participating in the SBA 8(a) program, to equip our warfighters with cutting-edge technology and agile solutions.

- Michael Cadenazzi, Assistant Secretary of Defense for Industrial Base Policy: This infusion of speed and innovation strengthens the defense industrial base, resulting in effective outcomes for the Department.
- Under Secretary of Defense for Acquisition and Sustainment, Michael Duffey: I am aware of the SBA's 8(a) program and that the Department has multiple programs that have successfully connected with 8(a) firms to bring their speed and innovation into the industrial base. To the extent those firms deliver accelerated capability to the warfighter, I would agree that the 8(a) program is a valuable contracting tool for the Department of Defense.
- Justin Overbaugh, Deputy Under Secretary of Defense for Intelligence & Security: I recognize that rapid response capabilities are critical for warfighters, and the 8(a) program offers a valuable avenue for achieving this through flexible, secure, and efficient contracting.
- Daniel Zimmermann, Assistant Secretary of Defense for International Security Affairs: I appreciate the unique value brought to the DoD through programs like 8(a) that are known for efficiency and high CPARS marks. If confirmed, I will work to ensure such programs continue to deliver cost-effective solutions.

Recently, I retired after 30 years in the U.S. Marine Corps, where I saw firsthand the destructive DEI policies the Biden Administration imposed on our military that had nothing to do with warfighting. I am a full supporter of Secretary Hegseth's focus on getting rid of DEI in the ranks. However, let me also address a misconception: Native American participation in the 8(a) Program is not a DEI initiative or race-based affirmative action, and, as noted above, has repeatedly made our military more lethal. It is grounded in Congress's explicit recognition of the political and legal status of American Indians, Alaska Natives, and Native Hawaiians – a status reaffirmed repeatedly by federal statute, the Courts, and the SBA itself, when Administrator Loeffler recently stated in writing to me that Executive Order 14151 does not apply to Native programs. This is about self-determination, not race.

Further, the SBA should focus on innovation and on strengthening small businesses' ability to grow and compete in the American free market. And as part of that effort, the agency should regularly evaluate its own policies to ensure they are not inadvertently creating barriers to entry. For example, the "bona fide place of business" rule, which forced an 8(a) firm to open and staff a physical office in a state outside of where it is headquartered, before even bidding on a contract, was an ill-conceived, unworkable barrier to entry, and quintessential red tape designed to keep small businesses down. I appreciate that, after years of pushing the SBA, the agency issued a policy notice this week eliminating this pre-award requirement. This is a positive step that will help small firms participate more fully and effectively in federal contracting.

To my colleagues, the 8(a) Program also closely aligns with conservative principles of limited government, market-based solutions, and respect in helping meet the federal trust obligation to Indigenous communities. It encourages Native American communities to build sustainable businesses rather than rely on direct federal aid and leverages private-sector efficiency rather than expanding entitlement programs.

I support rigorous oversight so that these success stories of the 8(a) Program continue and generate economic opportunity in the communities that need it most, promote self-reliance, deliver value to taxpayers, and fulfill the United States' trust and treaty obligations.

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Testimony For the Record of

JESSICA TILLIPMAN
ASSOCIATE DEAN FOR GOVERNMENT PROCUREMENT LAW STUDIES
THE GEORGE WASHINGTON UNIVERSITY LAW SCHOOL

**Submitted to the United States Senate Committee on Small Business and
Entrepreneurship**

Running Government Like a Small Business: Cut Waste, Crush Fraud

December 10, 2025

Chair Ernst, Ranking Member Markey, and Members of the Committee:

Thank you for inviting me to submit written testimony for the record following the Committee’s hearing, “Running Government Like a Small Business: Cut Waste, Crush Fraud,” held on December 10, 2025.

I am Jessica Tillipman, the Associate Dean for Government Procurement Law Studies at the George Washington University Law School. In addition to leading the law school’s Government Procurement Law Program, I teach our foundational course on integrity, ethics, and compliance in government procurement law. My testimony reflects my own views and does not represent those of the George Washington University.

On December 5, 2025, the Small Business Administration (SBA) issued letters to all 4,300 participants in the 8(a) Business Development program—a federal contracting program for small business owners who are socially and economically disadvantaged—directing them to submit three years of financial records.¹ The initiative followed SBA Administrator Kelly Loeffler’s June 2025 announcement of a “full-scale audit” of the program.² The SBA set an initial deadline of January 5, 2026, later extended to January 19, 2026, and warned that noncompliance could result in loss of program eligibility and further investigative or remedial action.³ SBA justified the initiative in categorical terms, describing the program as a “pass-through vehicle for rampant abuse and fraud.”⁴

¹ U.S. SMALL BUS. ADMIN., News Release No. 26-12, *SBA Orders All 8(a) Participants to Provide Financial Records* (Dec. 5, 2025), <https://www.sba.gov/article/2025/12/05/sba-orders-all-8a-participants-provide-financial-records> [hereinafter SBA News Release 26-12]; U.S. SMALL BUS. ADMIN., News Release No. 25-26, *Administrator Loeffler Orders Full-Scale Audit of 8(a) Contracting Program* (June 27, 2025), <https://www.sba.gov/article/2025/06/27/administrator-loeffler-orders-full-scale-audit-8a-contracting-program> [hereinafter SBA News Release 25-26]; U.S. SMALL BUS. ADMIN., *8(a) Business Development Program*, <https://www.sba.gov/federal-contracting/contracting-assistance-programs/8a-business-development-program> (last visited Dec. 21, 2025).

² SBA News Release No. 25-26, *supra* note 1.

³ *See id.*; Bryan Tanifum, *SBA 8(A) Data Call – FAQs*, MY SBA CERTIFICATIONS KNOWLEDGE BASE (last updated Dec. 18, 2025), <https://sbaone.atlassian.net/wiki/spaces/UCPUKB/pages/4134469635/SBA+8+A+Data+Call+-+FAQs> (noting the extension to the submission deadline).

⁴ SBA News Release No. 26-12, *supra* note 1 (quoting a statement from SBA Administrator Loeffler).

That public framing makes the methodology of this audit consequential. A program-wide document request can surface anomalies and prioritize follow-up, but, standing alone, it does not establish intent or prove fraud.

The Government Accountability Office (GAO) and the SBA Office of Inspector General (SBA OIG) have documented integrity problems in SBA certification programs, including the 8(a) program.⁵ Those findings are significant, but they also highlight why methodology matters: the government should be able to distinguish, in a disciplined way, between evidence of misrepresentation and administrative noncompliance when it describes what this initiative reveals.

My testimony addresses four issues:

1. Federal procurement already relies on overlapping accountability mechanisms, and the credibility of oversight findings depends on independence and transparency.
2. “Fraud” is a legal conclusion with distinct evidentiary requirements and should not be treated as a synonym for error, missing documentation, or ineligibility.
3. GAO and SBA OIG audit findings document control failures across all SBA certification programs. They do not, however, establish that the 8(a) program is uniquely vulnerable or support claims of program-wide fraud.
4. The SBA has 25 unimplemented GAO recommendations addressing certification controls and monitoring processes, yet has initiated a population-wide audit of the 8(a) program before closing known control gaps or establishing transparent classification standards.

I. The Federal Procurement Integrity Architecture and Oversight Institutions

The United States has built a robust institutional architecture to prevent, detect, and punish procurement fraud: independent Inspectors General (IGs), Department of Justice (DOJ) enforcement, GAO oversight, and several different disclosure mechanisms.⁶ The system recognizes fraud risk as a persistent feature of large spending programs and addresses this risk through oversight and enforcement mechanisms tailored to different categories of misconduct: criminal prosecution for intentional fraud, civil penalties for recklessness, and administrative remedies for noncompliance.

⁵ See, e.g., U.S. GOV'T ACCOUNTABILITY OFF., GAO-14-706, 8(A) SUBCONTRACTING LIMITATIONS: CONTINUED NONCOMPLIANCE WITH MONITORING REQUIREMENTS SIGNALS NEED FOR REGULATORY CHANGE (2014), available at <https://www.gao.gov/products/gao-14-706>; U.S. GOV'T ACCOUNTABILITY OFF., GAO-10-425, 8(A) PROGRAM: FOURTEEN INELIGIBLE FIRMS RECEIVED \$325 MILLION IN SOLE-SOURCE AND SET-ASIDE CONTRACTS (2010), available at <https://www.gao.gov/products/gao-10-425> (report to the Chairwoman, H. Comm. on Small Bus.); U.S. SMALL BUS. ADMIN., REP. NO. 18-22, OFF. OF INSPECTOR GEN., IMPROVEMENTS NEEDED IN SBA'S OVERSIGHT OF 8(A) CONTINUING ELIGIBILITY PROCESSES (Sep. 7, 2018), <https://www.sba.gov/document/report-18-22-improvements-needed-sbas-oversight-8a-continuing-eligibility-processes>.

⁶ See generally Jessica Tillipman, *U.S. Federal Government Contracts: Anti-Corruption 101*, GW: BEYOND THE FAR, <https://blogs.gwu.edu/law-govpro/u-s-federal-government-contracts-anti-corruption-101/> [perma.cc/DL98-AK57] (citing Jessica Tillipman, *United States*, in ROUTLEDGE HANDBOOK OF PUBLIC PROCUREMENT CORRUPTION 519–20 (Sope Williams & Jessica Tillipman eds., 2024)).

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A. Oversight Infrastructure

This architecture relies on multiple overlapping institutions—an intentional redundancy designed to avoid a single point of failure. The system’s credibility depends on independent institutions, each with distinct authorities and reporting requirements, including:

- **Inspectors General.** The Inspector General Act of 1978 created independent officers within federal agencies to combat waste, fraud, and abuse.⁷ IGs conduct audits and investigations, and, when appropriate, they refer suspected criminal violations to DOJ and may refer contractor responsibility matters to agency suspension and debarment officials (SDOs). IGs report to both their agency heads and to Congress.⁸ Although housed within agencies, they are designed to operate independently and are insulated by statute and reporting requirements.⁹ The Council of the Inspectors General on Integrity and Efficiency (CIGIE) coordinates IG activities across the government and maintains Oversight.gov, a public repository of IG reports.¹⁰ In FY 2024, the IG community returned \$18 for every dollar spent.¹¹
- **Government Accountability Office.** GAO is an independent, nonpartisan agency that works for Congress and is often described as the “congressional watchdog.”¹² GAO conducts performance and financial audits, evaluations, and other reviews of federal operations, including procurement programs.¹³ GAO’s audit work is performed in accordance with generally accepted government auditing standards (GAGAS), known as the “Yellow Book.”¹⁴ GAO also provides an independent forum

⁷ Inspector General Act of 1978, Pub. L. No. 95-452, 92 Stat. 1101 (codified as amended at 5 U.S.C. §§ 401–424); see also 5 U.S.C. § 402(2)(B) (establishing the purpose “to prevent and detect fraud and abuse” in agency programs and operations).

⁸ 5 U.S.C. § 402(b)(3) (purpose includes keeping the head of the establishment and Congress “fully and currently informed”); BEN WILHELM, CONG. RSCH. SERV., R45450, STATUTORY INSPECTORS GENERAL IN THE FEDERAL GOVERNMENT: A PRIMER I (2023).

⁹ 5 U.S.C. § 403(a) (prohibiting the agency head or deputy from preventing or prohibiting an IG from initiating or completing audits/investigations); BEN WILHELM, R45450, *supra* note 8, at 1 (describing IGs as intended to be independent and able to report directly to Congress). For SBA specifically, OIG Semiannual Reports to Congress provide a recurring, publicly accessible record of investigations, audits, recommendations, and dollar accomplishments across SBA’s major program areas, including contracting and certification. See, e.g., U.S. SMALL BUS. ADMIN., OFF. OF INSPECTOR GEN., SEMIANNUAL REPORT TO CONGRESS (Nov. 25, 2025), available at <https://www.sba.gov/document/report-semiannual-report-congress>.

¹⁰ 5 U.S.C. § 424(a)(2) (CIGIE mission includes addressing integrity, economy, and effectiveness issues transcending individual agencies); COUNCIL OF THE INSPECTORS GEN. ON INTEGRITY & EFFICIENCY, ANNUAL REPORT TO THE PRESIDENT AND CONGRESS: FISCAL YEAR 2024 7 (2025), available at https://www.ignet.gov/sites/default/files/files/CIGIE%20Annual%20Report%20to%20the%20President%20FY2024_FINAL.pdf [hereinafter FY24 CIGIE Report] (noting CIGIE’s administration of Oversight.gov).

¹¹ FY24 CIGIE Report, *supra* note 10, at 3 (reporting an “approximate \$18 return on every dollar invested in OIGs.”).

¹² *About*, U.S. GOV’T ACCOUNTABILITY OFF., <https://www.gao.gov/about> (last visited Dec. 21, 2025).

¹³ See *What GAO Does*, U.S. GOV’T ACCOUNTABILITY OFF., <https://www.gao.gov/about/what-gao-does> (last visited Dec. 21, 2025); *Federal Contracting*, U.S. GOV’T ACCOUNTABILITY OFF., <https://www.gao.gov/federal-contracting> (last visited Dec. 21, 2025).

¹⁴ U.S. GOV’T ACCOUNTABILITY OFF., GAO-24-106786, GOVERNMENT AUDITING STANDARDS: 2024 REVISION (Feb. 1, 2024), <https://www.gao.gov/products/gao-24-106786>; *Yellow Book: Government Auditing Standards*, U.S. GOV’T ACCOUNTABILITY OFF., <https://www.gao.gov/yellowbook> (last visited Dec. 21, 2025).

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for resolving federal procurement bid protests.¹⁵ In FY 2024, GAO reported \$67.5 billion in financial benefits, about a \$76 return for every dollar invested in the agency.¹⁶

- **Bid Protests and Eligibility Challenges.** The bid protest system enables contractors to challenge solicitation terms or contract awards to ensure agency actions comply with federal procurement law.¹⁷ Protests may be filed with GAO, the U.S. Court of Federal Claims, or the procuring agency.¹⁸ Separately, SBA eligibility disputes, including appeals to SBA’s Office of Hearings and Appeals (OHA), allow competitors to contest whether an awardee qualifies for small-business programs.¹⁹ Because standing to bring these challenges is generally limited to firms with a direct economic stake, bid protests and SBA eligibility challenges create a practical incentive for competitors to identify and challenge legal violations and eligibility defects.
- **Disclosures and Whistleblower Protections.** Fraud is notoriously difficult to detect, even with robust oversight institutions.²⁰ To enhance detection, the government incentivizes reporting through mandatory disclosure requirements, voluntary disclosure incentives, whistleblower protections, and financial rewards.²¹ These mechanisms feed the oversight infrastructure, enabling IGs and DOJ to investigate wrongdoing that might otherwise go undetected.

B. Recent Developments Affecting Oversight Capacity

The U.S. procurement integrity architecture is only as effective as its independence, staffing, and transparency. Recent events have tested these foundations.

¹⁵ U.S. GOV’T ACCOUNTABILITY OFF., GAO-18-510SP, BID PROTESTS AT GAO: A DESCRIPTIVE GUIDE 4 (10th ed. May 2018), <https://www.gao.gov/assets/gao-18-510sp.pdf>.

¹⁶ U.S. GOV’T ACCOUNTABILITY OFF., GAO-25-900570, PERFORMANCE AND ACCOUNTABILITY REPORT, FISCAL YEAR 2024, at iii (Nov. 15, 2024), <https://www.gao.gov/products/gao-25-900570>.

¹⁷ See 31 U.S.C. § 3551(1) (defining “protest”); 28 U.S.C. § 1491(b)(1) (vesting protest authority in the U.S. Court of Federal Claims); FAR 33.1 (regulation governing protests).

¹⁸ FAR 33.101(2)(ii)(4) (“Protest venue means protests filed with the agency, the Government Accountability Office, or the U.S. Court of Federal Claims. U.S. District Courts do not have any bid protest jurisdiction.”); 31 U.S.C. § 3556.

¹⁹ See *About SBA, Office of Hearings and Appeals*, U.S. SMALL BUS. ADMIN., <https://www.sba.gov/about-sba/oversight-advocacy/office-hearings-appeals> (last visited Dec. 21, 2025).

²⁰ See U.S. GOV’T ACCOUNTABILITY OFF., GAO-25-107721, STANDARDS FOR INTERNAL CONTROL IN THE FEDERAL GOVERNMENT 63–68 (May 15, 2025), <https://www.gao.gov/products/gao-25-107721> (explaining that because fraud is committed and concealed through misrepresentation, detection can be difficult).

²¹ See, e.g., FAR 52.203-13(b)(3)(i) (requiring timely written disclosure to the agency OIG, with copy to the contracting officer, upon “credible evidence” of specified criminal law violations or FCA violations in connection with a federal contract); FAR 3.1003(a) (addressing consequences for knowing failure to timely disclose credible evidence of a significant overpayment); U.S. DEP’T OF JUST., CRIM. DIV., 9-47.120 - CRIMINAL DIVISION CORPORATE ENFORCEMENT AND VOLUNTARY SELF-DISCLOSURE POLICY 1–8 (last updated May 12, 2025), available at <https://www.justice.gov/criminal/media/1400031/dl?inline> (describing declination and other resolution benefits tied to voluntary self-disclosure, cooperation, and remediation); 5 U.S.C. § 2302(b)(8)(B) (establishing federal employee whistleblower retaliation as a prohibited personnel practice); 41 U.S.C. § 4712(a) (protecting employees of contractors, subcontractors, and grantees from reprisal for certain disclosures); 31 U.S.C. § 3730(d)(1)–(2) (*qui tam* plaintiff share of proceeds, creating a financial incentive).

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On January 24, 2025, President Trump removed at least a dozen (and reportedly up to 17) agency inspectors general in a single action, prompting congressional scrutiny over the Inspector General Act’s notice requirements and subsequent legal challenges that focused on IG independence and statutory compliance.²²

CIGIE faced a funding cutoff after the Office of Management and Budget (OMB) withheld apportionment, resulting in staff furloughs and disruptions to shared oversight functions, including public access to Oversight.gov—a critical transparency resource.²³ Funding was later released after congressional inquiries and pressure.²⁴

These developments are directly relevant to the current 8(a) review because perceived independence and transparency affect how the public and program participants assess oversight findings. In June 2025, SBA announced a “full-scale audit” of the 8(a) program to be led by the SBA Office of General Contracting and Business Development—an internal program office, not an independent oversight body—with findings referred to the SBA OIG and DOJ as appropriate.²⁵ By December, as the Committee is aware, SBA had initiated a program-wide records demand citing “mounting evidence” of fraud and “institutionalized abuse.”²⁶

On December 8, 2025, the Chair of this Committee sent letters to twenty-two federal agencies directing them to examine “all sole-source 8(a) contracts awarded” and “all 8(a) set-aside contracts awarded” since FY 2020 “for any violation of laws and regulations pertaining to 8(a) program eligibility” and “any other fraudulent or improper activity,” with reports due

²² See Sean Michael Newhouse, *Trump Fires Multiple Agency Inspectors General*, GOV’T EXEC. (Jan. 25, 2025), <https://www.govexec.com/oversight/2025/01/trump-fires-multiple-agency-inspectors-general/402504/>; BEN WILHELM, CONG. RSCH. SERV., IF11546, REMOVAL OF INSPECTORS GENERAL: RULES, PRACTICE, AND CONSIDERATIONS FOR CONGRESS 2 (2025), <https://www.congress.gov/crs-product/IF11546>; Heckman, *Judge Finds Trump Unlawfully Fired Agency IGs, but Won’t Reinstate Them*, FED. NEWS NETWORK (Sept. 24, 2025, at 18:23 ET), <https://federalnewsnetwork.com/agency-oversight/2025/09/trump-unlawfully-fired-17-agency-igs-judge-finds-but-wont-reinstate-them/>.

²³ See Meryl Kornfield, *Trump Administration Moves to Defund Inspector General Watchdog Group*, WASH. POST (Sep. 30, 2025), <https://www.washingtonpost.com/politics/2025/09/30/inspector-general-watchdog-cuts-trump/>; Natalie Alms, *Judiciary Democrats Launch Watchdog Website Amid Withheld Funding from Inspector General Group*, NEXTGOV/FCW (Oct. 16, 2025), <https://www.nextgov.com/digital-government/2025/10/judiciary-democrats-launch-watchdog-website-amid-withheld-funding-inspector-general-group/408861/>.

²⁴ See Sean Michael Newhouse & Natalie Alms, *Trump Administration Resumes Funding for Inspectors General Hub After Previously Blocking It*, GOV’T EXEC. (Nov. 18, 2025), <https://www.govexec.com/oversight/2025/11/trump-administration-resumes-funding-inspectors-general-hub-after-previously-blocking-it/409615/>; Meryl Kornfield & Hannah Natanson, *Trump Administration Revives Some Funding for IG Group*, WASH. POST (Nov. 18, 2025), <https://www.washingtonpost.com/politics/2025/11/18/trump-administration-revives-some-funding-ig-group/>; Press Release, U.S. S. Comm. Judiciary, Grassley, Collins Urge OMB to Release Appropriated Inspector General Funds (Sept. 30, 2025), <https://www.judiciary.senate.gov/press/rep/releases/grassley-collins-urge-omb-to-release-appropriated-inspector-general-funds>; Press Release, U.S. S. Comm. on Judiciary, OMB Releases Nearly \$4.3 Million for CIGIE Following Push by Grassley, Collins (Nov. 18, 2025), <https://www.judiciary.senate.gov/press/rep/releases/omb-releases-nearly-43-million-for-cigie-following-push-by-grassley-collins>.

²⁵ SBA News Release 25-26, *supra* note 1.

²⁶ SBA News Release 26-12, *supra* note 1.

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December 22, 2025.²⁷ The Chair’s correspondence and accompanying press release described the 8(a) program’s “no-bid, unlimited sole-source” authority as a “fraud magnet” and called it a “fraud-filled” program.²⁸

Because both the SBA and this Committee have publicly characterized the program in categorical terms before establishing transparent classification rules, any public reporting must clearly distinguish among documentation deficiencies, administrative ineligibility, and matters referred for investigation. Without those distinctions, findings risk conflating administrative gaps with fraud.

II. Words Matter: “Fraud” Is Not a Synonym for “Administrative Error”

In procurement oversight, proper labels drive remedies. Using “fraud” as a catchall collapses distinct categories, producing misleading conclusions, confusing the public, and undermining faith in public institutions.

A. Defining “Fraud” Under Federal Law

Integrity failures operate on a spectrum. Federal law uses distinct legal regimes that turn on different scienter requirements and decision-making forums, ranging from criminal prosecution to administrative remedies.²⁹ Oversight reporting should use terms that reflect those legal distinctions, because the label attached to an issue can shape the enforcement pathway, the consequences that follow, and the resulting public impression of any action taken.

- **Criminal Fraud.** Federal criminal fraud and false-statement offenses are punitive and require proof beyond a reasonable doubt that the defendant acted with a culpable mental state, not merely that information was inaccurate.³⁰ Some fraud statutes, including mail fraud, wire fraud, and major fraud against the United States (18 U.S.C. §§ 1341, 1343, 1031), generally require the government to prove an intent to defraud.³¹ Related Title 18 offenses often charged in government contracting matters

²⁷ Letters from Joni K. Ernst, Chair, S. Comm. on Small Bus. & Entrepreneurship, to Twenty-Two Federal Agency Heads (Dec. 8, 2025), available at <https://www.ernst.senate.gov/imo/media/doc/12082025sba8aprogramfinalletters.pdf> (collection of all twenty-two letters).

²⁸ *Id.*; Press Release, Joni K. Ernst, Chair, S. Comm. on Small Bus. & Entrepreneurship, Ernst Calls for Complete Halt and Full Audit of Fraud-Filled Contracting Program (Dec. 8, 2025), <https://www.ernst.senate.gov/news/press-releases/ernst-calls-for-complete-halt-and-full-audit-of-fraud-filled-contracting-program>.

²⁹ Compare 18 U.S.C. §§ 1341, 1343, 1031 with 31 U.S.C. §§ 3729–3733 and 31 U.S.C. § 3729(b)(1)(A)(i)–(iii). These statutory schemes are detailed further below.

³⁰ See MICHAEL A. FOSTER, CONG. RSCH. SERV., R46836, MENS REA: AN OVERVIEW OF STATE-OF-MIND REQUIREMENTS FOR FEDERAL CRIMINAL OFFENSES (2021), available at <https://www.congress.gov/crs-product/R46836>.

³¹ See, e.g., U.S. DEP’T OF JUST., CRIM. RES. MANUAL § 940, 18 U.S.C. SECTION 1341, ELEMENTS OF MAIL FRAUD (ARCHIVED), <https://www.justice.gov/archives/jm/criminal-resource-manual-940-18-usc-section-1341-elements-mail-fraud> (last visited Dec. 21, 2025); U.S. DEP’T OF JUST., CRIM. RES. MANUAL § 941, 18 U.S.C. § 1343, ELEMENTS OF WIRE FRAUD (archived), available at <https://www.justice.gov/archives/jm/criminal-resource-manual-941-18-usc-1343-elements-wire-fraud> (last visited Dec. 20, 2025); U.S. DEP’T OF JUST., CRIM. RES. MANUAL § 930, MAJOR FRAUD AGAINST THE U.S. (18 U.S.C. § 1031) (archived), available at

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also require knowing and willful misconduct, including knowingly presenting a false claim (§ 287), making a materially false statement knowingly and willfully with intent to mislead (§ 1001), or conspiring to commit an offense or to impair lawful government functions through deceit (§ 371).³² Consistent with that criminal focus on willfulness and intent, GAO describes fraud as obtaining a thing of value through willful misrepresentation and emphasizes that whether conduct is “fraud” can only be determined through the judicial or other adjudicative system.³³ These offenses are typically felonies punishable by significant fines and imprisonment.³⁴

- **False Claims Act Liability.** The False Claims Act (FCA)³⁵ is a civil statute that imposes liability when a person acts “knowingly,” a standard that includes reckless disregard and does not require proof of specific intent to defraud.³⁶ The FCA creates civil liability for, among other things, knowingly presenting (or causing to be presented) false claims, using false records or statements material to false claims, conspiring to violate the Act, and knowingly concealing or improperly avoiding obligations to pay the government.³⁷ The statute defines “knowingly” to include actual knowledge, deliberate ignorance, and reckless disregard.³⁸ The FCA is not aimed at “honest mistakes or incorrect claims submitted through mere negligence.”³⁹ A defendant found liable under the FCA faces treble damages plus per-claim civil penalties.⁴⁰ The FCA’s qui tam provisions allow private citizens to file suit on the government’s behalf and receive 15–30 percent of any recovery.⁴¹

<https://www.justice.gov/archives/jm/criminal-resource-manual-930-major-fraud-against-us> (last visited Dec. 21, 2025).

³² U.S. DEP’T OF JUST., CRIM. RES. MANUAL § 922, ELEMENTS OF 18 U.S.C. § 287 (archived), available at <https://www.justice.gov/archives/jm/criminal-resource-manual-922-elements-18-usc-287> (last visited Dec. 21, 2025); U.S. DEP’T OF JUST., CRIM. RES. MANUAL § 910, KNOWINGLY AND WILLFULLY (archived), <https://www.justice.gov/archives/jm/criminal-resource-manual-910-knowingly-and-willfully> (last visited Dec. 21, 2025) available at (explaining the term used in 18 U.S.C. § 1001); U.S. DEP’T OF JUST., CRIM. RES. MANUAL § 923, 18 U.S.C. § 371—CONSPIRACY TO DEFRAUD THE UNITED STATES (archived), <https://www.justice.gov/archives/jm/criminal-resource-manual-923-18-usc-371-conspiracy-defraud-us> (last visited Dec. 21, 2025); see also *Hammerschmidt v. United States*, 265 U.S. 182, 188 (1924) (“To conspire to defraud the United States means primarily to cheat the government out of property or money, but it also means to interfere with or obstruct one of its lawful governmental functions by deceit, craft or trickery, or at least by means that are dishonest.”).

³³ U.S. GOV’T ACCOUNTABILITY OFF., GAO-24-106608, IMPROPER PAYMENTS AND FRAUD: HOW THEY ARE RELATED BUT DIFFERENT 1, 3 (Dec. 7, 2023), <https://www.gao.gov/assets/d24/106608.pdf>.

³⁴ 18 U.S.C. §§ 287, 371, 1001, 1341, 1343, 1031

³⁵ See False Claims Act, 31 U.S.C. §§ 3729–3733.

³⁶ 31 U.S.C. §§ 3729(a)(1), (b)(1).

³⁷ *Id.*

³⁸ 31 U.S.C. § 3729(b)(1)(A)(i)–(iii). DOJ’s annual Civil Division statistics provide a public benchmark for FCA enforcement volume and recoveries. In fiscal year 2024, DOJ reported more than 550 FCA settlements and judgments totaling more than \$2.9 billion. Press Release, Off. of Pub. Affs., U.S. Dep’t of Just., False Claims Act Settlements and Judgments Exceed \$2.9B in Fiscal Year 2024 (Jan. 15, 2025), <https://www.justice.gov/archives/opa/pr/false-claims-act-settlements-and-judgments-exceed-29b-fiscal-year-2024>.

³⁹ S. REP. NO. 99-345, at 7, 22 (1986), available at <https://www.justice.gov/sites/default/files/jmd/legacy/2013/10/31/senatorept-99-345-1986.pdf>.

⁴⁰ 31 U.S.C. § 3729(a)(1); see also *The False Claims Act*, U.S. DEP’T OF JUST., CIVIL DIV. (last updated Jan. 15, 2025), <https://www.justice.gov/civil/false-claims-act>.

⁴¹ 31 U.S.C. § 3730(d)(1)–(2) (2022); U.S. DEP’T OF JUST., THE FALSE CLAIMS ACT: A PRIMER 2 (Apr. 22, 2011), available at https://www.justice.gov/d9/civil/legacy/2011/04/22/C-FRAUDS_FCA_Primer.pdf.

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- **Administrative False Claims Act.** Formerly the Program Fraud Civil Remedies Act (PFCRA), the Administrative False Claims Act⁴² authorizes agencies to adjudicate certain false-claim and false-statement matters through administrative proceedings, generally limited to claims not exceeding \$1,000,000 (inflation-adjusted), subject to judicial review and judicial enforcement in federal court.⁴³

B. Administrative & Oversight Failures

Conduct that does not meet the legal definition of fraud can still trigger serious consequences. Federal law authorizes agencies to terminate contracts, suspend and debar contractors from future awards, recover improper payments, impose civil penalties, and take adverse action against personnel responsible for waste, mismanagement, or abuse. These administrative enforcement mechanisms often yield faster, more certain accountability than criminal prosecution.

- **Improper Payments.** Improper payments are a statutory category that is broader than fraud.⁴⁴ Under the Payment Integrity Information Act framework, an “improper payment” includes payments that should not have been made or were made in an incorrect amount, including overpayments, underpayments, payments to ineligible recipients, duplicate payments, and other statutorily identified payment errors.⁴⁵ Agencies also treat payments as improper when the payment’s propriety cannot be determined because supporting documentation is lacking or insufficient.⁴⁶ GAO explains that “while all fraudulent payments are considered improper, not all improper payments are due to fraud.”⁴⁷ Non-fraud improper payments can result from unintentional administrative errors, payments made in the correct amount but without following applicable legal requirements, or documentation deficiencies.⁴⁸ Since fiscal year 2003, cumulative executive-branch improper payment estimates have totaled about \$2.8 trillion, reflecting the full range of payment errors and unverified payments rather than fraud losses.⁴⁹

⁴² 31 U.S.C. §§ 3801–3812.

⁴³ 31 U.S.C. §§ 3803(c)(1)(A)–(B), (c)(3), 3805–3806; *see also* U.S. GOV’T ACCOUNTABILITY OFF., GAO-12-275R, PROGRAM FRAUD CIVIL REMEDIES ACT: OBSERVATIONS ON IMPLEMENTATION (2012), available at <https://www.gao.gov/products/gao-12-275r>.

⁴⁴ *See* GAO-24-106608, *supra* note 33, at 1–3.

⁴⁵ 31 U.S.C. § 3351(4); *see also* U.S. GOV’T ACCOUNTABILITY OFF., GAO-24-107482, IMPROPER PAYMENTS: KEY CONCEPTS AND INFORMATION ON PROGRAMS WITH HIGH RATES OR LACKING ESTIMATES 1 (2024), available at <https://www.gao.gov/assets/gao-24-107482.pdf>.

⁴⁶ GAO-24-107482, *supra* note 45, at 2.

⁴⁷ GAO-24-106608, *supra* note 33, at 2.

⁴⁸ *Id.*

⁴⁹ U.S. GOV’T ACCOUNTABILITY OFF., GAO-25-107753, IMPROPER PAYMENTS: INFORMATION ON AGENCIES’ FISCAL YEAR 2024 ESTIMATES 1 (2025), available at <https://www.gao.gov/assets/gao-25-107753.pdf>; *see also* U.S. GOV’T ACCOUNTABILITY OFF., GAO-24-107482, *supra* note 45, at 6 (explaining improper payment estimates are not intended to reflect the extent of fraud in a program).

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- **Waste.** GAO defines waste as “squandering money or resources, even if not explicitly illegal.”⁵⁰ Examples include buying overpriced equipment, buying unnecessary equipment, or paying for goods or services that go unused.⁵¹ Waste often reflects inefficiency or poor stewardship and, unlike fraud, does not necessarily involve a legal violation.⁵²
- **Mismanagement.** Mismanagement involves “creating a substantial risk to an agency’s ability to accomplish its mission.”⁵³ Examples GAO uses include continuing to pay utility bills for formerly leased office space, stockpiling equipment beyond its shelf-life, or renewing technical support for software an agency no longer uses.⁵⁴ Mismanagement concerns deficient management practices that can occur without the willful misrepresentation characteristic of fraud.
- **Abuse.** GAO distinguishes between abuse, fraud, and improper payments.⁵⁵ Abuse occurs when someone “behaves improperly or unreasonably, or misuses a position or authority.”⁵⁶ Abuse can be serious and may signal fraud risk, but GAO defines fraud as obtaining something of value through willful misrepresentation, so conduct characterized as abuse is not necessarily fraud absent willful misrepresentation.⁵⁷

C. Why the Distinctions Matter

These categories require different responses. Criminal fraud warrants prosecution. False Claims Act violations warrant civil enforcement and treble damages. Improper payments require corrective action and improved controls. Abuse warrants corrective action. Waste and mismanagement require management reform.

When oversight findings conflate these categories, such as labeling documentation gaps as “fraud” or treating all improper payments as criminal conduct, the result distorts reality, misallocates enforcement resources, unfairly stigmatizes program participants, and hinders the actual reforms needed to improve program integrity.

GAO has been explicit: “improper payment determinations are made by agency officials while fraud determinations can only be made through the judicial or other adjudicative system.”⁵⁸ In practice, that means administrative reviews can surface documentation

⁵⁰ U.S. GOV’T ACCOUNTABILITY OFF., FRAUD, WASTE, ABUSE, AND MISMANAGEMENT (Apr. 2020), https://www.gao.gov/assets/2020-04/FraudNet_Infographic_0420-update.pdf [hereinafter GAO FraudNet Infographic].

⁵¹ *Id.*

⁵² U.S. GOV’T ACCOUNTABILITY OFF., GAO-24-107198, GAO OVERVIEW: UNDERSTANDING WASTE IN FEDERAL PROGRAMS (2024), available at <https://www.gao.gov/products/gao-24-107198>; *Fraud & Improper Payments*, U.S. GOV’T ACCOUNTABILITY OFF., <https://www.gao.gov/fraud-improper-payments> (last visited Dec. 21, 2025).

⁵³ GAO FraudNet Infographic, *supra* note 50.

⁵⁴ *Id.*

⁵⁵ *Fraud & Improper Payments*, U.S. GOV’T ACCOUNTABILITY OFF., <https://www.gao.gov/fraud-improper-payments> (last visited Dec. 20, 2025).

⁵⁶ U.S. GOV’T ACCOUNTABILITY OFF., GAO-24-106458, UNDERSTANDING ABUSE OF FEDERAL RESOURCES 1 (2023), available at <https://www.gao.gov/assets/d24106458.pdf>.

⁵⁷ *See id.* at 1 (noting abuse can be an indicator of further malfeasance); GAO-24-106608, *supra* note 33 at 1 (defining fraud as obtaining a thing of value through willful misrepresentation).

⁵⁸ GAO-24-106608, *supra* note 33 at 1, 3.

problems, eligibility concerns, and leads that warrant follow-up or referral, but public characterizations should not collapse those categories into “fraud” absent an adjudicative finding.

III. Historic Oversight Findings Across SBA Contracting Programs

GAO and SBA OIG have repeatedly examined integrity risks across the SBA’s small-business certification programs, resulting in a substantial oversight record.⁵⁹ Their work identifies recurring patterns, including weak front-end verification, inconsistent monitoring of continued eligibility, ineligible firms admitted or retained in programs, and systems that did not reliably detect or resolve eligibility problems.⁶⁰ Across multiple programs, these reviews document substantial contract dollars awarded to ineligible firms and, in investigative matters, specific instances of apparent misrepresentation.⁶¹

The question is what these findings establish about the current 8(a) program and what inferences they support.

First, integrity vulnerabilities exist across SBA certification programs and are not unique to 8(a). In at least one cross-program comparison, GAO observed that some programs lacked front-end documentation controls, “unlike . . . the HUBZone and 8(a) programs,” suggesting that 8(a) is not uniquely vulnerable with respect to initial documentation-based eligibility controls.⁶²

Second, audit findings primarily measure eligibility status and control effectiveness, not intent. A finding that a firm was ineligible does not, by itself, establish fraud. As previously noted, GAO has emphasized that fraud determinations “can only be made through the judicial or other adjudicative system.”⁶³

⁵⁹ See, e.g., GAO-10-425, *supra* note 5; U.S. GOV’T ACCOUNTABILITY OFF., GAO-08-964T, HUBZONE PROGRAM: SBA’S CONTROL WEAKNESSES EXPOSED THE GOVERNMENT TO FRAUD AND ABUSE (2008), available at <https://www.gao.gov/assets/gao-08-964t.pdf>; U.S. GOV’T ACCOUNTABILITY OFF., GAO-10-108, SERVICE-DISABLED VETERAN-OWNED SMALL BUSINESS PROGRAM: CASE STUDIES SHOW FRAUD AND ABUSE ALLOWED INELIGIBLE FIRMS TO OBTAIN MILLIONS OF DOLLARS IN CONTRACTS (2009), available at <https://www.gao.gov/assets/gao-10-108.pdf>; U.S. SMALL BUS. ADMIN. OFF. OF INSPECTOR GEN., REP. NO. 18-22, IMPROVEMENTS NEEDED IN SBA’S OVERSIGHT OF 8(A) CONTINUING ELIGIBILITY PROCESSES (Sept. 7, 2018), available at <https://www.oversight.gov/sites/default/files/documents/reports/2018-09/SBA-OIG-Report%2018-22.pdf> [hereinafter SBA OIG REP. NO. 18-22].

⁶⁰ See, e.g., GAO-08-964T, *supra* note 59, at 1–4, 7–10 (undercover approvals; investigation of 17 firms and eligibility failures); U.S. GOV’T ACCOUNTABILITY OFF., GAO-19-168, WOMEN-OWNED SMALL BUSINESS PROGRAM: ACTIONS NEEDED TO ADDRESS ONGOING OVERSIGHT ISSUES 11–17 (2019), available at <https://www.gao.gov/assets/gao-19-168.pdf> (ongoing oversight deficiencies; continued self-certification risks); SBA OIG REP. NO. 18-22, *supra* note 59, at 1 (inconsistent identification and removal of ineligible 8(a) firms).

⁶¹ See, e.g., GAO-10-425, *supra* note 5, at 7 (14 ineligible firms; \$325 million; evidence of misrepresentation by officials at 13 firms); GAO-08-964T, *supra* note 59, at 10 (more than \$105 million obligated to 10 ineligible HUBZone firms); GAO-10-108, *supra* note 59, at 1 (10 SDVOSB case-study firms; approximately \$100 million).

⁶² GAO-10-108, *supra* note 59, at 14 (stating that, “[u]nlike other small business contracting programs, such as the HUBZone and 8(a) programs, there also are no documentation submissions to substantiate eligibility” for the SDVOSB program).

⁶³ GAO-24-106608, *supra* note 33, at 3.

Third, investigative audits identify vulnerabilities but generally do not measure pervasiveness. GAO’s investigations explicitly caution that they “did not attempt to project the extent of fraud and abuse” in the programs examined.⁶⁴ Those findings show that control weaknesses can be exploited; they do not, standing alone, establish how often exploitation occurs across the entire program participant population.

IV. Recent Enforcement Actions and the Path to a Population-Wide Audit

SBA has cited recent enforcement actions as justification for its December 5 population-wide records demand. Understanding the timeline clarifies what these cases do—and do not—demonstrate about the need for such a review.

- **The USAID Bribery Scheme (June 2025).** On June 12, 2025, the DOJ announced guilty pleas by a U.S. Agency for International Development (USAID) contracting officer and three company principals arising from a decade-long bribery scheme involving at least fourteen prime contracts worth over \$550 million.⁶⁵ DOJ alleged that the contracting officer received bribes valued at more than approximately \$1 million in exchange for steering procurement actions benefiting two SBA 8(a) contractors.⁶⁶ Following those disclosures, SBA ordered a full-scale audit of the 8(a) program, beginning with high-dollar and limited-competition awards and extending back fifteen years.⁶⁷
- **The ATI Suspension (October 2025).** SBA suspended ATI Government Solutions in October 2025 amid allegations that the firm operated as a pass-through entity⁶⁸ in connection with 8(a) contracting.⁶⁹ Treasury subsequently stated that it suspended and terminated all contracts and task orders with ATI following allegations involving more than \$253 million in previously issued contract awards.⁷⁰

Both cases show that existing oversight mechanisms can detect and punish wrongdoing. Neither case establishes that the 4,300 8(a) participants are engaged in fraud or that the program is systematically a “pass-through vehicle.” In the USAID matter, DOJ reported guilty pleas arising from a decade-long bribery scheme involving a contracting officer. Those

⁶⁴ GAO-10-108, *supra* note 59, at Highlights; GAO-10-425, *supra* note 5, at Highlights (same caveat).

⁶⁵ Press Release, U.S. Dep’t of Justice., USAID Official and Three Corporate Executives Plead Guilty to Decade-Long Bribery Scheme Involving Over \$550 Million in Contracts; Two Companies Admit Criminal Liability for Bribery Scheme and Securities Fraud (June 12, 2025), <https://www.justice.gov/opa/pr/usaaid-official-and-three-corporate-executives-plead-guilty-decade-long-bribery-scheme>.

⁶⁶ *Id.*

⁶⁷ SBA News Release 25-26, *supra* note 1.

⁶⁸ “Pass-through” arrangements involve a small business prime serving as a conduit for a large ineligible firm that actually controls and performs the work. See 15 U.S.C. § 657s; 13 C.F.R. § 125.6; FAR 52.219-14.

⁶⁹ Jason Miller, *SBA Sends Another Shot Across 8(a) Program Bow*, FED. NEWS NETWORK (Oct. 30, 2025), <https://federalnewsnetwork.com/acquisition-policy/2025/10/sba-sends-another-shot-across-8a-program-bow/>; see also Brian Edwards, *SBA Suspends Tribal Contractor Amid Fraud Investigation into 8(a) Program*, TRIBAL BUS. NEWS (Oct. 26, 2025) (describing effective date and “pass-through” allegations), <https://tribalbusinessnews.com/sections/federal-8-a-contracting/15347-sba-suspends-tribal-contractor>.

⁷⁰ Press Release SB-0309, U.S. Dep’t of the Treasury, Treasury Orders Department-Wide Investigation into Potential Fraud Across Contracting Programs (Nov. 6, 2025), <https://home.treasury.gov/news/press-releases/sb0309>.

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prosecutions involved 8(a) firms, but they did not establish program-wide participant fraud.⁷¹ The ATI matter involved allegations concerning a single firm and related entities/individuals, not a representative sample.⁷²

A response calibrated to those findings would focus on contracting officer oversight, affiliation analysis, and companies with unusual subcontracting patterns—not a compressed document demand covering every participant regardless of risk indicators. Screening can be helpful for triage and generating leads, but characterizing it as a response to “rampant abuse and fraud” assumes what the screening is supposed to examine.

V. The Mismatch Between Diagnosed Problems and the Tool Chosen

GAO and SBA OIG have documented recurring risk concentrations in SBA certification and contracting programs, including weak controls, inconsistent verification, monitoring breakdowns, and weaknesses in data and systems governance.⁷³ Since June 2020, GAO has made 42 recommendations to SBA; SBA has implemented 17, leaving 25 unimplemented.⁷⁴ These include recommendations addressing “critical” risk-management and cybersecurity issues in SBA’s certification platform.⁷⁵ SBA OIG’s 8(a) oversight work reflects a similar pattern of recurring findings and partial corrective actions, including repeated attention to continuing eligibility monitoring and complaint-handling controls.⁷⁶

A. Methodological Limitations of the Present SBA Initiative

SBA has publicly announced a “full-scale audit” of the 8(a) program, requiring all participants to submit extensive financial documentation on a compressed timeline. SBA initially set a 30-day deadline running through the Christmas and New Year holidays, later extended to January 19, 2026. The document request is organized into thirteen categories and includes, among other items, general ledgers and trial balances (in CSV), year-end bank statements and reconciliations, monthly payroll registers/reconciliations, employee-by-

⁷¹ See Deferred Prosecution Agreement Attachment A, at A1–A10, *United States v. Watson*, No. 8:25-cr-00174-PX, Statement of Facts (D. Md. June 12, 2025) Dkt. No. 3-1, available at <https://www.justice.gov/criminal/media/1413956>.

⁷² See *supra* notes 68–70 and accompanying text.

⁷³ U.S. GOV’T ACCOUNTABILITY OFF., GAO-25-106963, IT MODERNIZATION: SBA URGENTLY NEEDS TO ADDRESS RISKS ON NEWLY DEPLOYED SYSTEM 1–4, 35–35 (2024), available at <https://www.gao.gov/assets/gao-25-106963.pdf> (finding SBA had not fully implemented leading practices for risk management and cybersecurity for the Unified Certification Platform); SBA OIG Rep. No. 18-22, *supra* note 5, at 1 (finding failures in required continuing-eligibility reviews and complaint logging).

⁷⁴ U.S. GOV’T ACCOUNTABILITY OFF., GAO-26-108820, SMALL BUSINESS ADMINISTRATION: OPPORTUNITIES TO BETTER MANAGE FRAUD RISKS, IMPROPER PAYMENTS, AND CONTRACTING PROGRAMS 2 (2025), available at <https://www.gao.gov/assets/gao-26-108820.pdf> (testimony) (stating GAO discussed SBA’s efforts to address 42 recommendations since June 2020 and that SBA had implemented 17).

⁷⁵ GAO-26-108820, *supra* note 74, at 2 (“SBA has not addressed 14 recommendations intended to address critical risk management and cybersecurity issues associated with its small business certification platform.”); GAO-25-106963, *supra* note 73, at 1 (stating GAO recommended SBA “expeditiously address[] critical risk management issues” and “critical cybersecurity issues”).

⁷⁶ See SBA OIG Rep. No. 18-22, *supra* note 5, at 1 (identifying monitoring and complaint-handling gaps); U.S. SMALL BUS. ADMIN. OFF. OF INSPECTOR GEN., REP. NO. 20-19, SBA’S CORRECTIVE ACTIONS TO REDUCE 8(A) FIRM ELIGIBILITY RISKS 2–4 (Sept. 15, 2020), available at <https://www.sba.gov/sites/default/files/2020-09/Final%20Report%20-%208a%29%20BD%20Program%20follow%20up-508.pdf> (follow-up inspection verifying corrective actions implemented and effective for selected weaknesses).

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contract listings, 8(a) contract files, subcontracting agreements, and sub-ledger schedules tying to year-end trial balance accounts.⁷⁷ Even with the extension, the initiative is a population-wide production demand, and SBA has warned that failure to comply may result in loss of eligibility for continued participation and other investigative or remedial actions.

Three methodological issues affect how any resulting findings should be interpreted.

First, a compressed, standardized document demand is likely to measure recordkeeping capacity and responsiveness at least as much as misconduct. Late, incomplete, or nonconforming submissions may reflect an 8(a) participant’s administrative constraints rather than intentional deception. SBA may use broad document requests to surface issues for follow-up, but nonproduction or noncompliance with format requirements, by itself, does not establish intent to defraud. SBA regulations identify as “good cause” for termination a pattern of failure to make required submissions or responses in a timely manner, including failure to provide “other requested information or data within 30 days of the date of request.”⁷⁸ Thus, the request’s design can have direct consequences for program participation independent of any finding of fraud or intent to deceive.

Second, document production does not establish intent. Missing records and eligibility questions may warrant further review and, in appropriate cases, referral to the SBA OIG or DOJ, but intent is a separate evidentiary question resolved through adjudicative or enforcement processes.⁷⁹

Third, SBA is not required to show that 8(a) is “worse than” other programs to pursue an integrity intervention. But if SBA or others use this initiative to make comparative claims about fraud across programs, those claims would require comparable measurement and a methodology designed for that purpose.

A program-wide records request can be a legitimate integrity tool when used to identify issues for follow-up and to enforce eligibility requirements. It should not, without corroborating facts, be characterized as establishing program-wide fraud. Any public accounting of results should distinguish documentation deficiencies, administrative ineligibility, and matters referred for investigation or enforcement—consistent with GAO’s framework, which separates fraud from improper payments and recognizes that adjudicative systems determine whether conduct is fraud.

B. The Compliance Capacity Gap in Small Business

Understanding why compressed timelines yield misleading results requires examining factors that drive noncompliance in small firms. Capacity limitations, such as inadequate staffing, insufficient compliance infrastructure, and limited administrative resources, are common in

⁷⁷ SMALL BUS. ADMIN., OFF. OF GEN. COUNS., DATA CALL LETTER: AUDIT OF PARTICIPANTS IN THE 8(A) PROGRAM, <https://www.reginfo.gov/public/do/DownloadDocument?objectID=163748401> (review Exhibit A: Data Requested).

⁷⁸ 13 C.F.R. § 124.303(a)(7); *see also* 13 C.F.R. § 124.304(b)(1) (2025) (Letter of Intent to Terminate must state facts/reasons and provide 30 days to respond); *id.* § 124.304(d)–(f) (notice, appeal rights, and effect of termination).

⁷⁹ GAO-24-106608, *supra* note 33, at 1–3 (noting that only the judicial system can determine whether an act constitutes fraud).

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small businesses and can produce the same observable outcome (late or incomplete submission) as intentional misconduct.⁸⁰ Capacity constraints do not excuse noncompliance or integrity failures, but they do affect what can be inferred from nonproduction alone.

Small firms face disproportionately high per-employee regulatory compliance costs because many compliance activities don't scale with firm size. In 2010, an SBA Office of Advocacy-sponsored estimate of 2008 costs (reported in 2009 dollars), firms with fewer than 20 employees incurred about \$10,585 per employee in annual regulatory costs, compared with \$7,454 for firms with 20–499 employees and \$7,755 for firms with 500 or more employees (roughly 42% higher than mid-sized firms and 36% higher than large firms).⁸¹ More recent estimates still show a size penalty: a 2023 Crain & Crain update commissioned by the National Association of Manufacturers estimates that, in 2022 (reported in 2023 dollars), firms with fewer than 50 employees faced average regulatory costs of \$14,700 per employee versus \$12,200 for firms with 100 or more employees, and attributes the differential to economies-of-scale dynamics in regulatory compliance.⁸²

Those same capacity constraints show up in internal controls. An Association of Certified Fraud Examiners (ACFE) survey summarized by the *Journal of Accountancy* found that only 56% of organizations with fewer than 100 employees reported external financial statement audits, and only 50% reported formal codes of conduct, compared with 91% and 90% among larger organizations.⁸³ Consistent with that pattern, ACFE's 2024 data emphasize that smaller organizations tend to have fewer anti-fraud controls in place and are therefore more vulnerable.⁸⁴

Unclear requirements and monitoring gaps often compound small business compliance challenges. GAO's 2014 review of 8(a) subcontracting limitations found that contracting officers were generally not monitoring contractor compliance—a finding GAO had previously reported in 2006 and 2012.⁸⁵ The issue was not contractor refusal to comply; all

⁸⁰ See Jessica Tillipman & Vijaya Surampudi, *The Compliance Mentorship Program: Improving Ethics and Compliance in Small Government Contractors*, 49 PUB. CONT. L.J. 217, 231–36 (2020), available at https://scholarship.law.gwu.edu/faculty_publications/1483/; ORG. FOR ECON. COOP. & DEV., TOOLKIT FOR RAISING AWARENESS AND PREVENTING CORRUPTION IN SMES, OECD BUS. & FIN. POL'Y PAPERS 16–17 (2022), available at <https://doi.org/10.1787/19e99855-en>.

⁸¹ NICOLE V. CRAIN & W. MARK CRAIN, U.S. SMALL BUS. ADMIN., OFF. OF ADVOC., THE IMPACT OF REGULATORY COSTS ON SMALL FIRMS 7 tbl.1, 54–55 (2010), available at <https://dair.nps.edu/bitstream/123456789/3664/1/SEC809-MKT-10-0055.pdf>.

⁸² NICOLE V. CRAIN & W. MARK CRAIN, NAT'L ASS'N OF MFRS., THE COST OF FEDERAL REGULATION TO THE U.S. ECONOMY, MANUFACTURING AND SMALL BUSINESS 4–5 (2023), available at <https://www.nam.org/wp-content/uploads/2023/11/NAM-3731-Crains-Study-R3-V2-FIN.pdf> (Chart 1 reporting per-employee costs by firm size; explaining economies-of-scale/fixed-cost dynamics).

⁸³ Ken Tysiac, *Small Business, Big Risk*, J. ACCT. 38–43 (2012), available at <https://www.journalofaccountancy.com/issues/2012/aug/20125707/> (summarizing ACFE survey results on audits and codes of conduct by organization size).

⁸⁴ ASS'N OF CERTIFIED FRAUD EXAMINERS, OCCUPATIONAL FRAUD 2024: A REPORT TO THE NATIONS 5–7 (2024), available at <https://www.anchin.com/wp-content/uploads/2024/08/2024-ACFE-Occupational-Fraud-Report.pdf>.

⁸⁵ GAO-14-706, *supra* note 5, at 7. The National Defense Authorization Act for Fiscal Year 2013 amended the Small Business Act to change how subcontracted work is calculated for small-business set-aside contracts and to impose monetary penalties for violations, including a minimum fine of \$500,000 (or the amount expended above the permitted subcontracting level, whichever is greater). See National Defense Authorization Act for Fiscal Year 2013, Pub. L. No. 112-239, §§ 1651–1652, 126 Stat. 1632, 2079–82 (2013) (codified as amended at

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ten contractors GAO interviewed maintained compliance records and were willing to provide them when asked.⁸⁶ The problem was that contracting officers either did not know monitoring was required or lacked guidance on how to do it.⁸⁷ This pattern of persistent monitoring failures, rather than contractor fraud, is consistent across multiple SBA program audits.

The Federal Acquisition Regulation (FAR) reflects the compliance-capacity challenges facing small entities. FAR 52.203-13 makes its formal business ethics awareness and compliance program and internal control system requirements in paragraph (c) inapplicable to contractors that have represented themselves as small businesses.⁸⁸ The FAR Council has explained that this structure was intended to minimize the rule's economic impact on small firms, noting that small businesses often have fewer resources and that the final rule therefore eliminated the internal control system and formal training requirements for small business concerns.⁸⁹

The current audit demands documentation within a compressed timeline and in specified formats, presupposing compliance systems that small businesses are not required to build and many do not have. Under these conditions, nonproduction or incomplete submission is as likely to reflect administrative capacity as fraudulent intent. The SBA may use the results to identify firms warranting closer review, but absent additional evidence distinguishing capacity from intent, the results do not establish fraud.

C. What Credible Oversight Requires

If Congress seeks findings that can be defended as credible, the process matters as much as the results. Credible oversight distinguishes among categories with different legal consequences: documentation gaps warranting follow-up, administrative ineligibility supporting termination under program regulations, and suspected fraud warranting referral for investigation and potential prosecution. Without transparent classification rules applied

15 U.S.C. §§ 657s, 645(g)(1)) (revising limitations on subcontracting and providing that, for an entity exceeding the limitation, the fine is treated as the greater of \$500,000 or the amount expended above permitted levels). GAO reported in 2014 that these statutory changes had not yet been implemented in the FAR and that contractor representatives viewed the new penalty as potentially business-ending and were “particularly concerned” because they might be unable to meet performance requirements for reasons “outside of their control.” GAO-14-706, *supra* note 5, at 15–21 (noting the FY2013 statutory changes were “not yet implemented in the FAR” and reporting contractors viewed the penalty as potentially business-ending and were concerned about noncompliance for “reasons outside of their control”).

⁸⁶ See GAO-14-706, *supra* note 5, at 12, 20.

⁸⁷ See *id.* at 7–12, 19–21.

⁸⁸ FAR 52.203-13(c) (“Business ethics awareness and compliance program and internal control system. This paragraph (c) does not apply if the Contractor has represented itself as a small business concern pursuant to the award of this contract or if this contract is for the acquisition of a commercial product or commercial service as defined at FAR 2.101.”).

⁸⁹ FAR Case 2007-006, Contractor Business Ethics Compliance Program and Disclosure Requirements, 73 Fed. Reg. 67,064, 67,085 (Nov. 12, 2008), available at <https://www.govinfo.gov/content/pkg/FR-2008-11-12/pdf/E8-26953.pdf> (“[T]he rule is structured to minimize its impact on small business concerns by making the requirement for formal training programs and internal control systems inapplicable to small businesses”); *id.* at 67,087 (stating “small businesses often have fewer resources” and explaining the Councils eliminated the internal control system requirement for small businesses); *id.* at 67,090 (listing steps adopted to minimize impact on small business concerns, including making formal training programs and internal control systems inapplicable).

consistently, any resulting findings risk conflating these categories and mischaracterizing what the evidence actually establishes.

Government auditing standards (including GAO’s recently revised standards, which emphasize quality management) already reflect these principles.⁹⁰ They require independence, stated objectives, defensible methodology, and transparent reporting. If the SBA’s objective is screening and triage rather than fraud determination, the SBA should adopt classification rules consistent with those standards: documented procedures, quality controls, a transparent scheme distinguishing capacity constraints from administrative violations from suspected misrepresentation, and clear thresholds for referral based on corroborating evidence. These process safeguards matter because they reduce the risk of category error—the misclassification that occurs when nonproduction or documentation gaps are publicly characterized as fraud without additional evidence of intent.

Congress should require that any public reporting from this initiative maintain these distinctions. Congress should also confirm that the SBA will observe the procedural protections required by its own regulations (including the Letter of Intent, response period, written findings, and appeal rights prescribed in 13 C.F.R. § 124.304) before taking adverse action against any participant based on this review.⁹¹

VI. Conclusion: Rebuild and Use the Oversight Infrastructure Congress Has Already Designed

The United States has built a multi-layered oversight and enforcement architecture intended to prevent, detect, punish, and remediate procurement fraud—a structure reflecting decades of bipartisan effort. The recent high-profile contracting scandals cited in SBA and Congressional press releases about the 8(a) program underscore that existing tools can identify wrongdoing and drive prosecutions. Those cases illustrate how independent oversight and law enforcement deliver accountability when evidence is developed.

The policy choice before Congress is whether to strengthen that system or to bypass it. If Congress’s objective is durable fraud deterrence and detection in SBA programs, the pathway is clear:

First, finish the work already prescribed by professional auditors. GAO reports 25 SBA-related recommendations remain unimplemented, including recommendations tied to “critical” risk-management and cybersecurity issues in SBA’s certification platform. SBA OIG has documented unresolved weaknesses in 8(a) monitoring and business development processes.

Second, stabilize and protect independent oversight capacity. The oversight system cannot function if IG independence is treated as optional, if continuity is disrupted, or if coordinating capacity and transparency tools are unstable.

A population-wide document sweep may produce headlines and some actionable leads. It is not, however, a substitute for closing known control gaps, upgrading systems governance, or

⁹⁰ See *supra* notes 12–16 and accompanying text.

⁹¹ See *supra* note 78.



resourcing independent oversight. The credibility of any fraud findings depends on the independence, standards, and transparency of the process that produces them. Without clear objectives, quality controls, and transparent classification rules, such initiatives risk producing findings that are difficult to defend and easy to misinterpret—undermining the very integrity they seek to restore.

Thank you for the opportunity to share these thoughts.

JONI ERNST, IOWA, CHAIR
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October 30, 2025

Mr. Sheldon Shoemaker
 Acting Inspector General and Deputy Inspector General
 U.S. Small Business Administration
 409 3rd Street, SW
 Washington, D.C. 20416

Dear Mr. Shoemaker,

The U.S. Small Business Administration's (SBA) 8(a) Business Development Program is the largest set-aside program at the agency, in Fiscal Year 2024, the agency oversaw more than \$40 billion in 8(a) contract awards.¹ For nearly 20 years, the SBA Office of Inspector General (OIG) has identified shortcomings and opportunities for fraud in the 8(a) program.² Specifically, within the incentives created by the program's deliberate restriction of competition for certain contracts to only 8(a) participants ("set-asides"), and elimination of competition altogether via no-bid, sole-source awards.³ Unfortunately, over the years an egregious pattern has emerged where a special subset of 8(a) participants, the "Super 8(a)'s," may be taking undue advantage of their ability to obtain sole-source awards in unlimited amounts.⁴ These entities themselves generally do not participate in the 8(a) program; rather, businesses that are at least 51 percent owned and controlled by such entities participate in the program ("8(a) subsidiaries"). This combination of an expansive and permissive sole-source authority for 8(a) firms, with the ability to generate multiple 8(a) subsidiaries working under the umbrella of a single parent Super 8(a) entity, creates the ideal conditions for criminals to defraud the American taxpayers.

¹ SBA, *Scorecard Details*, (July 14, 2025), available at <https://www.sba.gov/federal-contracting/contracting-data/small-business-procurement-scorecard/scorecard-details>.

² OIG REPORT 13-08, THE SBA MISMANAGED CERTAIN 8(A) TECHNOLOGY CONTRACTS (Dec. 3, 2012), available at <https://www.sba.gov/document/report-13-08-audit-report-13-08-sba-mismanaged-certain-8a-information-technology-contracts>; see also OIG REPORT 9-15, PARTICIPATION IN THE 8(A) PROGRAM BY FIRMS OWNED BY ALASKA NATIVE CORPORATIONS (Jul. 10, 2009), available at <https://www.sba.gov/document/report-9-15-report-9-15-participation-8a-program-firms-owned-alaska-native-corporations-71009>.

³ 15 U.S.C. § 636(j)(10); see also 15 U.S.C. § 637(a).

⁴ Super 8(a)'s include: Alaska Native Corporations (ANCs), Native Tribes, Native Hawaiian Organizations (NHOs), and Community Development Corporations (CDCs). Sole-source contracts are authorized for 8(a) individual participants for up to \$7M in construction and manufacturing, and \$4.5M for all other acquisitions. In contrast, there are no limits to a sole-source contract award for Super 8(a) participants, however a written justification must be made for a sole source award exceeding \$30 million for civilian agencies, and \$150 million for defense agencies. Federal Acquisition Regulation: Inflation Adjustment of Acquisition-Related Thresholds, 90 Fed. Reg. 41872, (Aug. 27, 2025), available at <https://www.federalregister.gov/documents/2025/08/27/2025-16412/federal-acquisition-regulation-inflation-adjustment-of-acquisition-related-thresholds>.

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A new alleged fraud scheme involving ATI Government Solutions highlights these ongoing vulnerabilities in the 8(a) program. This year alone, SBA has already ordered a full-scale audit, issued formal guidance to contracting officers on 8(a) fraud, rescinded USAID's 8(a) contracting authority, and reinstated the "bona fide place of business" rule.⁵ Now, I request the SBA OIG immediately investigate ATI, its Super 8(a) parent entity Susanville Indian Rancheria, and its network of 8(a) subsidiaries, while conducting a thorough review of the program with priority on whistleblower tips and allegations of wrongdoing.

A recent citizen investigation undertaken by the Citizen Journalism Foundation (CJF), an organization affiliated with the O'Keefe Media Group, asserted that it uncovered a "\$100 billion federal contracting scam. 8(a) firm admits to violating federal law using minority-owned status as a front to obtain \$100M+ no-bid government contracts while outsourcing 80 percent of the work."⁶ The investigation focuses on 8(a) technology services contractor, ATI Government Solutions (ATI), and its Super 8(a) parent, the tribal entity Susanville Indian Rancheria (Susanville).⁷

These allegations cast doubt on compliance with the Limitations on Subcontracting rule, which requires 8(a) participants on services contracts to perform at least 50 percent of the work itself.⁸ While this requirement is designed to restrict small businesses from acting as pass-through companies for ineligible firms, in practice, weak enforcement of this rule leaves the door open for abuse.⁹

The continuing alleged exploitation of the 8(a) Program in this way, with such apparent ease, is the symptom of larger, cumulative failures over the years to adequately safeguard the program against systematic abuse. For years, the 8(a) Program has been riddled with challenges, and its many flaws have subjected the program to over a dozen investigations and audits by government watchdog

⁵ Press Release, SBA, *Administrator Loeffler Orders Full-Scale Audit of 8(a) Contracting Program*, (June 27, 2025), available at <https://www.sba.gov/article/2025/06/27/administrator-loeffler-orders-full-scale-audit-8a-contracting-program>; see also Press Release, SBA, *SBA Issues Letter of Warning to Federal Contracting Officers*, (July 29, 2025), available at <https://www.sba.gov/article/2025/07/29/sba-issues-letter-warning-federal-contracting-officers>; see also Press Release, SBA, *SBA Rescinds USAID Contracting Authority Following Massive Bribery Scandal*, (July 30, 2025), available at <https://www.sba.gov/article/2025/07/30/sba-rescinds-usaid-contracting-authority-following-massive-bribery-scandal>; see also Press Release, SBA, *SBA Reinstates Rule to Return Federal Contractors to Work*, (June 17, 2025), available at <https://www.sba.gov/article/2025/06/17/sba-reinstates-rule-return-federal-contractors-work>.

⁶ James O'Keefe (@JamesOKeefeIII), X (Oct. 20, 2025, at 2:44 PM ET), available at <https://x.com/JamesOKeefeIII/status/1980344367014429114>.

⁷ *Id.*

⁸ FAR 19.108-8(a)(1).

⁹ GAO, GAO-14-706, 8(A) SUBCONTRACTING LIMITATIONS: CONTINUED NONCOMPLIANCE WITH MONITORING REQUIREMENTS SIGNALS NEED FOR REGULATORY CHANGE (Sept. 16, 2014), available at <https://www.gao.gov/products/gao-14-706>.

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agencies, including your own.¹⁰ Just recently this past June, the Department of Justice found that the 8(a) Program was the primary vehicle used to facilitate a decades-long bribery scheme involving over \$550 million in contracts; four men, including a government contracting officer at the United States Agency for International Development, pled guilty to the charges.¹¹

I am encouraged by the quick work of the Trump Administration to take corrective action, in response to this ATI scheme. Within a day of the breaking CJF investigation, Administrator Loeffler announced an investigation into ATI and Susanville Indian Rancheria; two days later, the Administrator suspended ATI and three of its executives from any new contracting with the federal government.¹² Days later, the Department of the Treasury and the General Services Administration

¹⁰ 11 reports from the GAO and 4 reports from the SBA OIG. GAO, GAO-22-105567, DoD SMALL BUSINESS CONTRACTING: USE OF SOLE-SOURCE 8(A) CONTRACTS OVER \$22 MILLION HAS INCREASED (Mar. 28, 2022), *available at* <https://www.gao.gov/products/gao-22-105567> *see also* GAO, GAO-22-104146, DoD SMALL BUSINESS ADMINISTRATION: STEPS TAKEN TO VERIFY TRIBAL RECOGNITION FOR 8(A) PROGRAM (Dec. 02, 2022), *available at* <https://www.gao.gov/products/gao-22-104146> *see also* GAO, GAO-20-184T, DoD SMALL BUSINESS ADMINISTRATION: STEPS TAKEN ON LONG-STANDING WEAKNESSES IN SBA'S OVERSIGHT OF TRIBAL 8(A) FIRMS, BUT ADDITIONAL ACTIONS NEEDED (Oct. 22, 2019), *available at* <https://www.gao.gov/products/gao-20-184t> *see also* GAO, GAO-16-113, ALASKA NATIVE CORPORATIONS: OVERSIGHT WEAKNESSES CONTINUE TO LIMIT SBA'S ABILITY TO MONITOR COMPLIANCE WITH 8(A) PROGRAM REQUIREMENTS (Mar. 21, 2016), *available at* <https://www.gao.gov/products/gao-16-113> *see also* GAO, GAO-14-706, SUBCONTRACTING LIMITATIONS: CONTINUED NONCOMPLIANCE WITH MONITORING REQUIREMENTS SIGNALS NEED FOR REGULATORY CHANGE (Sep. 16, 2014), *available at* <https://www.gao.gov/products/gao-14-706> *see also* GAO-13-118, FEDERAL CONTRACTING: SLOW START TO IMPLEMENTATION OF JUSTIFICATIONS FOR 8(A) SOLE-SOURCE CONTRACTS (Dec. 12, 2012), *available at* <https://www.gao.gov/products/gao-13-118> *see also* GAO, GAO-12-84, FEDERAL CONTRACTING: MONITORING AND OVERSIGHT OF TRIBAL 8(A) FIRMS NEED ATTENTION (Jan. 31, 2012), *available at* <https://www.gao.gov/products/gao-12-84> *see also* GAO, GAO-11-440T, 8(A) PROGRAM: THE IMPORTANCE OF EFFECTIVE FRAUD PREVENTION CONTROLS (Mar. 03, 2011), *available at* <https://www.gao.gov/products/gao-11-440t> *see also* GAO, GAO-10-353, SMALL BUSINESS ADMINISTRATION: STEPS HAVE BEEN TAKEN TO IMPROVE ADMINISTRATION OF THE 8(A) PROGRAM, BUT KEY CONTROLS FOR CONTINUED ELIGIBILITY NEED STRENGTHENING (Mar. 30, 2010), *available at* <https://www.gao.gov/products/gao-10-353> *see also* GAO, GAO-10-425, 8(A) PROGRAM: FOURTEEN INELIGIBLE FIRMS RECEIVED \$325 MILLION IN SOLE-SOURCE AND SET-ASIDE CONTRACTS (Mar. 30, 2010), *available at* <https://www.gao.gov/products/gao-10-425> *see also* OIG REPORT 21-12, EVALUATION OF SBA'S ELIGIBILITY VERIFICATION OF 8(A) FIRMS OWNED BY MEMBERS OF FEDERALLY OR STATE-RECOGNIZED INDIAN TRIBES (March 31, 2021), *available at* <https://www.sba.gov/document/report-21-12-evaluation-sbas-eligibility-verification-8a-firms-owned-members-federally-or-state-recognized-indian> *see also* OIG REPORT 18-22, IMPROVEMENTS NEEDED IN SBA'S OVERSIGHT OF 8(A) CONTINUING ELIGIBILITY PROCESSES (Sept. 7, 2018), *available at* <https://www.sba.gov/document/report-18-22-improvements-needed-sbas-oversight-8a-continuing-eligibility-processes> *see also* OIG REPORT 13-06-I, ADVISORY MEMORANDUM 13-06-I REGARDING SECTION 8(A) ANNUAL REVIEW (Nov. 13, 2012), *available at* <https://www.sba.gov/document/report-13-06-i-advisory-memorandum-13-06-i-regarding-section-8a-annual-review> *see also* OIG REPORT 13-01-I, ADVISORY MEMORANDUM 13-01-I REGARDING THE SECTION 8(A) PROGRAMS' USE OF INTERNAL REVENUE SERVICE TAX VERIFICATION FORM 4506T (Oct. 4, 2012), *available at* <https://www.sba.gov/document/report-13-01-i-advisory-memorandum-13-01-i-regarding-section-8a-programss-use-internal-revenue-service-tax>.

¹¹ Press Release, Dep't of Justice, *USAID Official and Three Corporate Executives Plead Guilty to Decade-Long Bribery Scheme Involving Over \$550 Million in Contracts; Two Companies Admit Criminal Liability for Bribery Scheme and Securities Fraud*, (June 12, 2025), *available at* <https://www.justice.gov/opa/pr/usaaid-official-and-three-corporate-executives-plead-guilty-decade-long-bribery-scheme>.

¹² Kelly Loeffler (@SBA_Kelly), X (Oct. 20, 2025, at 6:18 PM ET), *available at* https://x.com/SBA_Kelly/status/1980398153980342614.

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followed Administrator Loeffler's lead, suspending ATI from participating in government contracts.¹³

In this fight against fraudsters, crooks, and swindlers, the American taxpayers are losing. Your office is uniquely positioned to track down, investigate, and recommend prosecution of bad actors. In the coming days and months, I expect to see significant 8(a)-related accountability actions and investigations initiated. To this end, I request that you immediately take the following actions and provide a staff-level briefing by November 13, 2025:

1. Assess the credibility of all allegations made by CJF concerning ATI and Susanville.
 - a. Focus specifically on the alleged violation of the limitations on subcontracting by ATI.
 - b. If credible evidence of wrongdoing is found, initiate a thorough investigation into the offending parties.
 - c. Inform the Committee of the IG's decision to launch its own investigation into ATI and/or Susanville or not.
 - d. If not, please provide a written explanation.
2. An examination into Susanville's network of 8(a) subsidiaries and whether there is credible evidence of wrongdoing amongst those entities.
3. Examine the IG Hotline for actionable, plausible tips and evidence implicating current or former government contractors and the 8(a) program, Super 8(a)'s, or 8(a) subsidiaries.

Thank you for your prompt attention to this important matter. If you have any questions, please do not hesitate to contact Meredith West at Meredith_West@sbcsenate.gov or (202) 224-5175.

Sincerely,


Joni K. Ernst
Chair

¹³ Kelly Loeffler (@SBA_Kelly), X (Oct. 22, 2025, at 11:47 AM ET), *available at* https://x.com/SBA_Kelly/status/1981024674885566517; *see also* Treasury Secretary Scott Bessent (@SecScottBessent), X (Oct. 22, 2025, at 9:13 PM ET), *available at* <https://x.com/SecScottBessent/status/1981167068692025455>; *see also* Office of the FAS Commissioner (@FASCommissioner), X (Oct. 23, 2023, at 2:23 PM ET), *available at* <https://x.com/FASCommissioner/status/1981426148950040988>.

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DECEMBER 20, 2024

Racial Disparities in Government Contracting

Executive Summary

This report from the White House Council of Economic Advisers (CEA) uses data from studies of state and local government contracting, documents racial gaps in contracting dollars, and provides new evidence that discrimination likely plays a role. Specifically, CEA conducted a re-analysis of two meta-studies that summarize hundreds of individual studies with racial disparity ratios of state and local government contracting, covering most states, cover several broad categories of industry, and span contracts awarded between 1977 and 2019. The CEA has re-examined these combined data and also linked data from these studies to well-established measures of racial bias used in social science research to draw key new insights. The CEA analysis establishes the following facts.

1. Racial disparities in contracting dollars exist with minority-owned firms receiving a smaller share of contracting dollars than their representation among available firms.
2. Representation gaps are not restricted to any one ethnic group, as significant gaps exist between white-owned firms and Black, Hispanic, Asian and Native American owned firms.
3. Disparities have not improved significantly since the 1990s and were larger in the years leading up until 2019 than any period covered in the data.
4. Disparities are much more pronounced in terms of contracting dollars as opposed to being a contractor at all. This is due to minority firms being much less likely to be the prime contractor and generally receiving smaller contracts than non-minority owned firms.

5. Disparities by race are larger in geographic locations with more measured racial bias (based on accepted measures of racial bias used in social science) – suggesting that racial discrimination may play a role.
6. The relationship between racial bias and racial gaps in contracting persists even when accounting for observable measures of available minority businesses (such as the minority share of the population, the educational level of the minority population in the area, and the number of available minority-owned firms).
7. Disparities only exist (in a statistically significant way) in areas with moderate and high levels of bias, and statistical models show that if all places were like those with the least racial bias, the overall racial disparities in contracting could largely be eliminated.
8. Disparities are much smaller when disadvantaged business enterprise (DBE) goals are in place regarding the participation of small business owned and controlled by socially and economically disadvantaged individuals.
9. Racial bias is largely unrelated to racial disparities in contracting disparities when DBE goals are in place, and the presence of DBE goals mitigates minority underrepresentation associated with bias. Further evidence that racial discrimination plays a role in existing gaps, and that these can be mitigated with DBE goals.

Equal opportunity is the bedrock of American democracy, and the diversity of our Nation remains one of its greatest strengths. While the Civil Rights Act of 1964 marked a pivotal step toward dismantling legal racial segregation and the legacy of widespread discrimination in public life, the cumulative effects of past discriminatory government policies still persist today. As noted in the July 2024 CEA issue brief, *Racial Discrimination in Contemporary America*, the persistence of differential treatment by race in access to housing, employment, and mortgage loans or business capital indicates that racial discrimination still exists today and plays a role in explaining current racial wealth gaps. Recognizing this, the federal government has taken steps to advance equity and economic inclusion, particularly within federal contracting; and continues the work catalyzed by the Civil Rights Act to proactively ensure all Americans are afforded equal protections and opportunity to fully realize their potential.

The Biden-Harris Administration has implemented policies aimed at reducing barriers to access in federal programs and addressing racial disparities in federal contracting, contributing to significant growth in entrepreneurship and small business supplier diversity. Since taking office, over 20 million new business applications have been filed—the highest number ever recorded in a single presidential term. Business ownership has doubled among Black households, reached a 30-year high among Hispanic households, and hit a similar milestone for Asian American entrepreneurs. Women also now own a larger share of businesses than before the pandemic, reflecting expanded economic opportunities facilitated by the administration's focus on equitable access to federal contracting.

To reduce gaps in federal contracting, in 2021, President Biden announced a goal of increasing the share of contracts awarded to small disadvantaged businesses (SDBs) to 15 percent of total annual federal contracting dollars—representing a 50 percent increase in spending—by 2025. This commitment builds on President Biden's day one Executive Order advancing racial equity and support for underserved communities through the federal government, which among other actions, directed federal agencies to remove barriers to contracting opportunities for minority-owned businesses.

Most recently, in Fiscal Year 2023, federal agencies awarded \$178.6 billion in contracts to small businesses, representing 28.4 percent of all eligible contracting dollars—a record high. Of this amount, \$76.2 billion went to SDBs, underscoring the Biden-Harris Administration's efforts to address long-standing disparities in federal procurement, promote equitable contracting practices, and expand economic opportunity for all.

Introduction

Government contracting is the **process in which federal, state, and local government agencies and entities pay for products or services provided by businesses**. There are three main tiers of government contracts pertaining to the purchase of goods and services: one is federal procurement financed with federal funds; a second is state and local procurement financed with federal funds; and a third is state and local governments using their own funds. This CEA issue brief is focused on state and local government contracts (irrespective of the financing source), which amounted to 11 percent of GDP in 2018. These large-scale purchasing decisions have the

power to promote innovation, job creation, and help business owners (and their communities) build wealth.

Given the importance of government contracting, how government contracts are allocated has important distributional implications. At present, there are racial disparities in contracting, with minority-owned firms earning a smaller share of contracting dollars than their proportion of available firms. Looking at Federal contracting (for which national data are available), in 2020, while minority-owned firms made up 33.7 percent of all businesses in the United States, they accounted for only 10.1 percent of the federal contracting dollars. Similarly, between 2014 and 2019, estimates from Wainwright (2022) indicate that minorities made up 15.0 percent of available firms but accounted for only 6.3 percent of state and local contracting dollars.^[1]

These disparities by race have implications for racial gaps in access to business, and wealth creation. This under-representation in government contracting may reflect two kinds of barriers: (1) barriers to firm formation and growth which may preclude competitive bidding for government contracts, and (2) barriers to participation in the government contracting process even among firms that could compete for contracts. While both of these kinds of barriers are important, this study focuses on the second and highlights the role that race-based discrimination may play.

We conduct a re-analysis of two meta-studies on racial disparity ratios of state and local government contracting. We present new patterns in the data and provide fresh evidence of trends over time. Also, we follow approaches in social science to examine patterns of disparity ratios across settings and contexts to provide compelling evidence of discrimination (as discussed in a recent CEA issue brief). Specifically, we find that racial gaps in contracting are larger in geographic locations that have higher levels of proxies for racial bias. These patterns persist even when accounting for racial difference in population, education, and firm availability. Further, we show that having disadvantaged business enterprise (DBE) goals regarding the participation of small business owned and controlled by socially and economically disadvantaged individuals, mitigates the association between measures of racial bias and racial contracting gaps.

These patterns suggest that racial gaps in contracting may worsen without the buffer of affirmative action to mitigate the ill-effect of racial bias. While

not all biases are explicit and intentional, the prevalence and impact of implicit bias shows the limitations of relying solely on race-neutral tools to advance equality of opportunity.

Background

Racial disparities in government contracting are defined relative to what would be observed without discrimination. A common metric used to measure this gap is the “disparity ratio.” This ratio is a fraction where the numerator represents the proportion of contract dollars—or number of contracts—awarded to minority-owned businesses. The denominator, which adjusts for the prevalence of minority firms, is the proportion of all available businesses that are minority-owned.

$$\text{Disparity Ratio} = \frac{\frac{\text{Minority Contract Dollars}}{\text{Total Contract Dollars}}}{\frac{\text{Available Minority Businesses}}{\text{Available Total Businesses}}}$$

A disparity ratio less than one means that minority businesses receive fewer contracting dollars than their share of available businesses. A ratio more than one means that minority businesses receive more contracting dollars than their share of available businesses. The disparity ratio can be as low as zero (if no contracts are awarded to minorities) and can be much greater than one (if minority-owned firms receive more contract dollars than would be expected based on their prevalence among available firms). A ratio of one means that minority owned businesses receive the same fraction of government contracts as their share of available businesses.^[2]

Interpreting the Disparity Ratio

Since the U.S. Supreme Court’s decision in *City of Richmond v. J.A. Croson Co.*, 488 U.S. 469 (1989), courts have generally held that disparity studies provide evidence of discrimination in public contracting and the continuing effects of such discrimination. However, because there may be differences between the set of available minority-owned and non-minority-owned firms, the disparity ratio, *in and of itself*, may not be dispositive on the existence of discrimination or lack thereof.

For example, a disparity ratio below 1 indicates that minority-owned businesses receive a smaller share of government contracts compared to their availability—consistent with race-based discrimination. However, because minority-owned firms may have less-experienced owners or less capacity to undertake contracted work, a ratio below 1 does not necessarily indicate race-based discrimination during contract awards. Conversely, a disparity ratio of 1 or above indicates that available minority-owned businesses receive a larger share of government contracts compared to their availability. While a ratio of 1 or above is consistent with no race-based discrimination, as explained below, it does not rule out race-based discrimination and could still reflect the presence of discrimination. Some studies compute disparity ratios only among the set of firms that have previously received government contracts since these firms are all considered qualified candidates (the definition of “available firms” is discussed below, in footnote 3). However, this approach can lead to a counterintuitive result: Discrimination against minority firms in attaining contractor status might result in only highly qualified minority-owned firms being part of the available group. Consequently, these exceptional minority-owned firms may disproportionately earn more contracting dollars, leading to a disparity ratio greater than 1.

In sum, interpreting disparity ratios as being indicative of discrimination—or indicative of the absence of discrimination—requires careful consideration of the setting and context. Importantly, social scientists have found ways to examine patterns of disparity ratios across settings and contexts that can provide compelling evidence of discrimination (as discussed in [recent CEA analysis](#)). This CEA issue brief summarizes these approaches, applies them to disparity ratios for government contracting, and provides compelling evidence of racial disparities in contracting that are likely due to race-based discrimination.

Ways to Show That These Gaps Reflect Racial Discrimination

Social scientists often assess the extent of discrimination by testing for differences in disparity ratios across settings with where it is known, *ex ante*, that discrimination is more or less likely to exist. We implement three tests of

this nature to assess the role of discrimination in explaining racial gaps in contracting.

Test 1: One way to show that a given disparity ratio likely reflects underlying discrimination is to show that these gaps are larger in places with more prejudice and discriminatory attitudes. The theory that areas with stronger prejudice would exhibit larger unwarranted racial disparities was proposed by [Becker \(1957\)](#) and is supported by empirical data.

While prejudice and bias are challenging to measure, we use a measure of implicit bias that has been validated by researchers. [Implicit Association Test \(IAT\) scores](#) ([Greenwald, Nosek, and Banaji, 2003](#)) measure subconscious biases that individuals have towards various groups of people. It is based on the speed at which respondents are able to associate positive words and concepts with Black/Hispanic/Asian/Native American versus White faces, or the words “Black/Hispanic/Asian/Native American” versus “White.” The American Academy of Arts and Sciences most recent issue of [Daedalus](#) is dedicated to understanding implicit bias, and provides much discussion of these measures. In a recent issue brief, CEA summarized research showing that places with higher levels of these measures of bias have larger racial gaps in a number of settings where there are no differences other than race or where any differences should have no effect on the outcomes—what economists refer to as unwarranted disparities. These measures predict unwarranted disparities in [wages](#), [mortality](#), [business loans](#), [job interviews](#) and [job offers](#), and [housing applications](#).

To examine whether contracting gaps are larger in geographic locations that have higher levels of proxies for racial bias, the CEA used data from two meta-studies of disparity ratios ([Enchautegui et al., 1997](#) and [Wainwright, 2022](#)). Together, these two meta-studies summarize hundreds of individual studies with disparity ratios of state and local government contracting, cover most states that represent about 90 percent of the population, cover several broad industry categories, and span contracts awarded between the 1970s and 2019. The data contained in these two meta-studies provide a good sense of racial contracting gaps at the state and local level over the last few decades.

Test 2A: Another test for the role of discrimination is to assess whether disparity ratios are larger when contracts have no disadvantaged business

enterprise goals in place. The basic idea is that contracts that have DBE goals in place are explicitly designed to counteract the effect of any pre-existing racial bias on contracting. As such, if these DBE goals are successful, the disparity ratios should be larger in setting with such goals in place.

Test 2B: A final test combines the logic of the first two tests and assesses whether the relationship between racial bias and disparity ratios are weaker in contexts with DBE goals. The basic idea is that contracts that have DBE goals in place are actively seeking to counteract the effect of any pre-existing racial bias on contracting, so that the relationship between disparity ratios and local measures of racial bias would be much weaker when DBE goals are in place. That is, if there is less racial discrimination to overcome in areas with lower levels of bias, then in low bias areas, disparity ratios should be similar regardless of a contract's DBE goal status. Conversely, if there is more racial discrimination to overcome in areas with higher levels of bias, then in high bias areas, disparity ratios should be larger among contracts with no DBE goals than those with such goals. This is exactly what the data show. Importantly, not only is this a test of the existence of discrimination, but also a test of the efficacy of DBE goals at mitigating the negative effects of racial bias.

Data Set 1: The Urban Study

The first meta-study we use, [Enchautegui et al. \(1997\)](#) was conducted by the Urban Institute. The goal of [Enchautegui et al. \(1997\)](#) was to examine the extent to which minority-owned firms receive a representative share of state and local government contract dollars. This meta-study screened 95 state and local disparity studies and kept 58 studies that were comparable and allowed for a meta-study.^[3] The 58 studies in [Enchautegui et al. \(1997\)](#) examine contracts for a variety of governmental units including cities, counties, states, and special districts such as schools, transportation agencies, and water resource authorities. We focus on these studies that span 1977 to 1994. Information provided includes the contract industry (i.e., construction, goods, or services), location (generally a city or county), the total number of contracts involved per study, year, disparity ratio, and availability of minority owned firms, defined for Black, Hispanic, Asian, Native American, and all minorities.^[4] These studies span 32 cities and counties in 19 states (including D.C.).^[5]

Data Set 2: The Wainwright Study:

The second meta-study we use is Wainwright (2022). The goal of this meta-study was to examine disparity studies commissioned by state and local governments and public contracting entities. This meta-study incorporates 205 studies that were published between 2010 and 2021—spanning contracts awarded between 2001 and 2019—and provides the contract industry; location (generally a city or county); value; whether the contract includes prime contracts, subcontracts, or both; the level of government funding source (i.e., local, federal, private, mixed public and private, or total/combined); the year; and the disparity ratio and availability of minority owned firms, defined for Black, Hispanic, Asian, Native American, and all minorities. The 205 studies span all nine Census Divisions, 33 states (including D.C.), and most industries in the U.S. economy.^[1]

The 205 studies used in Wainwright (2022) define availability in various ways, similar to the five approaches in Enchautegui et al. (1997). Each meta-study does not identify how exactly availability is defined for each individual study, although Wainwright and Holt (2010) discusses best practices in defining availability and alternate approaches that studies take. However, Wainwright (2022) does provide the set of authors for each study, so that one can look at patterns within groups of authors that use the same methodology across studies — allowing one to account for differences in methodology (which includes definitions of availability).

^[1] Each study in Wainwright (2022) provides several disparity ratios, defined several ways. For example, a given study may be focused on a specific city or county, but it calculates disparity ratios for (1) various industries, (2) whether contract dollars are measured in terms of contracts awarded versus paid, (3) prime contracts versus sub contracts versus an aggregate of both, (4) individual racial and ethnic groups (i.e., Black, Hispanic, Asian, and Native American) as well as an overall minority aggregate, and (5) other factors, such as how availability is defined and at what geographic unit. To ensure that all studies receive the same weights in all models, we include all the estimated disparity ratios in analysis, but weight studies by the number of ratios included. For example, if one study provides 10 ratios, we include all 10

disparity ratios but assign each ratio a weight of 1/10, so that each study gets the same weight of 1.

Patterns in The Data

Before implementing the tests for discrimination outlined above, we lay out some basic facts about disparity ratios in the included studies.

Average Disparity Ratios and Changes Over Time

By combining data for the individual disparity studies across both meta-studies and coding up the year of analysis, we can examine trends in disparity ratios over time. Figure 1 shows the average disparity ratio for each year across the studies in the two meta-studies.^[7] We define disparity ratio in terms of all minority-owned firms (i.e., Black, Hispanic, Asian, or Native American). Years up to 1994 are from Enchautegui et al. (1997) and years after 2000 are from Wainwright (2022). For each year, the size of the circle is proportional to the number of studies in that year. The average annual disparity ratio will be more precise and reliable for years with more individual estimates.

In the earlier studies spanning 1977 through 1994, the average disparity ratio in Figure 1 is 0.82, indicating that minority-owned firms earned 82 percent of the contracting dollars that would have been consistent with their proportion of available firms. In the more recent studies spanning 2001 through 2019, the overall average disparity ratio is 0.69—indicating that minority-owned firms earned only 69 percent of the contracting dollars that would have been consistent with their representation among all available firms. These results indicate that estimated racial disparities exist and have grown over time.

To examine changes over time in more detail, we divide the sample into three time periods: 1977-1994, 2001-2013, and 2014-2019. The average disparity ratio in the first two time periods were 0.82 and 0.72, respectively—indicating that overall racial disparities in state and local contracting had been slowly falling between 1977 and 2013. However, the average ratio in the third (more recent) period was significantly lower at 0.53. That is, while minority-owned firms earned about 82 percent of what would have been expected based on their representation in studies covering between 1977 and 1994, in more recent

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studies of firms in 2014 and later, they earned just over half of what would have been expected given their representation.

Figure 1. Average Annual Disparity Ratios, 1977 to 2019



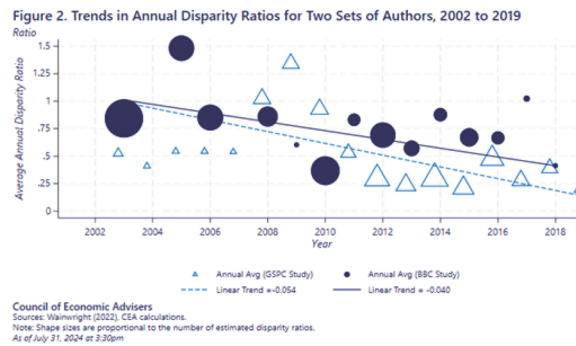
Sources: Enchautegui et al. (1997) and Wainwright (2022). CEA calculations.
Note: Circle sizes are proportional to the number of estimated disparity ratios.
As of July 31, 2024 at 2:30pm
Council of Economic Advisers

The declining disparity ratios over time is profound—which, if taken at face value, suggests a considerable worsening of racial gaps in contracting in the past 10 years. Given that the negative trend over time reflects comparisons across different studies, this trend could reflect differences in methodology over time. To address the possibility that this negative trend reflects different approaches, we take advantage of the fact that some groups of authors conducted several studies over time and are identified in the Wainwright (2022) data. This allows us to look at trends over time within the same set of authors—who employ the same methodological approach over time.[8] For illustrative purposes, Figure 2 shows the two sets of authors with several studies that span the early 2000s to the late 2010s, and have the most disparity ratio estimates: Griffin & Strong, PC (i.e., GSPC); and BBC Research & Consulting (i.e., BBC). These two sets of authors estimate multiple disparity ratios across 17 and 45 different studies, respectively. Within the GSPC studies, the overall linear slope is negative and statistically significant at -0.054. Within the BBC studies, the overall linear slope is negative and statistically significant at -0.040. Taking the average of these two groups of studies the linear slope is about -0.045. In a regression model that takes the average slope (estimated within each study group but across all studies to remove the influence of potential changes in methodology over time), the slope is equal to -0.043 and is statistically significant—indicative of falling disparity ratios over time. The slope can be interpreted to mean that every 10

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years, the percent of contract dollars received by minority-owned firms, relative to what would be expected based on their availability, falls by 4.3 points. That is, the data indicate that fewer contracting dollars have been going to minority-owned firms relative to their representation over time—leading to growing racial gaps over time.



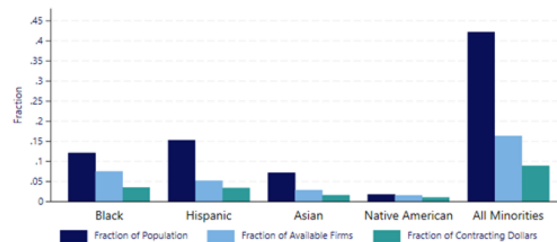
Difference by Race and Ethnic Group

Each individual study in both meta-studies shows the disparity ratio for individual groups (i.e., Black, Hispanic, Asian, and Native American^[9]) and for the combined impact on all minorities. We now report on these disparities for different groups. Before discussing disparity ratios, it is helpful to look at some raw numbers for context. Figure 3 shows the fraction of the population represented by each group (in 2005, the average contract year), the fraction of firms deemed available by each study that are owned by each group^[10], and the fraction of contracting dollars earned by each group across all years.^[11] For each group, the fraction of firms owned by each group is significantly less than the group's fraction of the population, suggesting that there are various barriers to starting and growing business for minorities—in addition to barriers faced by minority-owned firms applying for government contracts. Moreover, for each group, the share of contracting dollars received is smaller than the share of available firms—indicating that minority-owned firms have an underrepresentation of contracting dollars,

which is true for Black, Hispanic, Asian, Native American, and the combined group of all minorities.

Looking at the fraction of contracting dollars going to minority-owned firms relative to the fraction of firms that are minority-owned (i.e., the disparity ratio) across all years (1977 to 2019), Figure 3 shows that the average Black disparity ratio is 0.75, Hispanic ratio is 0.72, Asian ratio is 0.83, Native American ratio is 0.66, and the overall minority ratio is 0.78. This means that, relative to their respective shares of available firms, Asian-owned business earn about 83 percent of contracting dollars as would be expected, Black-owned business earn about 75 percent of contracting dollars as would be expected, Hispanic-owned business earn about 72 percent of contracting dollars as would be expected, and Native-owned business earn only about 66 percent of contracting dollars as would be expected.

Figure 3. Fraction of Population, Available Firms, and Contracting Dollars by Race



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Sources: Enchautegui et al. (1997) and Wainwright (2022). Population reflects 2005 data, the average contract year. CEA calculations.
As of July 31, 2024 at 6:50pm

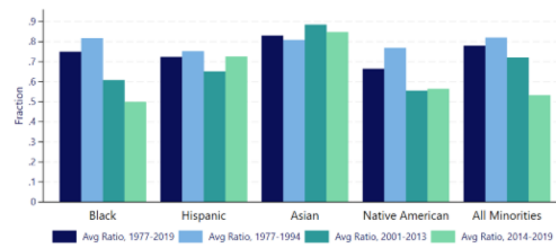
While disparity ratios are significantly lower than 1—indicating racial gaps in contracting—Figure 4 shows that the underrepresentation for minority-owned business is even larger in recent years. For minority-owned businesses, the overall share of contracting dollars received (relative to representation among available firms) fell from 82 percent in the 1977-1994 period to 53 percent in more recent years (2014 to 2019). These declines were most pronounced for Black-owned firms—where the relative share of contracting dollars fell from about 82 percent to 50 percent—and for Native American-owned firms—where the share fell from 77 to 56 percent. Hispanic

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firms saw a small decline from 75 to 72 percent and Asian firms saw a small increase from 81 to 85 percent. In sum, minority-owned firms saw a decline in the share of contracting dollars received relative to what would have been expected given their representation over time—driven largely by declines for non-Asian minority groups over time.

Figure 4. Average Disparity Ratios, By Race/Ethnicity, Over Time



Council of Economic Advisers
Sources: Enchautegui et al. (1997) and Walmeright (2022); CEA calculations.
As of August 8, 2024 at 4:50pm

Differences by Sector

To provide a sense of which sectors have the largest disparities by race, Figure 5a shows average disparity ratios across all years within three broad contract industries: construction, goods, and services. Across all years, the disparity ratio for all minorities (grouped) is highest in construction at 93 percent, 70 percent in services, and lowest in goods at 55 percent. In other words, relative to their share of available firms, minority-owned businesses earn about 93 percent of contracting dollars in the construction sector, 70 percent of contracting dollars in the services sector, and just 55 percent of contracting dollars in the goods sector as would be expected. Note that the smaller gaps for the construction sector may be due, in part, to contracts in this sector being more likely to have DBE goals (which we show below is associated with smaller racial representation gaps). While large racial gaps exist, gaps are relatively smaller for Black- and Native American-owned firms in goods (ratios of 92 percent and 86 percent, respectively) and Asian- and Hispanic-owned firms in construction (ratios of 98 percent and 88 percent).

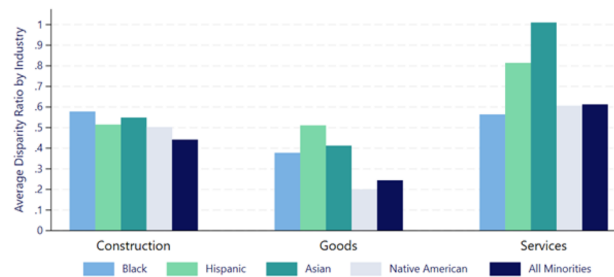
Figure 5a. Government Contracting Disparity Ratios by Industry (1977-2019)



Council of Economic Advisers
 Sources: Enchautequi et al. (1997) and Wainwright (2022); CEA calculations.
 As of August 9, 2024 at 9:30am

Figure 5b shows similar information, but focuses on more recent years—2014 to 2019. Figure 5b shows that average disparity ratios are generally much smaller in recent years, indicative of growing racial gaps in government contracting. Looking within sectors, the decline in disparity ratios is most pronounced for construction and goods—where the ratios for all minorities declined from 93 percent to 44 percent and 55 to 24 percent, respectively—and least pronounced for services, where the ratios for all minorities declined from 70 percent to 61 percent.

Figure 5b. Government Contracting Disparity Levels by Industry (2014-2019)



Council of Economic Advisers
 Sources: Wainwright (2022); CEA calculations.
 As of August 9, 2024 at 9:30am

The Role of Contract Type and the Size of the Contract

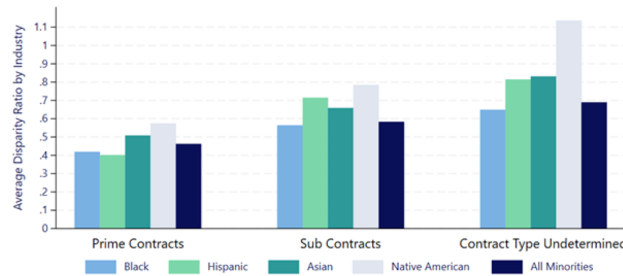
One way that racial disparities in contracting dollars can emerge is by minority-owned firms receiving contracts of different type or smaller amounts. We explore this by looking at contract type. Government contracts can take two forms: prime and sub contracts. Prime contracts are agreements made directly with the government, and prime contractors assume responsibility for oversight of the whole contract or project. Prime contractors can hire subcontractors to perform specific tasks for the project, but subcontractors do not work directly with the government, and subcontracts make up a smaller share of procurement dollars than prime contracts. In the Wainwright (2022) data, between 2001 and 2019, the average prime contract was worth about 9 times more than the average subcontract.

As a rule, an examination of the disparity ratios by contract type may shed light on whether minority owned firm are underrepresented among prime contracts, sub contracts, or all types of state and local government contracts. Using data spanning 2001 through 2019 (from Wainwright (2022) where contract type data are reported), Figure 6 examines disparity ratios by contract type—prime contracts, sub contracts, and contracts where the type is not determined—for each group (Black, Hispanic, Asian, Native American, and all minorities). In general, minority-owned businesses are relatively less likely to receive prime contracts (average disparity ratio of 0.51) and relatively more likely to receive sub contracts (average disparity ratio of 0.66), though they are significantly underrepresented for both contract types. This pattern of having a smaller disparity ratio for prime contracts holds for Black firms (0.46 versus 0.58), Hispanic firms (0.40 versus 0.71), Asian firms (0.57 versus 0.78), and Native American firms (0.42 versus 0.56).

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Figure 6. Average Disparity Ratios by Race and Contract Type (Prime vs Sub Contracts)



Council of Economic Advisers
 Sources: Wainwright (2022); CEA calculations.
 As of August 9, 2024 at 9:30am

One may wonder whether the racial gaps observed simply reflect minority-owned businesses receiving smaller contracts than non-minority-owned business, or if there are gaps in contracting status *per se*. To explore this, Figure 7 examines disparity ratios by whether disparity ratios are defined in terms of contract dollars or the number of contracts. Note that this is only possible using the older study—so that many of the ratios are higher than in more recent data—and the sample sizes are small for ratios in terms of number of contracts, so these ratios are measured with less precision. However, the analysis will still be instructive. In principle, if all firms are equally likely to receive contracts, but minority owned firms receive lower dollar amount contracts, one might see a large disparity ratio in dollar amounts, but small disparity ratios in the number of contracts.

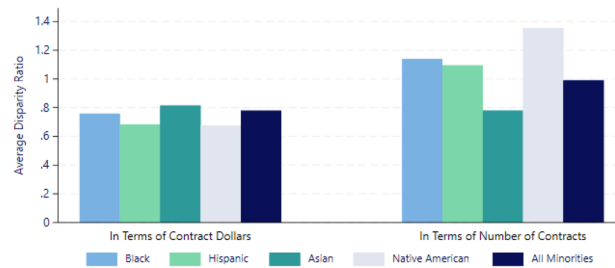
Analysis of contracting data up through the 1990s is consistent with the interpretation of minority-owned firms being more likely to earn relatively smaller contracts. Looking across all minorities, the disparity ratio in terms on number of contracts is 0.99, which indicates that between 1977 and 1994 when racial gaps were smaller, minority-owned businesses receive a similar number of contracts one would expect based on their representation among available firms. However, even during that period of high disparities, for Asian owned-business the gap was appreciably smaller than 1 (at only 78 percent). In contracting, the disparity ratios in terms of dollars are all smaller than 1 (between 0.68 and 0.81)—indicating that in general (perhaps

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with the exception of Asian businesses), racial disparities in contracting dollars mainly emerge through the size of the contracts rather than receipt of any contract *per se*. It is important to note that one cannot conclude that there is currently no gap in the number of contracts, because the data used for figure 7 do not include the recent period, when representation gaps are considerably larger.

Figure 7. Average Disparity Ratios in Terms of Contract Dollars or Number of Contracts



Council of Economic Advisers
 Sources: Enchaeta et al. (1997). Number of contracts is based on small sample (e.g., 74 for Black, 12 for Native American). CEA calculations.
 As of August 1, 2024 at 8:10am

Together, Figures 6 and 7 indicate that minority-owned businesses are more likely to receive smaller contracts worth less than the average contract. That is, conditional on minority-owned businesses receiving government contracts, they tend to be smaller contracts.

Testing for Discrimination

Test 1: Relationship with Bias

Descriptive evidence above shows that on average, available minority contractors between 2014 and 2019 receive about 54 cents for every dollar received by available White contractors. Next, CEA uses data in these two meta-studies to create disparity ratios at the county level and show how these ratios correlate with local measures of racial bias.

Social scientists often explore whether observed racial gaps are due to discrimination by examining whether racial disparities are more pronounced

in regions with higher levels of racial bias. The theory that areas with stronger prejudice would exhibit larger racial disparities was proposed by Becker (1957) and is supported by empirical data.

Researchers have employed various measures of racial bias, including public opinion questions such as “Would you object to sending your kids to a school that had [a certain fraction of] Black students?” Other measures of bias include measures of local housing segregation, the number of hate crimes against various groups, racially-biased Google searches, and implicit and explicit bias tests. For purposes of this analysis, we use a measure of implicit bias that comes from Implicit Association Test (IAT) scores (Greenwald, Nosek, and Banaji, 2003). This measures subconscious biases that individuals have towards various groups of people. It is based on the speed at which respondents are able to associate positive words and concepts with Black/Hispanic/Asian/Native American versus White faces or the word “Black/Hispanic/Asian/Native American” versus “White.” We take averages of this measure provided at the MSA or ZIP level and relate these to particular counties. We then relate these county-level bias measures to disparity ratios for the same geography.

Existing research shows that places with higher levels of this measure of prejudice have larger racial test score gaps, racial infant health gaps, and fewer loans for Black-owned businesses. In what follows, we show that these measures predict geographic variation in the prevalence of discrimination in government contracting.

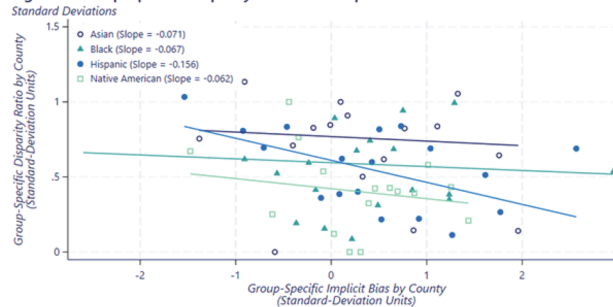
Figure 8 uses data spanning 2001 through 2019 from Wainwright (2022) and plots average disparity ratios against local measures of implicit racial bias. This figure uses group-specific measures of disparity ratios and measures of implicit bias. That is, we relate the disparity ratio measures for Black-owned business to measures of implicit bias against Black people, we relate the disparity ratio measures for Hispanic-owned business to measures of implicit bias against Hispanic people, and do the same for Asian and Native American disparity ratios. The patterns are remarkably similar within each group, with each group receiving relatively fewer contracting dollars in areas with more bias.

Figure 8 reports disparity ratios by a standardized measure of bias. To provide some context, average bias would be a standardized value of zero,

and going from -1.5 to +1.5 is analogous to going from a low to a high bias (about the 7th percentile of bias) to a low bias (about the 93rd percentile of bias) place. For ease of interpretation, the discussion below compares high versus low bias places, which we define as being 3 standard deviations apart.

For Black-owned businesses, being in a high-bias place versus a low-bias place leads to an average disparity ratio decrease of 0.20.^[12] That is, being in a high-bias place versus a low-bias place leads to a 20 percent decrease in contract dollars received by Black-owned firms, relative to what would be expected based on their availability. CEA finds similar effects for other groups: For Hispanic-owned businesses, being in a high-bias place versus a low-bias place leads to a larger 47 percent decrease in contract dollars, relative to what would be expected based on their availability. For Native American businesses, the impact is 18 percent; and for Asian-owned businesses, the impact is 21 percent.

Figure 8. Group-Specific Disparity Ratios and Implicit Bias



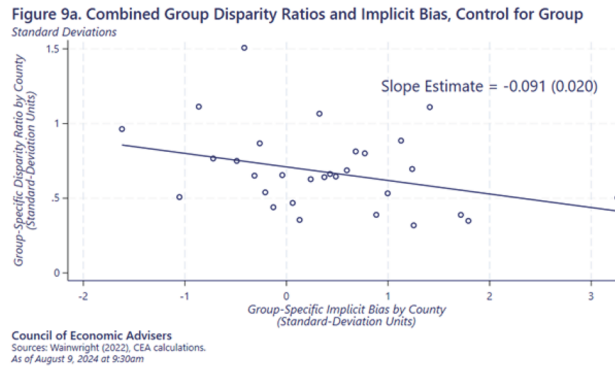
Council of Economic Advisers
Sources: Wainwright (2022), CEA calculations.
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Figure 9a combines the impact from all four groups (shown in Figure 3).^[13] Overall, across all included minority groups, being in a high-bias place versus a low-bias place leads to a 27 percent decrease in contract dollars received by minority-owned firms, relative to what would be expected based on their availability.^[14] This figure also shows that disparity ratios are equal to about 1 in the lowest bias places—places with average bias below -2. Meanwhile, places with very high bias (above 2) have average ratios around 0.5. This

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difference in average disparity ratios between the highest and lower bias locations of about 0.5 represents a 50 percent decrease in contracting dollars earned by minority-owned firms relative to what would be expected based on their availability.



Robustness to controls

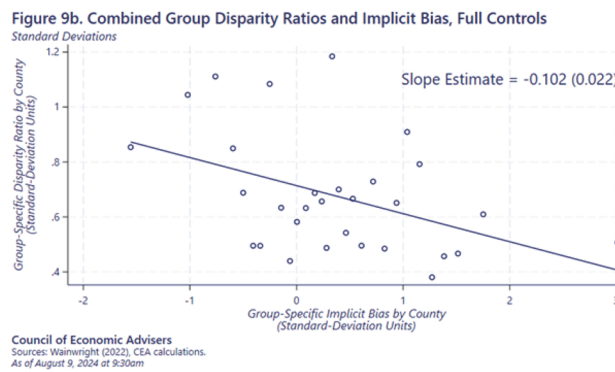
As one interprets the relationship between the disparity ratios and measures of bias, it is helpful to know whether this relationship can be accounted for by local measures of demographic traits, education, measures of firm availability, or measures of business quality. In the ideal, we would know about the capacity and experience of all firms to ensure that all available firms are similarly willing and able to take the contract. Unfortunately, these data are not available. However, we are able to measure a few such characteristics at the county level (based on 2000–2014 ACS data) and include these as controls in the model. Controls include indicators for group, year, and contract industry, along with county-level measures of each group's fraction of the population, average years of education, education gap compared to average White years of education, and the group-level fraction of available firms.

If the reason that places with more bias also tend to have lower disparity ratios is driven by the fact that places with more bias also tend to have lower levels of education for minorities, or fewer minorities in the local area, or

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biases are stronger in those places that have more sectors with fewer minority-owned firms, then accounting for these factors (that is, holding these factors fixed) would weaken the association between bias and the disparity ratios. To the contrary, Figure 9b shows that including additional controls does little to the overall relationship and actually makes it *stronger*. That is, after accenting for these factors, being in a high-bias place versus a low-bias place leads to a 30 percent decrease in contract dollars received by minority-owned firms, relative to what would be expected based on their availability.^[15]



Observing the relationship between measures of bias and disparity ratios allows one to infer what disparities would exist if racial biases were largely eliminated. That is, the disparity ratios observed in low bias areas provides an indication of how much more equal outcomes could be, if areas with high levels of bias behaved more like areas with low levels of bias. Speaking to this point, Figure 10 shows that places with the least bias have average disparity ratios of 0.94, which is close to 1 and close to parity. Places with middle levels of bias have average ratios of 0.69, while places with high levels of bias have average ratios of 0.56. In other words, areas with low bias show little evidence of racial gaps, while the largest racial gaps exist in those areas with the highest levels of racial bias. Put differently, if all geographic locations nationwide were like those with the lowest level of measured racial bias, the

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representation of minority firms in contracting dollars would be almost on par with minority firms' representation among businesses.

Figure 10. Average Disparity Ratios in Places with Low, Middle, or High Levels of Bias



Council of Economic Advisers
 Sources: Wainwright (2022); CEA calculations.
 As of August 1, 2024 at 11:30am

These results show a strong systematic relationship between measures of racial bias and an underrepresentation of minority-owned firms in government contracting in a particular county. This is consistent with the idea that the observed underrepresentation is driven in large part by racial bias. While we show that this relationship is not driven by minority populations being less educated or less available in areas with more racial bias, we cannot entirely rule out that racial bias is correlated with other unmeasured of the relative quality of minority-owned firms. As such, while the results strongly suggest a key role of racial bias, we cannot rule out other explanations. However, to bolster the claim that discrimination is at play, we present two more complimentary tests.

Test 2A: Differences for Contracts with Disadvantaged Business Enterprise Goals

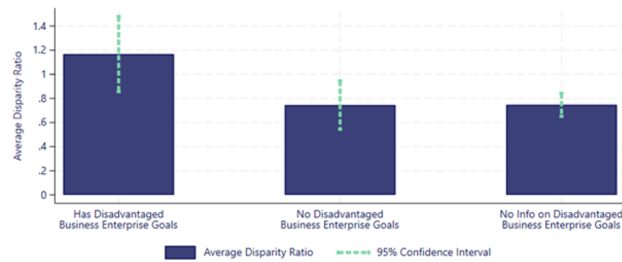
Wainwright (2022) data has a subset of studies that describe whether contracts had disadvantaged business enterprise goals in place. Many, but not all, of these studies were about the implementation of DBE programs for Federally funded contracts. These contracts had explicit goals for the participation of small business owned and controlled by socially and economically disadvantaged individuals. Contracts that had these goals

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should see larger disparity ratios than contracts without these goals. In fact, this is exactly what we see. Figure 11 shows that contracts that did have disadvantaged business enterprise goals in place had an average disparity ratio of 1.17 (which is not statistically different than 1); contracts that did not have disadvantaged business enterprise goals in place had an average ratio of 0.75; and contracts that provided no information on whether these goals were in place also had an average ratio of 0.75. These second two numbers are statistically smaller than 1.

Figure 11. Average Disparity Ratios by Whether Contract Had Disadvantaged Business Enterprise Goals



Council of Economic Advisers
Sources: Wainwright (2022); CEA calculations.
As of September 16, 2024 at 12:30pm

Test 2B: Does Having Disadvantaged Business Enterprise Goals Mitigate the Negative Effects of Bias?

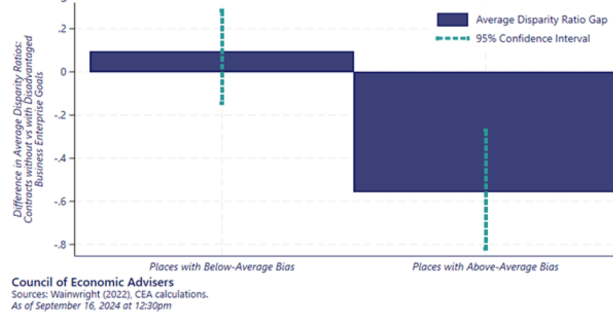
If discrimination occurs in government contracting, the disparity ratio gap (between contracts with and without disadvantaged business enterprise goals) should be larger in places with more bias. That is, having disadvantaged business enterprise goals should have little effect on disparity ratios for contracts in locations where there is no discrimination (as measured by below average bias). Conversely, having disadvantaged business enterprise goals would have large effects on disparity ratios for contracts in locations where there is discrimination (as measured by above average bias). Figure 12 shows exactly such a pattern. In places with lower measures of bias, disparity ratios are very similar for contracts with versus without disadvantaged business enterprise goals. However, in places with higher

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levels of bias, the difference in disparity ratios is much larger. These patterns provide further evidence that the observed disparity ratios on average may be driven by discrimination and also indicate that disadvantaged business enterprise goals may mitigate the ill effects of racial bias on contracting disparities.

Figure 12. Differences in Disparity Ratios for Contracts with vs without Disadvantaged Business Enterprise Goals
Low vs High Bias Places



Summarizing the Tests: *If it looks like a duck...*

There is no dispositive test regarding whether the disparity ratios that exist in government contracting by race reflect underlying discrimination. However, following best practice in social science we examine whether the disparity ratios behave as if they are the results of discrimination. Across all three tests, they do. That is, (a) areas with more racial bias also tend to have the largest representation gaps, (b) contracts that have disadvantaged business enterprise goals do not have any appreciable representation gaps while those without disadvantaged business enterprise goals do have gaps, and (3) the racial bias is only related to representation gaps for contracts that have no disadvantaged business enterprise goals in place. Following the reasoning in the famous quote “*If it looks like a duck, swims like a duck, and quacks like a duck, then it probably is a duck.*” That is, in several different ways, the disparity ratios look and behave as one would expect from discrimination, so it is reasonable to infer that racial discrimination plays a key role.

Conclusions and Implications

In the context of state and local government contracting, minority-owned businesses receive a smaller share of contracting dollars that would be expected based on their fraction of the population or fraction of available business able to carry out contracting work. Studies going back to the 1970s show that, on average, minority-owned businesses only earn about 75 percent as many government contracts as majority-owned businesses, accounting for differences in population and number of businesses by race and ethnicity. Furthermore, these gaps do not appear to be receding over time. In fact, racial gaps were larger in the 2010s than during the four decades before 2010. Between 2014 and 2019, minority-owned firms only received 53 percent as many contracting dollars as would be expected based on their fraction of available businesses. Racial gaps in contracting exist in all industries and these gaps are larger for prime contracts than for smaller sub contracts.

A key novel finding in this report is that contracting gaps are larger in places with more racial bias (as measured by validated measures of bias developed by social scientists). Minority-owned businesses in high-bias places receive about 30 percent less government contracting dollars than similar businesses in low-bias places. This pattern is evident for business owned by Black, Hispanic, Asian, and Native Americans. Moreover, the data show that contracts that have disadvantaged business enterprise goals do not have racial contracting gaps on average, and are able to eliminate the ill-effects of local racial biases on contracting gaps by race.

This analysis presents further evidence that race continues to be a significant determinant of economic well-being in the lives of many Americans. The prevalence and effect of implicit bias shows the limitations of relying solely on race-neutral tools to advance equality of opportunity. In various contexts, the research suggests that until there are no longer underlying implicit racial biases, race-conscious action—such as those under programs to promote the participation of DBEs—may be necessary to truly achieve equality of opportunity for all Americans.

By promoting equitable access to federal contracting and supporting minority-owned businesses, the Biden-Harris Administration has taken steps to reduce long-standing disparities in federal procurement. Closing these gaps is essential not only for fostering a more inclusive economy but also for

maximizing the nation's economic potential. Ensuring that all entrepreneurs, regardless of race or background, have a fair chance to compete for federal contracts strengthens economic growth, drives innovation, and creates jobs—benefiting communities across the United States.

[1] It is important to note that the definition of available firm can vary across studies, but it generally represents firms from in the same geographic location and industry.

[2] The same level of disparity can exist with very different levels of availability. For example, a disparity ratio of 1 can be consistent with the percentage of businesses that are minority-owned being 2 percent or 40 percent. It is also possible to have a disparity ratio of 1 and have all contract dollars awarded to minority firms going to a single firm.

[3] To be included in Enchautegui et al. (1997), a study had to (1) present its findings as disparity ratios or provide the data necessary to calculate disparity ratios; (2) report findings separately by industry categories; (3) report the number of contracts in each industry on which the disparity findings were based or report the statistical significance of each disparity finding; and (4) have more than 80 contracts for all years of the study period combined.

[4] Each study provides disparity ratios for (1) alternate groups of minorities; (2) alternate ways of defining the contract (i.e., contract dollars vs number of contracts); and (3) alternate data sources used to define availability of minority-owned businesses.

[5] The methods used by the 58 studies were quite consistent, although there are differences across studies, including how available firms are defined. Each study in Enchautegui et al. (1997) defines availability in one of five ways: (1) firms that have previously won government contracts; (2) firms that have bid on government contracts or expressed interest in doing so; (3) firms that have been certified as minority-owned; (4) firms that express interest in government contract work; and (5) all firms. Different definitions of available firms may lead to different conclusions about disparity ratios and the fraction of available firms that are minority-owned. Since there are many stages in the

firm formation and procurement process at which discrimination can take place, from starting a business to winning a government contract, the more narrowly a measure screens for capacity, the more prior discrimination it builds in. In other words, a more restrictive definition of availability (e.g., firms that have previously bid on or won contracts) will not account for the influence of any bias that impacted the ability of minority-owned firms to get to that point.

[7] To avoid skewing the data by outliers with small samples, all disparity ratios of 5 or higher are coded up as 5.

[8] CEA was able to go into the individual study data for all GSBC studies and 28 of the 45 BBS studies, and verified that both BBC and GSPC used the same methodology for all studies that could be examined.

[9] Note that the definition of Native-owned business may have changed over time. For example, in 1986, two additional owner-groups, Indian tribes and Alaska Native Corporations (ANCs), became eligible for the 8 (a) program when Congress passed legislation providing that firms owned by Indian tribes, which include ANCs, were to be deemed socially disadvantaged for 8(a) Program purposes. [R44844 \(congress.gov\)](https://www.congress.gov/bills/99/44844/text/senate/1).

[10] Recall that available can be defined in various ways such as those that have bid before, or earned a contract before, or meet some threshold of observable traits.

[11] For a small number of studies (about 5 percent), we use the disparity ratio based on the number of contracts because the ratio based on contracting dollars is not reported.

[12] Figure 8 shows that the impact of each one-standard-deviation increase in group-specific bias leads to average ratio decreases of 0.071, 0.067, 0.156, and 0.062 for Asian, Black, Hispanic, and Native American firms, respectively.

[13] This weights each group by their fraction of the population (shown in Figure 3).

[14] Figure 9a shows that each standard deviation increase in the group-specific bias leads to an average disparity ratio that is 0.091 smaller, or about 9.1 percent compared to what would be expected based on availability.

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[15] Figure 9b shows that each standard deviation increase in the group-specific bias leads to an average disparity ratio that is 0.102 smaller, or about 10.2 percent compared to what would be expected based on availability.



Testimony for the Record

Women's Procurement Circle

Senate Committee on Small Business and Entrepreneurship

“Running Government Like a Small Business: Cut Waste, Crush
Fraud”

December 10, 2025



December 23, 2025

The Honorable Joni Ernst
Chair
Senate Committee on Small Business and
Entrepreneurship
U.S. Senate
Washington, D.C. 20510

The Honorable Edward Markey
Ranking Member
Senate Committee on Small Business and
Entrepreneurship
U.S. Senate
Washington, D.C. 20510

Dear Chair Ernst, Ranking Member Markey, and Members of the Committee:

The Women's Procurement Circle (WPC), a coalition of women-owned federal contracting companies, appreciates the opportunity to submit this testimony for the record in connection with the December 10, 2025, hearing "Running the Government Like a Small Business: Cut Waste, Crush Fraud." We share the Committee's commitment to fiscal responsibility, program integrity, and the efficient use of taxpayer dollars, and we strongly support efforts to prevent waste, fraud, and abuse in federal programs.

While the hearing appropriately focused on identifying vulnerabilities within Small Business Administration (SBA) programs, testimony raised concerns specifically regarding the Women-Owned Small Business (WOSB) Federal Contract Program. WPC submits this statement to provide additional context regarding the statutory basis of the program, its implementation, and opportunities to strengthen oversight while preserving congressional intent.

Congressional Authorization and Legislative Intent

The WOSB Federal Contract Program was established by Congress following extensive analysis, debate, and legislative review.¹ This effort took 11 years to implement. Its creation required approval from authorizing committees in both chambers of Congress and approval by the House and Senate Armed Services Committees. The program was enacted into law to address documented disparities in federal contracting and to expand competition by enabling greater participation by qualified women-owned small businesses.

The role of the SBA has been to administer and implement the program in accordance with statutory direction. The program's creation was achieved in a bipartisan manner and garnered the support of nearly every woman serving in Congress – reflecting bipartisan concern about underrepresentation in federal contracting.

¹ Small Business Reauthorization Act of 2000, Pub. L. No. 106-554, § 811, 114 Stat. 2763A-153 (Dec. 21, 2000) (codified at 15 U.S.C. § 637(m)).



Program Structure and Safeguards

The WOSB program consists of two components: Women-Owned Small Businesses (WOSB) and Economically Disadvantaged Women-Owned Small Businesses (EDWOSB). Firms participating as EDWOSBs must meet economic disadvantage requirements comparable to those applicable to the SBA's 8(a) Business Development Program. However, EDWOSB firms would benefit from available assistance provided to 8(a) firms, such as assistance from SBA's Business Opportunity Specialists.

The program is further limited in scope using specific North American Industry Classification System (NAICS) codes. Only industry codes in which the Department of Commerce has determined that women are underrepresented are eligible for WOSB set-aside awards. This targeted approach reflects an effort to balance opportunity with accountability.

Historical Context and Program Performance

At the time Congress enacted the WOSB program, women-owned small businesses received approximately 2.3 percent of federal contracting dollars. Since that time, the government has met the statutory goal of awarding 5 percent of federal contracts to women-owned small businesses only twice. While progress has been gradual, even modest increases in participation represent meaningful economic opportunities for women-owned small businesses and contribute to a more competitive federal marketplace.

According to the SBA Small Business Procurement Scorecard for Fiscal Year (FY) 2024, women-owned small businesses received approximately \$31.7 billion up from \$25.6 billion in FY 2023. Roughly 13,957 companies received awards, a slight increase over the previous year. These statistics show that even though the program is underutilized by the federal agency acquisition teams, it is effective.

Addressing Concerns Regarding Fraud and Control

Testimony at the hearing raised concerns that some firms may attempt to misuse the WOSB program by misrepresenting ownership or control. WPC agrees that any such behavior should be addressed promptly and decisively. At the same time, it is important to recognize that the program already includes meaningful safeguards.

To qualify as a WOSB or EDWOSB, firms must demonstrate unconditional ownership and control by one or more women, including authority over day-to-day operations and long-term decision-making. Certification and eligibility reviews involve detailed documentation and are subject to protest, audit, and enforcement actions when irregularities are identified. These requirements are intended to protect both taxpayers and the WOSB program.



Certification and Oversight Recommendations

To further strengthen program integrity, WPC supports legislation, such as the *WOSB Accountability Act* (H.R. 1816), to require SBA certification for all firms seeking WOSB set-aside contracts.² Mandatory certification would promote consistency across SBA programs, enhance confidence in eligibility determinations, and reduce the risk of misuse, while ensuring that qualified businesses continue to have access to contracting opportunities. This legislation passed the House but has not been considered by the Senate. We urge the Committee to pass this legislation, given its concern about fraud in SBA's socioeconomic programs.

In addition, WPC respectfully encourages Congress to ensure that SBA oversight offices, and the Office of Inspector General, have sufficient resources to investigate allegations of fraud and respond to complaints in a timely and transparent manner. Effective oversight depends on statutory authority and adequate staffing and funding. Since Congress, in its annual appropriations, decides the funding for these resources, we ask the Committee to champion additional funding for the WOSB/EDWOSB program, the WOSB certification, and the oversight necessary to increase its effectiveness.

The WOSB program has been the subject of multiple reviews by the SBA Office of Inspector General and the Government Accountability Office (GAO), as well as several regulatory updates issued by the SBA. These reviews and subsequent reforms demonstrate a pattern of ongoing evaluation and improvement, consistent with responsible program management.

Conclusion

WPC supports the Committee's bipartisan efforts to strengthen accountability and ensure that federal contracting programs operate efficiently and fairly. We believe that targeted reforms, robust oversight, and consistent certification standards offer a constructive path forward that addresses concern about fraud while preserving a program established by Congress to expand opportunity and competition for women owned companies. We appreciate the Committee's consideration of these views and thank you for the opportunity to submit this testimony for the record.

² H.R.1816, 119th Cong. (2025-2026), "WOSB Accountability Act," <https://www.congress.gov/bill/119th-congress/house-bill/1816>

The following documents were submitted to the record for the field hearing held on December 10, 2025 entitled “Running Government Like a Small Business: Cut Waste, Crush Fraud.” For any documents that do not currently include a link, please contact the Senate Committee on Small Business and Entrepreneurship to receive a copy of the report.

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