



Settlement Indicates Widespread Abuse of SBA Preference Programs

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Last month, the U.S. Department of Justice settled a case with a Maryland company that shows, yet again, how common it is for companies to abuse the preference programs that the Small Business Administration runs.

In this case, it was the SBA's Historically Underutilized Business Zone (HUBZone) program that was the target. Beltsville, Md.-based CSI Engineering and CSI Design Build – along with their president, Debdas Ghosal –agreed to pay the government \$200,000 to settle claims that they used false statements to obtain government contracts set aside for HUBZones.

The HUBZone program was established in 1997 to encourage businesses to locate in economically depressed areas. The program provides some priority in government contracts to companies that have their main offices in economically depressed areas and that draw at least 35 percent of their workforce from those designated areas.

But, according to the Justice Department, CSI Design Build falsely told the government that its principal office was located in a designated HUBZone. Actually, CSI Design Build operated as a part of CSI Engineering, which is not located in a HUBZone. Based on its false representations, the company won contracts with the Army, the Department of Labor, the Department of Homeland Security and the Smithsonian Institution.

The CSI companies' manipulation of the program in order to win lucrative government contracts set aside for HUBZone businesses is representative of historical and widespread problems with the program — and with the SBA's oversight.

In July 2008, the Government Accountability Office reported that ten D.C.-area companies were improperly certified for the HUBZone program. For example, companies listed phony HUBZone area addresses (including a Starbucks coffee shop!) while operating out of locations not within HUBZones. Regardless of these blatant false claims, these companies were certified by the SBA, which apparently didn't even do the most basic due diligence.



The SBA's response to the GAO findings was that the problems were unique to the D.C. area.

Rep. Nydia Velazquez (D-N.Y.), chairwoman of the House Small Business Committee, asked the GAO to do a broader study. In March 2009, the GAO testified that out of 36 firms from four different states with eligibility, more than half didn't actually qualify. The GAO estimated that potentially hundreds or even thousands of companies with HUBZone certification likely shouldn't have had it.

Velazquez said she would urge the SBA to shut down the program until it could fix the problems. Although that didn't happen, the GAO has continued its review. Not surprisingly, more problems have surfaced.

In August 2010, the GAO announced findings from an additional investigation. GAO investigators submitted four bogus certification requests to the SBA. Investigators used clearly false business addresses such as that of a public storage facility, a city hall, and even the Alamo. The SBA certified three of the companies even though a simple Internet search would have revealed the obvious falsehoods. The fourth was not certified. But that was because the SBA repeatedly lost documents submitted by the GAO, which decided to withdraw the application.

Is the SBA utterly incompetent? Are there no procedures in place requiring its employees to thoroughly review HUBZone certification requests? This is not an obscure government program. According to Business News Daily, the SBA claimed that \$12.4 billion in federal contracts were granted through HUBZone in fiscal year 2009. Fortunately, however, the GAO has brought HUBZone problems to the attention of the Justice Department and Congress. Now, perhaps the SBA too will be more active in monitoring and weeding out bad actors.

Crime in the Suites is authored by the [Ifrah Law Firm](#), a Washington DC-based law firm specializing in the defense of government investigations and litigation. Our client base spans many regulated industries, particularly e-business, e-commerce, government contracts, gaming and healthcare.

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