



June 2017

PUERTO RICO

Information on Trends and Challenges to Small Business Federal Contracting

GAO Highlights

Highlights of [GAO-17-550](#), a report to congressional committees

Why GAO Did This Study

SBA administers several programs nationwide and in Puerto Rico that provide federal contracting preferences to small businesses. The Puerto Rico Oversight, Management, and Economic Stability Act includes a provision for GAO to review the application and utilization of SBA programs in Puerto Rico.

GAO examined, among other things, (1) trends in small business contracting and the use of SBA programs in Puerto Rico that provide contracting preferences to small businesses and (2) stakeholder views on any challenges that small businesses in Puerto Rico face in obtaining federal contracting opportunities.

To analyze trends in the use of SBA programs, GAO obtained data on prime contracts for Puerto Rico for fiscal years 2006 through 2016 and used nationwide data as a reference point. GAO interviewed stakeholders such as federal agency contracting officials, industry associations in Puerto Rico, and economic development entities about any challenges small businesses in Puerto Rico face in obtaining federal contracts and steps SBA has taken to promote participation in its programs. Additionally, GAO conducted a literature review to identify challenges cited for the 8(a), HUBZone, WOSB, and SDVOSB programs and challenges faced by small businesses in federal contracting in Puerto Rico.

GAO makes no recommendations in this report.

View [GAO-17-550](#). For more information, contact William Shear at (202) 512-8678 or shearwj@gao.gov.

June 2017

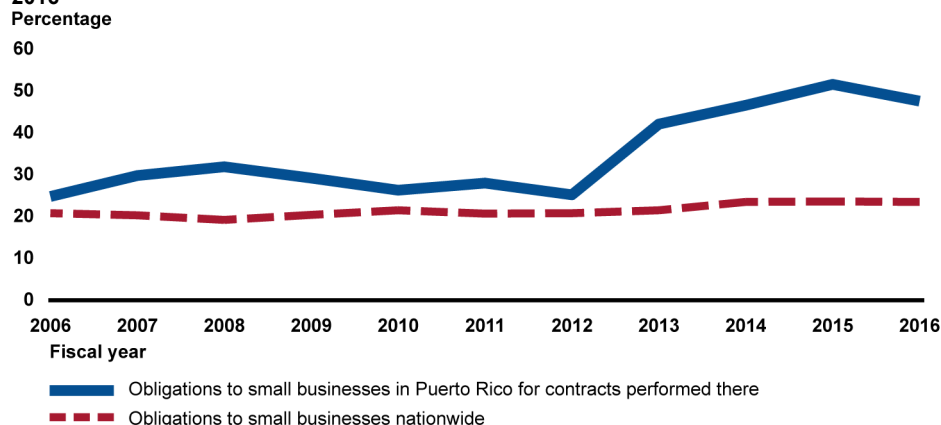
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What GAO Found

From fiscal years 2006 through 2016, a higher percentage of federal contracting obligations was awarded to small businesses within Puerto Rico for contracts performed there compared to the percentage for small businesses nationwide, particularly in the last 4 fiscal years of the period (see fig.). In fiscal year 2016, small businesses in Puerto Rico received about 47 percent of federal contracting obligations to Puerto Rico (about \$319 million out of \$682 million) compared to 23 percent of federal obligations awarded to small businesses nationwide. Of the four Small Business Administration (SBA) programs that provide contracting preferences based on socioeconomic designations, a higher percentage of obligations was awarded in Puerto Rico through the 8(a) Business Development program compared to the Historically Underutilized Business Zone (HUBZone), Women-Owned Small Business (WOSB), and Service-Disabled Veteran-Owned Small Business (SDVOSB) programs. The use of 8(a) contract awards in Puerto Rico was somewhat higher than nationwide, while the use of the other three SBA programs was roughly comparable.

Percentage of Small Business Obligations for Puerto Rico and Nationwide, Fiscal Years 2006–2016



Source: GAO analysis of data from Federal Procurement Data System-Next Generation. | GAO-17-550

Agencies and industry associations GAO interviewed identified several challenges small businesses in Puerto Rico may face in obtaining federal contracting opportunities. Challenges they identified included a lack of knowledge about the federal contracting process; difficulty meeting procurement requirements; and difficulty accessing bonding, financing, and capital. Many of these challenges are similar to those GAO identified in a September 2012 report (GAO-12-873) that small businesses in general face in seeking federal contracting opportunities. However, stakeholders indicated that some challenges may be exacerbated by Puerto Rico's geography and economic conditions. Stakeholders did not identify any federal laws that have created unique contracting challenges for small businesses in the region. SBA and the three other federal agencies GAO contacted identified examples of conducting outreach, providing training and seminars, coordinating with local organizations, and other efforts intended to help Puerto Rican small businesses obtain federal contracting opportunities.

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Abbreviations

8(a)	8(a) Business Development
ACS	American Community Survey
DOD	Department of Defense
DSBS	Dynamic Small Business Search
FPDS-NG	Federal Procurement Data System–Next Generation
GSA	General Services Administration
HUBZone	Historically Underutilized Business Zone
MBDA	Minority Business Development Agency
NAICS	North American Industry Classification System
PCR	Procurement Center Representative
SBA	Small Business Administration
SBTDC	Small Business and Technology Development Center
SDVOSB	Service-Disabled Veteran-Owned Small Business
VA	Department of Veterans Affairs
WOSB	Women-Owned Small Business

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June 29, 2017

The Honorable James E. Risch
Chairman
The Honorable Jeanne Shaheen
Ranking Member
Committee on Small Business and Entrepreneurship
United States Senate

The Honorable Steve Chabot
Chairman
The Honorable Nydia Velázquez
Ranking Member
Committee on Small Business
House of Representatives

Small businesses play an important role in the U.S. and Puerto Rican economies. According to the U.S. Census Bureau, over 99 percent (about 44,000) of the businesses in Puerto Rico are small.¹ Total federal contracting obligations in Puerto Rico have ranged from a low of \$404 million to a high of \$1 billion during the past 10 fiscal years.² The Small Business Administration (SBA) administers several programs in Puerto Rico and nationwide that provide federal contracting preferences to small businesses, including the 8(a) Business Development (8(a)), Historically Underutilized Business Zone (HUBZone), Women-Owned Small Business (WOSB), and Service-Disabled Veteran-Owned Small Business (SDVOSB) programs. Small businesses certified with these socioeconomic designations benefit from federal contracting preferences,

¹Data are from U.S. Census Bureau's County 2014 Business Patterns. This figure counts the number of establishments, which consist of businesses that may have headquarters established elsewhere. The Small Business Administration (SBA) establishes size standards, which are usually number of employees or average annual receipts, to represent the largest size that a business (including its subsidiaries and affiliates) may be to remain classified as a small business for SBA and federal contracting programs. The definition of small business varies to reflect industry differences. SBA considers establishments with fewer than 500 employees to be small for most manufacturing and mining industries and less than \$7 million in average annual receipts for most non-manufacturing industries.

²These figures represent the total amount of federal prime contracting obligations awarded for contracts performed in Puerto Rico. The dollar amounts were adjusted for inflation using fiscal year 2016 dollars.

such as sole source contracts (awards are made without competition) and set-aside contracts (awards are limited to a designated pool of competing firms).³ The federal government has additionally specified annual prime contracting and subcontracting goals for designated small business categories.⁴

Puerto Rico currently faces many economic challenges. U.S. Census Bureau's Puerto Rico Community Survey and American Community Survey from 2015 show that about 46 percent of Puerto Rico's residents live below the federal poverty level, compared to a national average of about 15 percent.⁵ Additionally, as of June 2017, Puerto Rico's government faces a debt crisis. In June 2016, Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act to address the debt crisis and Puerto Rico's fiscal affairs. The act includes a provision for us to evaluate the application and utilization of SBA programs in Puerto Rico (including contracting activities relating to HUBZone small business concerns) and identify any provision of federal law that may create an obstacle to efficient implementation of such activities related to these programs.⁶ This report examines (1) trends in small business contracting and the use of SBA programs that provide federal contracting preferences to small businesses in Puerto Rico from fiscal years 2006 through 2016, and (2) stakeholder views on any challenges small businesses in Puerto Rico face in obtaining federal contracting opportunities, including those posed by federal laws, and steps SBA and other agencies have taken to assist Puerto Rican small businesses in obtaining federal contracting opportunities.

To identify trends in the use of SBA programs that provide federal contracting preferences to small businesses in Puerto Rico from fiscal

³In addition to set-asides and sole source contracts, certified HUBZone businesses also can receive a price evaluation preference of 10 percent in full and open competition if the apparent successful offering firm is not a small business. We did not include awards made using price evaluation preference in our analyses.

⁴These contracting goals are 5 percent for WOSBs and small disadvantaged businesses (which includes 8(a) businesses) and 3 percent for SDVOSBs and businesses located in HUBZones. A prime contract is awarded directly by a procuring agency to the bidder or offeror (prime contractor).

⁵Alemayehu Bishaw and Brian Glassman, United States Census Bureau, *Poverty: 2014 and 2015*, American Community Survey Briefs (September 2016).

⁶In this report, we define SBA programs to be programs administered by SBA that provide federal contracting preferences to small businesses.

years 2006 through 2016, we analyzed data on prime contract obligation amounts for Puerto Rico and nationwide from the Federal Procurement Data System–Next Generation (FPDS-NG) for those fiscal years.⁷ We also analyzed data from the U.S. Census Bureau’s American Community Survey on HUBZone census tracts. We assessed the reliability of the FPDS-NG and U.S. Census Bureau data by reviewing relevant related documentation and determined that they were sufficiently reliable for analyzing trends and for describing economic conditions in HUBZone areas. To identify stakeholder views on any challenges that small businesses in Puerto Rico face in obtaining federal contracting opportunities, including those posed by federal laws, and steps SBA and other agencies have taken to assist Puerto Rican small businesses in obtaining federal contracting opportunities, we interviewed SBA officials and other stakeholders such as federal agency contracting officials, industry associations, and economic development entities in Puerto Rico. We did not assess the extent to which steps SBA and other agencies have taken address the challenges stakeholders identified. Appendix I provides more detail on our scope and methodology.

We conducted this performance audit from September 2016 to June 2017 in accordance with generally accepted government auditing standards. Those standards 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

Under the Small Business Act, SBA plays an important role in ensuring that small businesses gain access to federal contracting opportunities. SBA negotiates specific agency-wide goals to help ensure that the federal government collectively meets the 23 percent statutory goal for contract dollars awarded to small businesses. In addition, SBA administers the 8(a), HUBZone, WOSB, and SDVOSB programs that are intended to assist small businesses of various socioeconomic categories. Firms with multiple socioeconomic designations can receive set-asides or sole

⁷For Puerto Rico, we obtained data for prime contracts where the place of performance was in Puerto Rico. This means that prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the contracts’ place of performance was in Puerto Rico.

source contracts under one or more of the four programs. For example, a HUBZone firm that also qualifies as an SDVOSB could receive an award under the SDVOSB program as well as another under the HUBZone program. Each program has different requirements. As of March 2017, Puerto Rico had 76 8(a) certified businesses, 40 HUBZone certified businesses, 256 WOSBs, and 56 SDVOSBs.⁸

8(a) Program: The purpose of the 8(a) program is to develop small businesses owned by socially and economically disadvantaged individuals. A business must meet several initial eligibility requirements to qualify for the 8(a) program. For example, the firm must be a small business as defined by SBA, it must be owned and controlled by one or more socially and economically disadvantaged individuals who are of good character and U.S. citizens, and it must demonstrate the potential for success. Upon certification by SBA, the business may stay in the program for 9 years if it meets other requirements for continued participation.

HUBZone Program: Congress created the HUBZone program in 1997 to stimulate economic development in economically distressed communities by designating certain areas as HUBZones.⁹ There are several types of HUBZone areas, including qualified census tracts, which are determined by the area's poverty rate or household income.¹⁰ SBA updates HUBZone designations based on whether areas meet statutory criteria, such as having certain income levels or poverty or unemployment rates. For example, SBA revised the designation of HUBZones based on the release of the 2010 U.S. Census Bureau data in October 2011. For a

⁸The WOSBs total includes Economically Disadvantaged WOSBs. With the exception of the 8(a) program, all data are obtained from SBA's Dynamic Small Business Search. SBA officials stated that for the 8(a) program, the number of participants differ from the DSBS database results.

⁹HUBZone Act of 1997, Pub. L. No. 105-135, Title VI, 111 Stat. 2592, 2627-38 (1997).

¹⁰Other HUBZone areas include qualified nonmetropolitan counties, which are determined by the area's unemployment rate or median household income; lands within the external boundaries of an Indian reservation, based on the areas meeting certain criteria; military bases closed under various base closure acts; counties in difficult development areas outside of the continental United States; and certain disaster areas.

business to be certified by SBA as a HUBZone business, it must meet the following criteria:¹¹

- be small by SBA size standards,¹²
- be at least 51 percent owned and controlled by U.S. citizens,
- have its principal office—the location where the greatest number of employees perform their work—located in a HUBZone,¹³ and
- have at least 35 percent of its employees reside in a HUBZone.¹⁴

On June 16, 2016, SBA announced that it had revised the definition of qualified census tracts eligible to be designated as HUBZones to provide additional opportunities for small businesses in Puerto Rico and nationwide to participate in the HUBZone program. Previously, in addition to poverty rate and income, a statutory population cap limited the number of eligible census tracts. Under the cap, in metropolitan areas where more than 20 percent of the population qualified, the list of eligible census tracts was ordered from the highest percentage of eligible households to the lowest until the 20 percent limit was exceeded. By lifting the population cap, SBA expanded the number of eligible census tracts in Puerto Rico by 516 (from 260 to 776). As a result, nearly all of Puerto Rico now qualifies as a HUBZone (see fig. 1).¹⁵ In the rest of the United States, the number of eligible census tracts increased by 1,499 (from 15,938 to 17,437). (See app. II for maps of the newly eligible and existing census tracts in the United States, excluding U.S. territories.)

¹¹Different rules apply for Indian Tribal governments, Alaska Native Corporations, Community Development Corporations, Native Hawaiian Organizations, and small agricultural cooperatives. See Title 13 of the Code of Federal Regulations, Part 126.

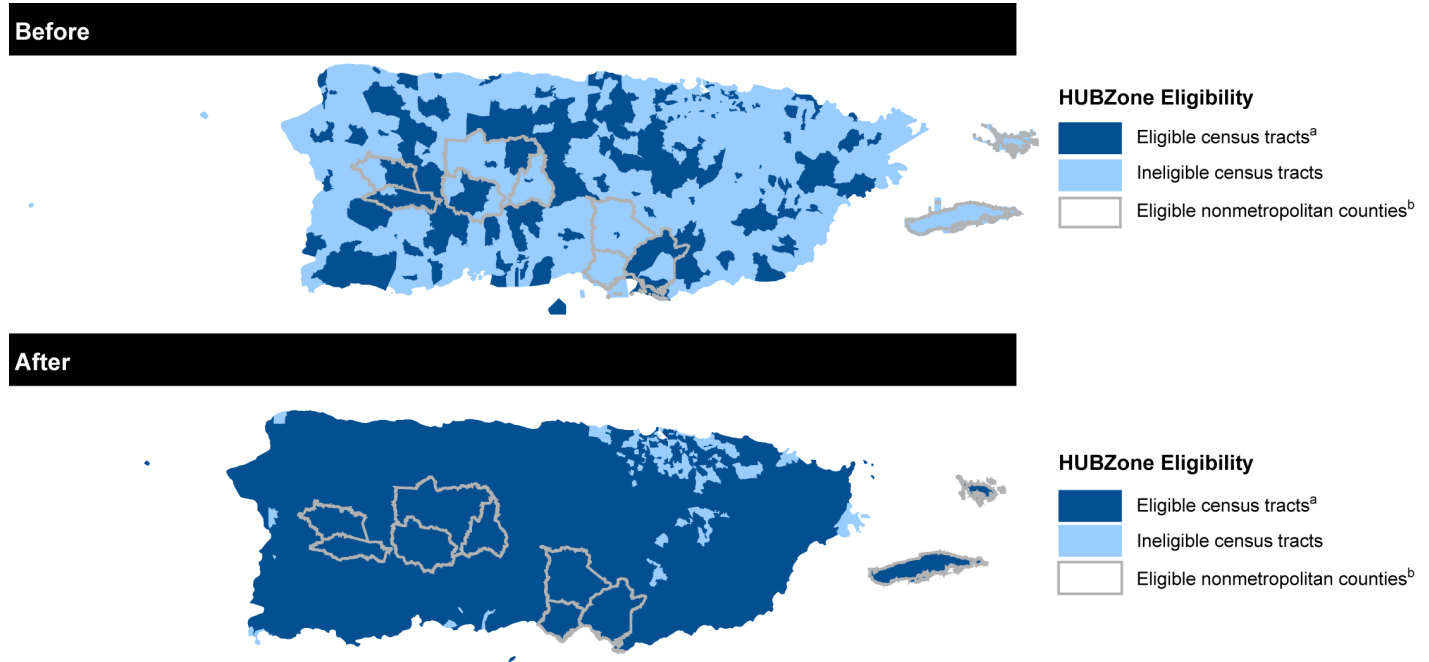
¹²The firm, with its affiliates, must meet the size standard corresponding to its primary industry classification as defined in 13 CFR Part 121. SBA's size standards vary by industry.

¹³While a certified HUBZone business must have its principal office in a HUBZone area, it can bid on and receive federal contracts for work to be performed anywhere.

¹⁴SBA defines an employee as an individual employed on a full-time, part-time, or other basis, so long as that individual works a minimum of 40 hours per month. This includes employees obtained from a temporary employee agency or leasing concern, or through a union agreement or co-employed pursuant to a professional employer organization agreement.

¹⁵On June 30, 2016, Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act, which, among other things, authorized SBA not to apply the 20 percent cap but only for HUBZone designations in Puerto Rico and only for a limited time. Pub. L. No. 114-187, § 412, 130 Stat. 549, 595 (2016).

Figure 1: Historically Underutilized Business Zone (HUBZone) Areas in Puerto Rico before and after the Small Business Administration (SBA) Changed the Definition for Qualified Census Tracts in June 2016, as of June 2016



Source: GAO analysis of data provided by the Small Business Administration, MapInfo (map). | GAO-17-550

Note: SBA's revision in the definition of qualified census tracts eligible to be designated as HUBZones in June 2016 led to an increase in the number of eligible HUBZone census tracts in Puerto Rico.

^aPreviously eligible census tracts are those that were eligible prior to the expansion of the HUBZone eligibility criteria and retained eligibility after the SBA revision.

^bIn addition to qualified census tracts, HUBZone areas may also be located in certain nonmetropolitan counties.

WOSB Program: In 1994, Congress established a goal of not less than 5 percent of the total value of all prime contract and subcontract awards for each fiscal year for WOSBs to increase federal contracting opportunities for WOSBs. In 2000, Congress authorized the WOSB program and SBA issued implementing regulations that became effective in 2011. Under the program, contracts are reserved for WOSBs in designated industries in which WOSBs and economically disadvantaged WOSBs were historically underrepresented. Set-aside and sole source awards can be made to

WOSBs only in those designated industries.¹⁶ Various changes have been made to the WOSB program since it was established, including the removal of limitations on the amount of contract dollars in a set-aside that WOSBs can compete for in 2013 and allowing sole source awards starting in October 2015. Among other eligibility requirements, a business must be at least 51 percent owned and controlled by one or more women; it must be certified as eligible by a third party or be self-certified by the business owner; and the owner must provide documents demonstrating that the business meets program requirements.

SDVOSB Program: The Veterans Entrepreneurship and Small Business Development Act of 1999 established an annual government-wide goal of not less than 3 percent of the total value of all prime contract and subcontract awards for SDVOSBs.¹⁷ In addition, the Veterans Benefits Act of 2003 gave federal contracting officers the authority to restrict competition to SDVOSBs and award a sole source or set-aside contract where certain criteria are met.¹⁸ To be eligible, the business must be majority-owned by one or more service-disabled veterans who manage and control daily business operations, and it must qualify as a small business under the North American Industry Classification System Code industry-size standards. The Veterans Benefits, Health Care, and Information Technology Act of 2006 requires the Department of Veterans Affairs (VA) to set aside contracts for SDVOSBs and other veteran-owned small businesses (unless a sole source contract is used) if the contracting officer expects two or more such firms to submit awards. VA may make sole source awards of up to \$5 million, without a determination that only an SDVOSB or a veteran-owned small business is available.¹⁹

Other categories. Other socioeconomic programs include those for veterans, small disadvantaged businesses, and other small businesses.

To help ensure that small businesses receive a share of federal procurement contract dollars, Congress has set an annual government-

¹⁶Set-asides and sole source contracts can be made only in industries in which WOSBs were substantially underrepresented and economically disadvantaged WOSBs were underrepresented, according to the program regulation.

¹⁷Pub. L. No. 106-50, § 502, 113 Stat. 233, 247 (1999).

¹⁸Pub. L. No. 108-183, § 308, 117 Stat. 2651, 2662 (2003).

¹⁹Pub. L. No. 109-461, § 502, 120 Stat. 3403, 3431 (2006).

wide goal of awarding not less than 23 percent of prime contract dollars to small businesses. To promote this goal, the Small Business Act permits contracting officers at federal agencies to award contracts to small businesses through set-aside or sole source to 8(a), HUBZone, WOSB, and SDVOSB businesses, under certain requirements. Federal agencies are generally required to set aside contracts with values exceeding \$150,000 if the contracting officer expects at least two small businesses to submit bids for the procurement. Under the HUBZone, WOSB, and SDVOSB programs, a contracting officer may award sole source contracts valued up to \$4 million if the contracting officer does not have a reasonable expectation that two or more small businesses would submit offers and the award can be made at a fair and reasonable price.²⁰ Under the 8(a) program, federal agencies are to make sole source awards for contracts valued up to \$4 million.²¹ Federal agencies are also required to reserve contracts with values exceeding \$3,000 but less than \$150,000 for small businesses exclusively if the contracting officer expects at least two small businesses to submit bids.

The Small Business Act also established other programs and resources to assist small businesses nationwide, including with small business contracting activities.²² Among them, SBA employs Procurement Center Representatives (PCR) to assist small businesses in obtaining federal contracts. Among other activities, PCRs can make recommendations to agency contracting officers that proposed contracts be set aside for eligible small businesses. In addition, the act generally requires federal agencies with procurement authorities to establish an Office of Small and Disadvantaged Business Utilization to oversee the agency's functions and duties related to the awarding of contracts to small and disadvantaged businesses.²³

²⁰If the contract involves manufacturing, the contract values can be up to \$6.5 million to \$7 million, depending on the program.

²¹Generally, for manufacturing contract requirements that do not exceed \$7 million or \$4 million for other contract requirements, the award of an 8(a) contract is done on a sole source basis.

²²15 U.S.C. § 644.

²³See GAO, *Government Contracting: Federal Efforts to Assist Small Minority Owned Businesses*, [GAO-12-873](#) (Washington, D.C.: Sept. 28, 2012). In particular, appendix III lists selected federal government contracting programs, resources, and outreach activities.

Among Other Trends, the Percentage of Obligations to Small Businesses in Puerto Rico Was Relatively High, and Use of SBA Programs Varied

Our analysis of federal prime contracting data identified a number of trends in federal contracting obligations to small businesses in Puerto Rico from fiscal years 2006 through 2016.²⁴ For example, we found that small businesses in Puerto Rico received a relatively high proportion of federal prime contracting obligations for work performed in Puerto Rico compared to small businesses nationwide. Additionally, we found that a greater percentage of obligations was awarded to small businesses in Puerto Rico through full and open competition and the 8(a) program compared to the other three SBA socioeconomic contracting programs. We also found that the number of HUBZone applications has increased since SBA expanded the number of HUBZone-eligible census tracts in June 2016; about half of the applicants were located in newly designated HUBZone-qualified census tracts.

Small Businesses in Puerto Rico Received a Relatively High Percentage of Federal Prime Contracting Obligations

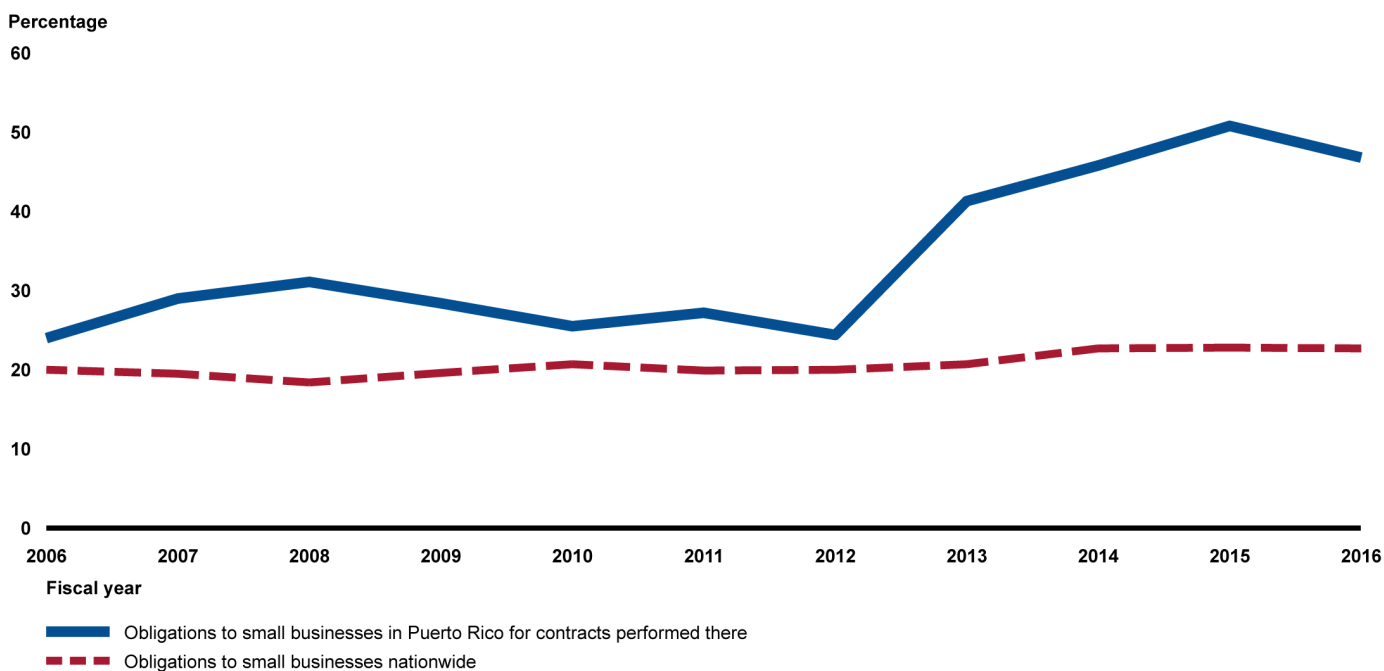
The percentage of federal prime contracting obligations awarded to small businesses within Puerto Rico for contracts performed there was relatively high from fiscal years 2006 through 2016, particularly in the last 4 fiscal years. Of the total obligations awarded to businesses of all sizes for contracts performed in Puerto Rico, the percentage awarded to small businesses located there ranged from about 24 percent in fiscal year 2006 to about 51 percent in fiscal year 2015.²⁵ In fiscal year 2016, small businesses in Puerto Rico received about 47 percent of federal prime contracting obligations (about \$319 million out of \$682 million) for work performed there. In contrast, federal prime contracting obligations awarded to small businesses nationwide were consistently around 20 percent from fiscal years 2006 through 2013 and increased to about 23 percent from fiscal years 2014 through 2016; in fiscal year 2016, small businesses nationwide received about 23 percent of the federal prime contracting obligations (see fig. 2).²⁶

²⁴For Puerto Rico, we analyzed data for prime contracts performed in Puerto Rico by businesses located in Puerto Rico.

²⁵These figures represent federal prime contracting obligations awarded to small businesses located in Puerto Rico as a portion of the total federal contracting dollar obligations awarded for contracts performed in Puerto Rico.

²⁶These figures represent federal prime contracting obligations awarded to small businesses nationwide as a portion of total prime federal contracting dollar obligations nationwide, including U.S. territories. The calculation of this percentage by SBA for its procurement scorecard may differ by excluding certain federal procurements.

Figure 2: Percentage of Small Business Obligations for Puerto Rico and Nationwide, Fiscal Years 2006–2016



Source: GAO analysis of data from Federal Procurement Data System-Next Generation. | GAO-17-550

Note: For Puerto Rico, we calculated the percentage of federal prime contracting obligations awarded to small businesses in Puerto Rico for contracts where the place of performance was in Puerto Rico. This means that prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the place of performance is in Puerto Rico. For nationwide, we calculated the percentage of federal prime contracting obligations awarded to small businesses nationwide, including U.S. territories.

For the contracts performed in Puerto Rico by small businesses, most obligations went to businesses also located in Puerto Rico, although some obligations were awarded to businesses located elsewhere, such as on the U.S. mainland.²⁷ Specifically, we found that of the obligations awarded to all small businesses for contracts performed in Puerto Rico, over 70 percent went to small businesses located in Puerto Rico for 7 of the 11 fiscal years we reviewed; in fiscal year 2016, this figure was 81

²⁷ See appendix III for information on the award of federal prime contracts and prime contracting obligations in Puerto Rico by business size and location from fiscal years 2006 through 2016 and appendix IV for information on the award of prime contracts by state and territory in fiscal year 2016.

percent.²⁸ We also found that small businesses in Puerto Rico largely performed contracts inside of Puerto Rico rather than outside of Puerto Rico. Specifically, more than 94 percent of the small businesses located in Puerto Rico that received contract awards received them for work performed in Puerto Rico each fiscal year from 2006 through 2016, with the exception of fiscal year 2006.

Full and Open Competition and the 8(a) Program Were the Most Prevalent Bases for Awards to Small Businesses in Puerto Rico for Work Performed There

As previously discussed, small businesses can receive federal prime contracts based on full and open competition and through set-asides and sole source awards they may qualify for based on their certifications from one or more of the four SBA socioeconomic programs or other socioeconomic designations.²⁹ To illustrate how SBA certifications may have influenced the ability of small businesses in Puerto Rico to obtain prime contracts for work performed in Puerto Rico, we analyzed contract obligations based on whether awards were obtained through the four SBA programs or through other means. As shown in figure 3, we found that a substantial percentage of contracting obligations for this period were awarded to small businesses in Puerto Rico outside of these four programs, either based on full and open competition or through set-asides or sole source awards based on other socioeconomic designations. For fiscal years 2006 through 2016, the percentage of obligations awarded without the use of the four SBA programs ranged from a combined low of 49 percent in 2009 to a combined high of 82 percent in 2013 for Puerto Rico.

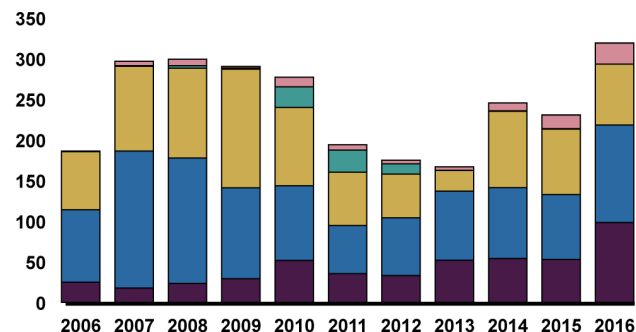
²⁸These figures represent federal prime contracting obligations awarded to small businesses located in Puerto Rico as a portion of the total federal prime contracting obligations awarded to all small businesses for contracts where the place of performance was Puerto Rico.

²⁹Contract awards based on full and open competition consist of awards not identified as being awarded through any socioeconomic program and those specifically labeled as having no set-asides. Other socioeconomic programs include those for veterans, small disadvantaged businesses, and other small businesses.

Figure 3: Small Business Obligations for Puerto Rico-Based Contracts and Businesses by Socioeconomic Programs, Fiscal Years 2006–2016

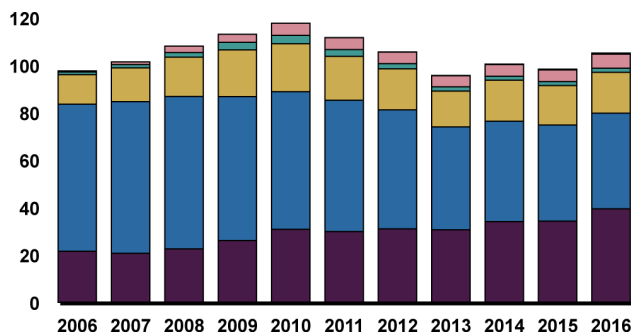
Small business obligations in Puerto Rico

Dollars in millions

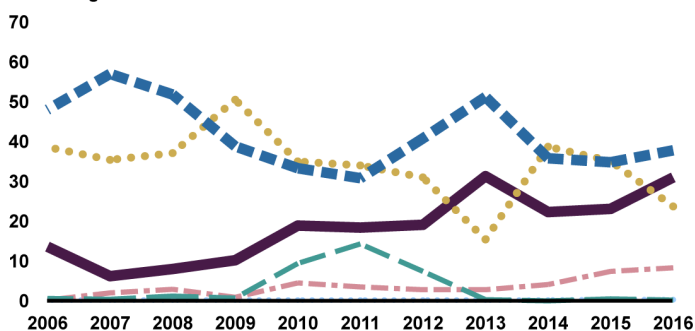


Small business obligations nationwide

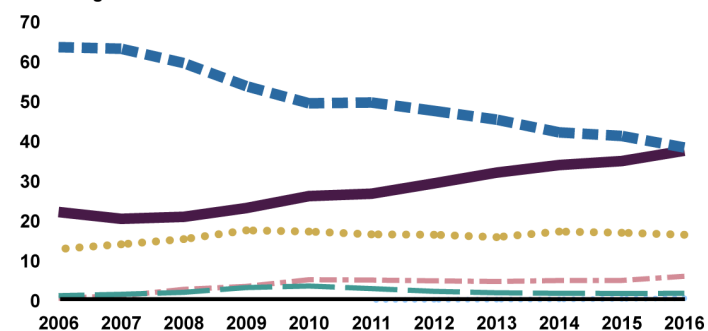
Dollars in billions



Percentage

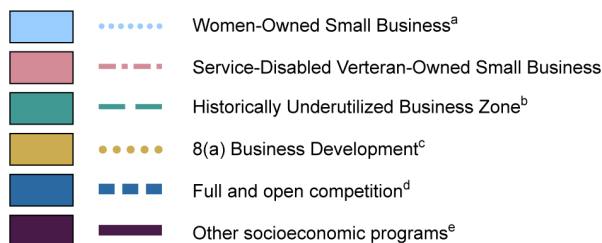


Percentage



Fiscal year

Dollars Percentage



Source: GAO analysis of data from Federal Procurement Data System-Next Generation. | GAO-17-550

Note: For Puerto Rico, we analyzed data for federal prime contracting obligations awarded to small businesses in Puerto Rico for contracts performed there. This means that contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the place of performance is in Puerto Rico. The dollar amounts are adjusted for inflation using fiscal year 2016 dollars.

^aNo obligations were awarded through the Women-Owned Small Business (WOSB) program prior to its establishment in fiscal year 2011. WOSB obligations include obligations to economically disadvantaged WOSBs. For Puerto Rico, the percentage ranged from 0 percent to 0.1 percent from fiscal years 2011 through 2016. Nationwide, the percentage ranged from 0 percent to 0.4 percent from fiscal years 2011 through 2016.

^bWe included Historically Underutilized Business Zone (HUBZone) awards made using sole source and set-asides and did not include awards made using price evaluation preference in our analysis. For fiscal years 2014 and 2016, the HUBZone program in Puerto Rico had negative amounts of obligations as result of de-obligations for prior-year contracts through contract cancellations or other actions. They were about -\$480,000 and -\$20,000, respectively.

^c8(a) business development (8(a)) included awards given to 8(a) businesses that were also HUBZone businesses. This code was not valid after October 2008.

^dContract awards based on full and open competition consist of awards not identified as being awarded through any socioeconomic program and those specifically labeled as having no set-asides.

^eOther socioeconomic programs include obligations awarded through various other programs, such as those for veterans, small disadvantaged businesses, and other small businesses. Awards reserved for small businesses (excluding those for 8(a), HUBZone, WOSB, and SDVSOB programs) made up a large portion of these obligations.

Consistent with nationwide results, we also found that a higher percentage of federal prime contracting obligations were awarded through the 8(a) program than through HUBZone, WOSB, or SDVSOB programs combined for contracts awarded to small businesses located in Puerto Rico. The percentage of obligations awarded using the 8(a) program was higher in Puerto Rico than nationwide, as shown in figure 3. SBA, Department of Defense (DOD), and General Services Administration (GSA) officials provided a few potential reasons why the 8(a) program may have been used more than HUBZone, WOSB, and SDVSOB programs in Puerto Rico.³⁰ SBA officials stated that federal agency contracting officers consider the 8(a) program's certification process to be rigorous and believe in the competence of 8(a) businesses. Under the HUBZone, WOSB, and SDVSOB programs, a contracting officer has the authority to award using sole source only when it has been determined that two or more qualified business are not likely to submit offers; this restriction on the use of sole source contracts does not apply to the 8(a) program.³¹ SBA, GSA, and DOD officials all noted this factor as a reason why the 8(a) program is more widely used than others. DOD officials stated that this enables contracting officers to award quickly while GSA officials noted that using 8(a) sole source allows them to target contractors, such as those located in Puerto Rico. DOD officials also cited business development assistance provided by SBA to 8(a) program participants as an advantage.

³⁰SBA officials stated that there may be numerous reasons why 8(a) awards may be more attractive to a contracting officer, but analysis of the dollar size, time of award, and program demographics may be necessary to clearly understand the reasons.

³¹Generally, for manufacturing contract requirements that do not exceed \$7 million or \$4 million for other contract requirements, the award of an 8(a) contract is done on a sole source basis.

We also found instances in which a few relatively large contracts, in addition to variation in the number of contracts awarded, caused substantial variation in the award of obligations using 8(a), HUBZone, WOSB, and SDVOSB programs in Puerto Rico, as seen in figure 3. For example, for the 8(a) program, one contract awarded in fiscal year 2009 made up about 46 percent of the obligations awarded through the program during that year.³² In fiscal years 2010 and 2011, four large contracts awarded using the HUBZone program substantially increased the amount of obligations awarded through the program during those fiscal years as compared to the other fiscal years.³³ The trends in obligations awarded for these four programs did not appear to be related to any particular regulatory or programmatic changes. See appendix V for information on regulatory or programmatic changes made to these programs.

In addition, we found that small businesses in Puerto Rico that had HUBZone and WOSB designations received a majority of obligations awarded to them without the use of these respective programs. For example, in fiscal year 2015, only 7 percent of the obligations awarded to businesses with HUBZone designations in Puerto Rico were through the HUBZone program; the remainder were awarded to HUBZone businesses using other programs—including the other three SBA programs and other socioeconomic programs—or full and open competition.³⁴ In comparison, small businesses in Puerto Rico that had SDVOSB and 8(a) designations received a majority of the obligations awarded to them through those respective programs. Agencies can count contracting dollars awarded to small businesses under more than one socioeconomic category. For example, if a business with both HUBZone and SDVOSB designations received a contract through the HUBZone program, the contracting dollars would count towards both of these programs' contracting goals.³⁵ See appendix VI for more detailed information on the use of socioeconomic programs in obligations awarded

³²See appendix VI.

³³See appendix VI.

³⁴See appendix VI.

³⁵For more information, see GAO, *Small Business Administration: Additional Actions Are Needed to Certify and Monitor HUBZone Businesses and Assess Program Results*, [GAO-08-643](#) (Washington, D.C.: June 17, 2008).

to businesses in Puerto Rico that have HUBZone, WOSB, SDVOSB, and 8(a) designations.

Small Business
Obligations in Puerto Rico
Were Concentrated in
Three Economic Sectors,
and DOD Awarded the
Majority of Obligations

We found that in fiscal year 2016, federal prime contracting obligations awarded to small businesses in Puerto Rico for contracts performed there were concentrated in the manufacturing sector (about \$215 million or 67 percent), the construction sector (about \$69 million or 22 percent), and the professional and business services sector (about \$23 million or 7 percent).³⁶ For contracts awarded using 8(a), HUBZone, WOSB, or SDVOSB programs, these three economic sectors were also among those that received the greatest amount of obligations (see table 1).

Table 1: Top Economic Sectors for Small Business Obligations Awarded for Puerto Rico-Based Businesses and Contracts Using the Small Business Administration’s Socioeconomic Programs, Fiscal Year 2016

	Economic sector	Dollars in millions	Percentage
All small businesses	Manufacturing	215	67
	Construction	69	22
	Professional and Business Services	23	7
	Other economic sectors	12	4
	Total	319	100
8(a) Small Business Development (8(a))	Manufacturing	52	70
	Construction	13	17
	Professional and Business Services	8	11
	Other economic sectors	1	1
	Total	75^a	100
Historically Underutilized Business Zone (HUBZone)	Construction ^b	0.02	100
	Total	0.02	100

³⁶North American Industry Classification System (NAICS) codes range from two to six digits and increase in specificity of description as the number of digits increase. We grouped the economic sectors using the first two digits of the NAICS code. Examples of manufacturing activities include apparel and petroleum refineries; examples of construction activities include commercial and institutional building construction and construction of water and sewer lines and related structures; examples of professional and business services include janitorial services and security guard services.

	Economic sector	Dollars in millions	Percentage
Women-Owned Small Businesses (WOSB)	Professional and Business Services	0.17	82
	Other economic sectors ^c	0.04	18
	Total	0.21	100
Service-Disabled Veteran-Owned Small Businesses (SDVOSB)	Construction	20	77
	Manufacturing	5	20
	Other economic sectors ^d	1	4
	Total	26	100

Source: GAO analysis of Federal Procurement Data System-Next Generation. | GAO-17-550

Note: We analyzed data for federal prime contracting obligations awarded to small businesses in Puerto Rico for contracts performed there using 8(a), HUBZone, WOSB, and SDVOSB programs. Prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the place of performance is in Puerto Rico. The contracts include both supply and service contracts. North American Industry Classification System (NAICS) codes range from two to six digits and increase in specificity of description as the number of digits increase. We grouped the economic sectors using the first two digits of the NAICS code. Percentages do not always sum to exactly 100 percent due to rounding.

^aTotal obligations did not add up to \$75 million due to rounding.

^bNo obligations were awarded in other economic sectors using the HUBZone program. The overall amount of obligations awarded using the HUBZone program in Puerto Rico had negative amounts of obligations as a result of de-obligations for prior-year contracts through contract cancellations or other actions.

^cWe combined obligations awarded to other economic sectors using the WOSB program due to the small amounts awarded.

^dWe combined obligations awarded to other economic sectors using the SDVOSB program due to the small amounts awarded.

Among federal agencies, DOD, VA, and GSA awarded the greatest percentages of federal prime contracting obligations to small businesses in Puerto Rico for contracts performed there. Specifically, in fiscal year 2016, DOD awarded about \$229 million (72 percent) in obligations to small businesses in Puerto Rico, followed by VA at about \$41 million (13 percent), and GSA at about \$35 million (11 percent) (see table 2). For awards that used 8(a) and WOSB programs, more than 80 percent of the obligations were awarded by DOD; for awards that used the SDVOSB program, 80 percent were awarded by VA. Additionally, about half of the obligations awarded by VA for fiscal year 2016 went to SDVOSBs. VA has a statutory mandate to prioritize SDVOSBs over other types of businesses.

Table 2: Top Agencies for Small Business Obligations Awarded for Puerto Rico-Based Businesses and Contracts Using the Small Business Administration’s Socioeconomic Programs, Fiscal Year 2016

	Agency	Dollars in millions	Percentage
All small businesses	Department of Defense (DOD)	229	72
	Department of Veterans Affairs (VA)	41	13
	General Services Administration (GSA)	35	11
	Other agencies	14	4
	Total	319	100
8(a) Small Business Development (8(a))	DOD	61	82
	GSA	5	6
	Department of Homeland Security	4	5
	Other agencies	5	6
	Total	75	100
Historically Underutilized Business Zone (HUBZone) ^a	DOD	0.02	100
	Total	0.02	100
Women-Owned Small Businesses (WOSB) ^b	DOD	0.18	85
	Other agencies	0.03	15
	Total	0.21	100
Service-Disabled Veteran-Owned Small Businesses (SDVOSB) ^c	VA	21	80
	DOD	5	20
	Total	26	100

Source: GAO analysis of Federal Procurement Data System-Next Generation. | GAO-17-550

Note: We analyzed data for federal prime contracting obligations awarded to small businesses in Puerto Rico for contracts performed there using 8(a), HUBZone, WOSB, and SDVOSB programs. Prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the place of performance is in Puerto Rico. Percentages do not always sum to exactly 100 percent due to rounding.

^aFor fiscal year 2016, no obligations were awarded by other agencies using the HUBZone program.

^bWe combined obligations awarded using the WOSB program by other agencies due to the small amounts awarded.

^cOther agencies obligated around \$33,000 (around 0.1 percent) using the SDVOSB program.

HUBZone Applications Increased in Puerto Rico after Expansion of Criteria, and New Census Tracts in Puerto Rico Were Generally More Economically Distressed Than HUBZone Census Tracts Nationwide

We found that the number of applications submitted to the HUBZone program in Puerto Rico increased, and some businesses with primary locations in newly eligible qualified census tracts applied to the program. A total of 30 businesses submitted applications to the HUBZone program between June 2016 and March 2017. Based on our analysis, 16 of the 30 businesses that applied between June 2016 and March 2017 had primary locations in newly designated HUBZone-qualified census tracts. Fourteen of the 30 HUBZone applicants had other SBA program designations—8(a) program (7 applicants), WOSB (6 applicants), and SDVOSB (2 applicants).³⁷ Of the 14 applicants with other SBA program designations, 7 had primary locations in newly designated census tracts. As previously discussed, after the lifting of the cap in June 2016, most of Puerto Rico had a HUBZone designation (see fig. 1).

The number of certified HUBZone firms also increased. Specifically, from the end of fiscal year 2015 to the end of fiscal year 2016, the number of certified HUBZone businesses in Puerto Rico increased by 2 (from 23 to 25), whereas for the first 6 months of fiscal year 2017 (October 2016 to March 2017), the number of HUBZone businesses increased by 15 (from 25 to 40). Six of the newly certified HUBZone businesses were located in newly designated qualified census tracts.

We found that the economic indicators for Puerto Rico for all census tracts—including previously designated census tracts, newly designated census tracts, and ineligible census tracts—generally showed greater economic distress than the indicators for all census tract categories nationwide, as indicated by American Community Survey estimates covering 2011 to 2015 (see table 3).³⁸ For example, the average poverty rate in newly designated census tracts in Puerto Rico was about 44 percent, compared to 31 percent in newly designated census tracts nationwide. The economic indicators also suggest that newly eligible tracts are somewhat less economically distressed than previously designated tracts but more distressed than tracts that are still ineligible.

³⁷One of the firms had both SDVOSB and 8(a) certifications. We obtained information on the certification of firms from SBA's Dynamic Small Business Search database.

³⁸SBA's revision in the definition of qualified census tracts eligible to be designated as HUBZones in June 2016 led to an increase in the number of eligible HUBZone census tracts in Puerto Rico and nationwide. Previously designated census tracts refer to census tracts that were designated prior to the expansion of the eligibility criteria and retained eligibility after the SBA change.

Table 3: Comparison of Selected Economic Indicators for Census Tracts (Historically Underutilized Business Zone (HUBZone) and Non-HUBZone) in Puerto Rico and Nationwide

HUBZone type	Percent in poverty		Unemployment rate (Percent)		Average median household income (Dollars)		Average median housing value (Dollars)	
	Puerto Rico	Nationwide	Puerto Rico	Nationwide	Puerto Rico	Nationwide	Puerto Rico	Nationwide
Previously designated census tracts ^a	60.7	32.9	25.2	13.1	12,972	31,370	99,326	147,275
Newly designated census tracts	44.1	31.3	17.6	12.4	20,340	33,215	121,788	163,929
Ineligible census tracts	20.2	11.1	10.3	7.2	39,805	65,808	197,666	249,195

Source: GAO analysis of American Community Survey (ACS). | GAO-17-550

Note: The Small Business Administration's (SBA) revision in the definition of qualified census tracts eligible to be designated as HUBZones in June 2016 led to an increase in the number of eligible HUBZone census tracts in Puerto Rico and nationwide. The ACS is an ongoing survey that covers topics such as the social, economic, demographic, and housing characteristics of the U.S. population. The 5-year estimates from ACS represent data collected over a period of time. The primary advantage of using multiyear estimates is the increased statistical reliability of the data for less populated areas and small population subgroups. The most recent 5-year estimate covers 2011–2015.

^aPreviously designated census tracts are those that were eligible prior to the June 2016 expansion of the HUBZone eligibility definition and retained eligibility after the SBA revision.

Stakeholders Believe That Small Business Challenges in Puerto Rico May Be Exacerbated by Geography and Economic Conditions

Stakeholders we spoke with identified a number of challenges that small businesses in Puerto Rico may face in obtaining federal contracting opportunities. Many of these challenges were similar to those we found in 2012 that small businesses, including minority-owned businesses, face nationwide in seeking federal contract opportunities.³⁹ These challenges included increased use of contract bundling or consolidation, difficulty in meeting contract procurement requirements, and lack of knowledge about the federal procurement process. In addition, some stakeholders we interviewed indicated that the island geography of Puerto Rico and its economic conditions may complicate or exacerbate some of these challenges compared to small businesses elsewhere. None of the stakeholders we interviewed identified federal laws that have created unique challenges for small businesses in Puerto Rico in obtaining federal contracting. In addition, SBA and other agencies identified examples of efforts undertaken to further assist Puerto Rican small businesses in

³⁹GAO, *Government Contracting: Federal Efforts to Assist Small Minority Owned Businesses*, [GAO-12-873](#) (Washington, D.C.: Sept. 12, 2012).

obtaining federal contracting opportunities, such as holding training events and conferences.

Increased Use of Contract Bundling or Consolidation

Representatives from one association and SBA representatives we interviewed identified contract bundling or consolidation as a challenge for small business federal contracting in Puerto Rico.⁴⁰ According to SBA officials, a trend in federal contracting toward contract consolidation or bundling has led to a decrease in the number of small businesses competing for federal contracts across the United States. Stakeholders in our 2012 report stated that contract bundling could reduce the number of contracting opportunities for small businesses.⁴¹ In that report, representatives from advocacy groups stated that contract bundling could reduce the number of contracting opportunities available for small and minority-owned businesses. SBA's procurement center representatives (PCR) and officials from SBA's Puerto Rico District Office both stated that smaller businesses are less likely to have the capability or experience to compete or qualify for the large scope of work associated with consolidated contracts and noted that for an island like Puerto Rico small businesses are generally smaller.

According to SBA, one of the roles that PCRs play is to work with contracting officers to evaluate whether bundling is the best way to acquire services and supplies.⁴² Additionally, bundling of acquisitions undergoes several levels of review to ensure that bundling is necessary. Specifically, the Small Business Act requires that procuring activities (1) conduct market research to justify acquisition strategies that could lead to

⁴⁰"Bundling" denotes consolidating two or more requirements for goods or services previously provided or performed under separate smaller contracts into a solicitation for a single contract that is likely to be unsuitable for award to a small business due to its size or scope. "Consolidation" is similarly defined to mean solicitation to obtain offers for a single contract that satisfies two or more requirements for goods or services valued in excess of \$2 million that have been provided or performed under two or more separate contracts each of which was lower in cost than the contract for which offers are solicited, or to satisfy requirements for construction to be performed at two or more discrete sites. For more information, see GAO, *Small Business Contracting: Updated Guidance and Reporting Needed for Consolidated Contracts*, [GAO-14-36](#) (Washington, D.C.: Nov. 26, 2013).

⁴¹[GAO-12-873](#).

⁴²For additional information on the role of PCRs, see GAO, *Improvements Need to Help Ensure Reliability of SBA's Performance Data on Procurement Center Representatives*, [GAO-11-549R](#) (Washington, D.C.: June 15, 2011).

consolidated procurement requirements, (2) provide advance notice of substantial bundled solicitations on a public website, and (3) implement certain procurement strategies when solicitations involve substantial bundling.⁴³ According to SBA, FPDS-NG and agency data collection sources do not currently contain sufficient information to quantify the extent to which bundling of contract requirements affects the ability of small businesses to compete as prime contractors or to compare the savings realized under an existing bundled contract with the potential savings that may occur if that bundled contract is recompeted in its current configuration.⁴⁴

Difficulty Meeting Procurement Requirements

Representatives from four associations and the Federal Contracting Center stated that the procurement requirements for federal contracts, such as performance history for construction contracts, posed challenges for small businesses in Puerto Rico.⁴⁵ In our 2012 report, officials from federal agencies and advocacy groups also identified lack of performance history as a challenge for small, minority-owned businesses. In addition, representatives from two associations and the Federal Contracting Center as well as the SBA PCR said that as an island, Puerto Rico faces specific challenges in meeting procurement requirements. For example, representatives from the Federal Contracting Center noted that the construction of a cemetery required a business to demonstrate experience in developing several cemeteries in the past 5 years. These representatives stated that opportunities to construct cemeteries are limited in Puerto Rico and that relevant experience may have been from more than 5 years ago.

⁴³A “procuring activity” is any component of an executive agency with significant acquisition functions that is designated as such by the head of the agency. 48 C.F.R. §2.101.

⁴⁴See Small Business Administration, *Contract Bundling Report to Congress, Fiscal Year 2015* (Washington, D.C.: May 6, 2016). Of the 24 executive branch agencies that reported on their contract bundling activity in fiscal year 2015, all but one reported no bundling activity. DOD reported bundling activity consisting of 7 contract awards that totaled approximately \$1.3 billion for fiscal year 2015.

⁴⁵The Federal Contracting Center is part of a nationwide network of Procurement Technical Assistance Centers that help businesses navigate the government procurement process, such as obtaining certifications for SBA’s small business contracting programs and assistance with applying for VA’s verification program for service-disabled veteran-owned small businesses. DOD administers the Procurement Technical Assistance Program, which provides matching funds for these centers through cooperative agreements with state and local governments and nonprofit organizations.

In addition, representatives from four associations and the Federal Contracting Center said that the experience of construction businesses in Puerto Rico does not match the procurement requirements, which are often standardized to mainland building standards and do not consider the unique conditions in Puerto Rico. They said that as a result, agencies' contracting officers may not consider Puerto Rican businesses' experience as qualifying. For example, representatives from four associations stated that construction businesses in Puerto Rico demonstrate greater understanding of building requirements in Puerto Rico, such as accounting for tropical climate or the risk of seismic activity, in their construction plans but these factors have not been part of federal procurement requirements.

SBA and GSA officials stated they were aware of the concerns about the procurement requirements from businesses located in Puerto Rico. GSA officials stated they try to strike a balance by not creating prohibitively strict procurement criteria and ensuring that they can identify businesses that are capable of doing the work.

Lack of Access to Bonding, Financing, and Capital for Construction Projects

Federal construction contracts often require bonding.⁴⁶ Bonding ensures that businesses have the financial capacity to perform the work and pay for labor and supplies. Representatives from two associations and GSA officials stated that small businesses in Puerto Rico often could not obtain bonding because they lacked access to capital. According to DOD and GSA officials and representatives from two associations and the Federal Contracting Center, small businesses may not be able to meet bonding requirements based on the businesses' credit or financial standards required by the surety companies due to Puerto Rico's economic downturn. Representatives from one association stated that a surety company may determine that a business is not competitive for a contract and not provide bonding as a result. Additionally, representatives from two other associations stated that bank failures in Puerto Rico in recent years have affected access to capital and that banks are unwilling to extend credit to small businesses. They said the resulting lack of credit

⁴⁶Performance and bid bonds are types of surety bonds consisting of a three-party agreement. A surety bond provides assurance to the project owner that the contractor will perform a contract in accordance with the contract documents. The surety company prequalifies the contractor based on financial strength and construction expertise. Among many requirements, the surety company requires evidence of a bank line of credit to augment working capital and to handle temporary cash flow deficits or financial strains.

may have also decreased businesses' ability to obtain bonding. In our 2012 report, officials from advocacy groups and federal agencies also cited lack of access to capital, financing, and bonding as challenges for minority-owned businesses. On April 24, 2017, SBA announced that it had approved the first Puerto Rican surety company to participate in its Surety Bond Guarantee Program. Through this program, qualifying surety companies can receive a guarantee of a percentage of the losses incurred on bonds issued to small businesses.

Lack of Knowledge of the Federal Contracting Process

Representatives from two associations and the Federal Contracting Center, members of an association, and an industry observer stated that a lack of knowledge of the federal contracting process can be a challenge for small businesses in Puerto Rico. In our 2012 report, officials from federal agencies and advocacy groups also identified lack of knowledge about the federal contracting process as a challenge for small, minority-owned businesses. Representatives from one association we interviewed stated that some small businesses in Puerto Rico may not know how to complete a proposal for federal contracting and may not have the infrastructure in place to prepare contracts accurately. Additionally members from an association stated that small businesses do not have a process in place to meet the proposal guidelines. DOD and GSA officials stated that proposals submitted sometimes are not high quality and need additional assistance. Representatives from one association stated that some small businesses are unfamiliar with federal contracting opportunities and where to find them.

Officials from SBA's Puerto Rico District Office said that they hold regular training on contracting programs and how to navigate the contracting process. The District Office also holds one-on-one appointments with businesses to help them navigate the federal contracting process and has offered training on proposal writing. For example, the District Office offered a class on cost and price analysis in March 2017. A representative from the Small Business and Technology Development Center (SBTDC) also stated that counselors at SBTDC often help to redo the proposals.⁴⁷

⁴⁷SBTDC is part of a nationwide network of Small Business Development Centers that provide assistance to small businesses, such as business consulting and training; it receives grants from SBA.

Lack of Knowledge of SBA's Small Business Contracting Programs

Representatives from two associations we interviewed and the Federal Contracting Center stated that small businesses lack basic information about SBA's federal contracting programs and their benefits. According to Federal Contracting Center representatives and an industry observer, small businesses may not know where to obtain information about SBA's programs and how to complete the paperwork to become certified in these programs. One association representative told us that businesses in Puerto Rico needed more training and better education about the programs' benefits and requirements.

SBA has conducted various small business outreach activities in Puerto Rico, including training and seminars, to promote participation in its small business contracting programs. According to officials in SBA's Puerto Rico District Office, the office offered 61 training events with 424 attendees in fiscal year 2016; 47 training events with 517 attendees in fiscal year 2015; and 56 training events with 701 attendees in fiscal year 2014.⁴⁸ These training events focused on the 8(a), HUBZone, WOSB, and SDVOSB programs. SBA's Puerto Rico District Office has also coordinated with local governments, nonprofits, chambers of commerce, and other associations in order to provide information to small businesses about the programs. For example, the District Office has a memorandum of understanding with the Puerto Rico Chamber of Commerce for the Chamber to inform its clients and members about SBA's programs and services and to refer its members to SBA's resource partners when appropriate; the District Office has 14 such agreements with other organizations as of May 2017. SBA also relies on three resource partners throughout Puerto Rico to promote SBA programs: SBTDC, which has offices in six municipalities; two Women's Business Centers; and 17 volunteers serving as business counselors through the SCORE (formerly the Service Corps of Retired Executives) program.⁴⁹

⁴⁸These are not the only training and outreach efforts provided by SBA's Puerto Rico District Office; the District Office also collaborates with their resources partners to provide other outreach and training.

⁴⁹SCORE (formerly the Service Corps of Retired Executives) is a nonprofit resource partner of SBA that provides free and confidential small business advice for entrepreneurs and small businesses. SBTDC provides counseling, education, and resources to small and mid-sized businesses. Women's Business Centers are a nationwide network of nearly 100 educational centers designed to assist women in starting and growing small businesses.

With the expansion of the eligible HUBZone census tracts, SBA officials stated that they have tried to reduce the burden of documentation and approval time to encourage businesses to apply for certification. Additionally, Federal Contracting Center representatives stated that they are working with small businesses to certify them for the HUBZone program. As of March 2017, 40 small businesses in Puerto Rico were HUBZone businesses and 76 were 8(a) businesses, an increase in both categories compared to the prior 2 fiscal years.

Limitations in SBA's online system used to help small businesses identify whether they are located in a HUBZone area may also pose a challenge to small businesses in Puerto Rico seeking to determine if they may apply to the HUBZone program. To help small business owners determine if their business is located in a HUBZone, and therefore potentially eligible to participate in the program, SBA provides an online locator. Business owners can search the online locator using the business's geographic coordinates or its address, or they can use a color-coded HUBZone map. Due to the unique formatting of addresses in Puerto Rico, SBA's system is not able to process certain addresses.⁵⁰ SBA officials told us that they are aware that SBA's online tool is unable to process some addresses in Puerto Rico and have generally advised businesses to search using geographic coordinates. Additionally, SBA officials stated that they are in the process of transitioning to a new mapping system that should provide more accurate information. They estimated that the system will be available in late 2017.

Lack of Access to Agency Contracting Officials

Representatives from one association and the Federal Contracting Center cited the lack of access to contracting officials as an issue for small businesses in Puerto Rico. In our 2012 report, advocacy group officials also cited a lack of access to contracting officials as a significant challenge for small businesses. An official from the Minority Business Development Agency (MBDA) Business Center in Puerto Rico stated that geographic barriers may be a challenge for small businesses there because it is difficult for these businesses to market and maintain their

⁵⁰Postal addresses in Puerto Rico can be in several formats. One format consists of standard street name and prefixes, numbered street addresses, and Post Office boxes. Other formats may also use specific residential developments like urbanizations, apartment buildings, or condominiums as the main identifier; addresses could also have rural routes or highway contract routes, which are typically different than standard mainland rural routes and highway contract route, as the main identifier.

relationships with contracting officers, who are generally located at the headquarters level on the mainland.⁵¹ Federal Contracting Center representatives stated that for professional services (such as accounting), most of the contracting opportunities are managed by agencies with headquarters in Washington, D.C., and that businesses in Puerto Rico found it difficult to enter the market in Puerto Rico. Additionally, representatives from one association stated that contracting officers from agencies do not have a presence in Puerto Rico and award contracts to businesses that are local to these agencies rather than to businesses in Puerto Rico.

Officials from SBA, DOD, VA, and GSA said they help to connect small businesses to federal contracting officers through conferences and matchmaking events where businesses can meet contracting officers one-on-one.

Communication Barriers

Representatives from one association and the Federal Contracting Center stated that language was an issue facing small businesses in Puerto Rico. In our 2012 report, advocacy group officials cited linguistic and cultural barriers as a challenge for minority-owned small businesses on a limited basis. In addition, the language barrier may hinder the ability of some small businesses to complete the applications to become certified in SBA's small business contracting programs or access the opportunities for contracts once certified. Federal Contracting Center representatives stated that language may prevent small businesses from developing relationships with the contracting agency or may be a barrier in the proposal development process.

SBA officials stated that they believe that the bigger challenge was that documents need to be translated from Spanish, which can be onerous and costly. They said that some small businesses do not have the resources or the ability to perform these translations. Officials from SBA's Puerto Rico District Office stated that SBA offices accept documents in Spanish if the office has a Spanish-speaking staff member. However, if no Spanish-speaking staff member is available, documents must be translated into English in order for SBA to review them. GSA officials

⁵¹The MBDA Business Center provides assistance to minority-owned businesses on such issues as competing for contracts or securing capital. The MBDA Business Center receives grants from the Department of Commerce's MBDA; the Puerto Rico Products Association operates the Center in Puerto Rico.

stated that its Puerto Rico office has bilingual staff and that they have generally not encountered language barriers with businesses in Puerto Rico.

Lack of a Procurement Center Representative

Representatives from the Federal Contracting Center and one association identified the lack of an SBA PCR in Puerto Rico as a disadvantage for small businesses seeking federal contracts.⁵² SBA PCRs work with federal agencies and small businesses to identify contracting opportunities for small businesses.⁵³ According to a Federal Contracting Center representative, having a PCR is important because the PCR can advocate for small businesses in various ways. For example, the PCR can work with contracting officers to determine small business set-asides, make adjustments to procurement requirements, and make agency contracting officers more aware of businesses in Puerto Rico. According to one association's representative, the PCR should assist local businesses and promote businesses located in Puerto Rico to federal agencies.

SBA officials we interviewed stated that SBA has limited resources and cannot justify dedicating a PCR in Puerto Rico based on their analyses.⁵⁴ According to SBA officials, SBA has 3,000 federal procurement centers and 57 PCRs. SBA officials stated that Puerto Rico has a low volume of federal contracting activities and a relatively high percentage of prime

⁵²A network of PCRs in six SBA area offices is responsible for federal procurement activities nationwide. SBA's Area 1 office, located in Boston, is responsible for procurement activities taking place in Puerto Rico. SBA officials stated that while the Area 1 office generally interacts with certain agencies in Puerto Rico, including the General Services Administration and the Department of the Army, PCRs in other area offices also interact with agencies with contracting activities in Puerto Rico based on their expertise.

⁵³For more information on the role of PCRs in SBA contracting programs see, GAO, *Improvements Needed to Help Ensure Reliability of SBA's Performance Data on Procurement Center Representatives*, [GAO-11-549R](#) (Washington, D.C.: June 15, 2011) and *Small Business Administration: Agency Should Assess Resources Devoted to Contracting and Improve Several Processes in the 8(a) Program*, [GAO-09-16](#) (Washington, D.C.: Nov. 21, 2008).

⁵⁴SBA uses the Buying Opportunity Tool to look at contract obligation data and identify areas or regions that have opportunities for small business growth. SBA has identified 300 procurement centers where the dollar amounts in obligations to small business exhibit the greatest opportunity and identified areas for small business growth. Puerto Rico was not identified as an area for small business growth, given the high percentage of obligations going to small businesses there.

contract obligations awarded to small businesses as compared to the federal government's goal of at least 23 percent.

Award of Contracts to Businesses Located Outside of Puerto Rico

Representatives from four associations stated that challenges such as lack of access to contracting officers and difficulty meeting procurement requirements have led to concerns about contracts being awarded to businesses located outside of Puerto Rico for work to be performed in Puerto Rico. In a report prepared by the Congressional Task Force on Economic Growth in Puerto Rico, the Task Force recommended that Congress consider establishing a Puerto Rico small business contracting preference for federal contracts performed in Puerto Rico. SBA and VA officials stated that agencies do not have locational requirements for procurements and all qualifying businesses can compete for contracts located in Puerto Rico.

Agency Comments

We provided a draft of this report for review and comment to SBA, DOD, GSA, and VA. Additionally, we provided relevant sections of the draft report to the agencies, industry associations, and economic development entities in Puerto Rico we interviewed to confirm the accuracy of information they provided. SBA, DOD, and VA provided technical comments, which we have incorporated, as appropriate.

We are sending copies of this report to congressional committees, agencies, and other interested parties. In addition, this report will be available at no charge on our website at <http://www.gao.gov>.

If you or your staff members have any questions about this report, please contact me at (202) 512-8678 or shearw@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VII.



William B. Shear
Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

This report examines (1) trends in small business contracting and the use of Small Business Administration (SBA) programs that provided federal contracting preferences to small businesses in Puerto Rico from fiscal years 2006 through 2016, and (2) stakeholder views on any challenges small businesses in Puerto Rico face in obtaining federal contracting opportunities, including those posed by federal laws, and steps SBA and other agencies have taken to assist Puerto Rican small businesses in obtaining federal contracting opportunities.

To identify trends in the use of SBA programs that provided federal contracting preferences to small businesses in Puerto Rico from fiscal years 2006 through 2016, we obtained data on federal prime contract obligation amounts for Puerto Rico and nationwide from Federal Procurement Data System–Next Generation (FPDS-NG) for those fiscal years. For Puerto Rico, we used data on the obligations awarded to businesses located in Puerto Rico for work performed there. We used the nationwide data as a reference point for our analysis of small business federal contracting trends in Puerto Rico.¹ Using these data, we analyzed the level of federal contracting obligations to small businesses and the use of SBA’s socioeconomic programs to award obligations to businesses located in Puerto Rico and nationwide.² Those programs are 8(a) Business Development (8(a)), Historically Underutilized Business Zones (HUBZone), Women-Owned Small Business (WOSB), and Service-Disabled Veteran-Owned Small Business (SDVOSB). Additionally, using fiscal year 2016 data from FPDS-NG, we analyzed the industries with the highest amounts of obligations and the agencies that awarded the most obligations. To identify regulatory changes that could have influenced trends in the use of the SBA socioeconomic programs, we reviewed the Federal Register and GAO reports. We determined that the data from FPDS-NG were sufficiently reliable for analyzing trends by reviewing relevant documents related to the data to determine their reliability.

To examine the potential influence of a change SBA made to the HUBZone program in June 2016 that expanded the number of eligible HUBZone areas, we analyzed monthly data provided by SBA on the

¹Nationwide data include obligations awarded to businesses in Puerto Rico.

²Prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the contracts’ place of performance was Puerto Rico. We included awards made using sole source and set-asides for all programs in our analysis. We did not include HUBZone awards made using price evaluation preference.

number of applications to the HUBZone program in Puerto Rico from October 2015 through March 2017.³ We also obtained information from SBA on the names, addresses, and census tracts of the applicants that applied between June 2016 and March 2017 to determine if the applicants came from newly designated census tracts. Further, we obtained information to determine if the applicants to the HUBZone program had other certifications by downloading data from SBA's Dynamic Small Business Search (DSBS) database on businesses with certifications in the 8(a), WOSB, and SDVOSB programs. Using DSBS data, we searched for the names of the HUBZone applicants to determine if they had these certifications. Additionally, we obtained economic data from the U.S. Census Bureau's American Community Survey and compared economic conditions of the HUBZone census tracts that were newly designated and previously existing as well as census tracts ineligible for the program. We determined that the data from the Census Bureau, the DSBS database, and other data provided by SBA were sufficiently reliable for describing economic conditions in HUBZone areas and for describing the status of HUBZone applicants. We made this determination by reviewing relevant documents related to the data to determine their reliability as well as interviewing SBA officials about the data.

To identify stakeholder views on any challenges small businesses in Puerto Rico face in obtaining federal contracting opportunities, including those posed by federal laws, and steps SBA and other agencies have taken to assist Puerto Rican small businesses in obtaining federal contracting opportunities, we interviewed SBA officials and other stakeholders, such as federal agency contracting officials, industry associations, and economic development entities in Puerto Rico. For SBA, we interviewed officials at the headquarters level and in the Puerto Rico District Office, as well as Procurement Center Representatives (PCR) responsible for federal contracting activities in Puerto Rico.⁴ For

³SBA defines eligible census tracts using poverty rate and income. In addition, a population cap previously limited the number of eligible census tracts. Under the cap, in metropolitan areas where more than 20 percent of the population qualified, the list of eligible census tracts was ordered from the highest percentage of eligible households to the lowest until the 20 percent limit was exceeded. SBA lifted the population cap in June 2016.

⁴SBA PCRs cover federal government contracting activities occurring in the geographic areas of responsibility in one of six area offices. SBA's Area 1 office in Boston provides coverage for federal government contracting activities in Puerto Rico.

federal agencies, we interviewed contracting officials at the three agencies with the largest proportions of small business obligations in Puerto Rico in fiscal year 2016: the Department of Defense (DOD), Department of Veteran Affairs (VA), and General Services Administration (GSA). We also interviewed representatives from the following organizations located in Puerto Rico: Economic Development Bank for Puerto Rico, Puerto Rico Trade and Export Company, Federal Contracting Center, Chamber of Commerce (which included a representative from the Small Business and Technology Development Center (SBTDC)), Minority Business Development Agency (MBDA) Business Center, Minority Development Council, Manufacturers Association, Builders Association, General Contractors Association, and an industry observer formerly with the Economist Association.⁵ Several of these stakeholders, such as the Federal Contracting Center, MBDA Business Center, and SBTDC, provide information and assistance for federal contracting to businesses. We selected these organizations based on our analysis of relevant stakeholders, including those representing the largest industries in which obligations were awarded in Puerto Rico in fiscal year 2016. Additionally, as we conducted interviews, we asked each interviewee to suggest additional stakeholders we should interview. We did not assess the extent to which steps SBA and other agencies have taken address the challenges stakeholders identified. We reviewed data on outreach events that SBA provided. We determined that the data provided by SBA were sufficiently reliable for our purpose of describing outreach SBA conducted in Puerto Rico. We also conducted a literature review of trade articles, academic articles, testimonies, and GAO and

⁵The Economic Development Bank for Puerto Rico is a public corporation of Puerto Rico that provides loans, loan guarantees, and investments to organizations whose economic activities may have the effect of substituting imports in Puerto Rico. The Puerto Rico Trade and Export Company is a public corporation of Puerto Rico that provides information and consulting services to small and medium-sized companies in order to promote entrepreneurship. The Federal Contracting Center is part of a nationwide network of Procurement Technical Assistance Centers that help businesses navigate the government procurement process, such as obtaining certifications for SBA's small business contracting programs and assistance with applying for VA's verification program for service-disabled veteran-owned small businesses. DOD administers the Procurement Technical Assistance Program, which provides matching funds for these centers through cooperative agreements with state and local governments and nonprofit organizations. SBTDC is part of a nationwide network of Small Business Development Centers that provide assistance to small businesses, such as business consulting and training; it receives some funding from SBA. The MBDA Business Center provides assistance to minority-owned businesses on such issues as competing for contracts or securing capital. The MBDA Business Center receives grants from the Department of Commerce's MBDA; the Puerto Rico Products Association operates the Center.

SBA reports to identify challenges cited for the 8(a), HUBZone, WOSB, and SDVOSB programs and challenges faced by small businesses in federal contracting in Puerto Rico. In our review, we searched several databases, including ProQuest, Academic OneFile, SSRN, Scopus, National Technical Information Service, PolicyFile, and Lexis Nexis. The keywords used included “SBA,” “Puerto Rico,” and “contracting,” and the names of the four SBA programs we reviewed in this report. We restricted our review to items that were published from 2006 and 2016. Our review did not yield any literature on challenges faced by small businesses in Puerto Rico; additionally, literature on the four SBA programs generally consisted of trade articles and testimonies.

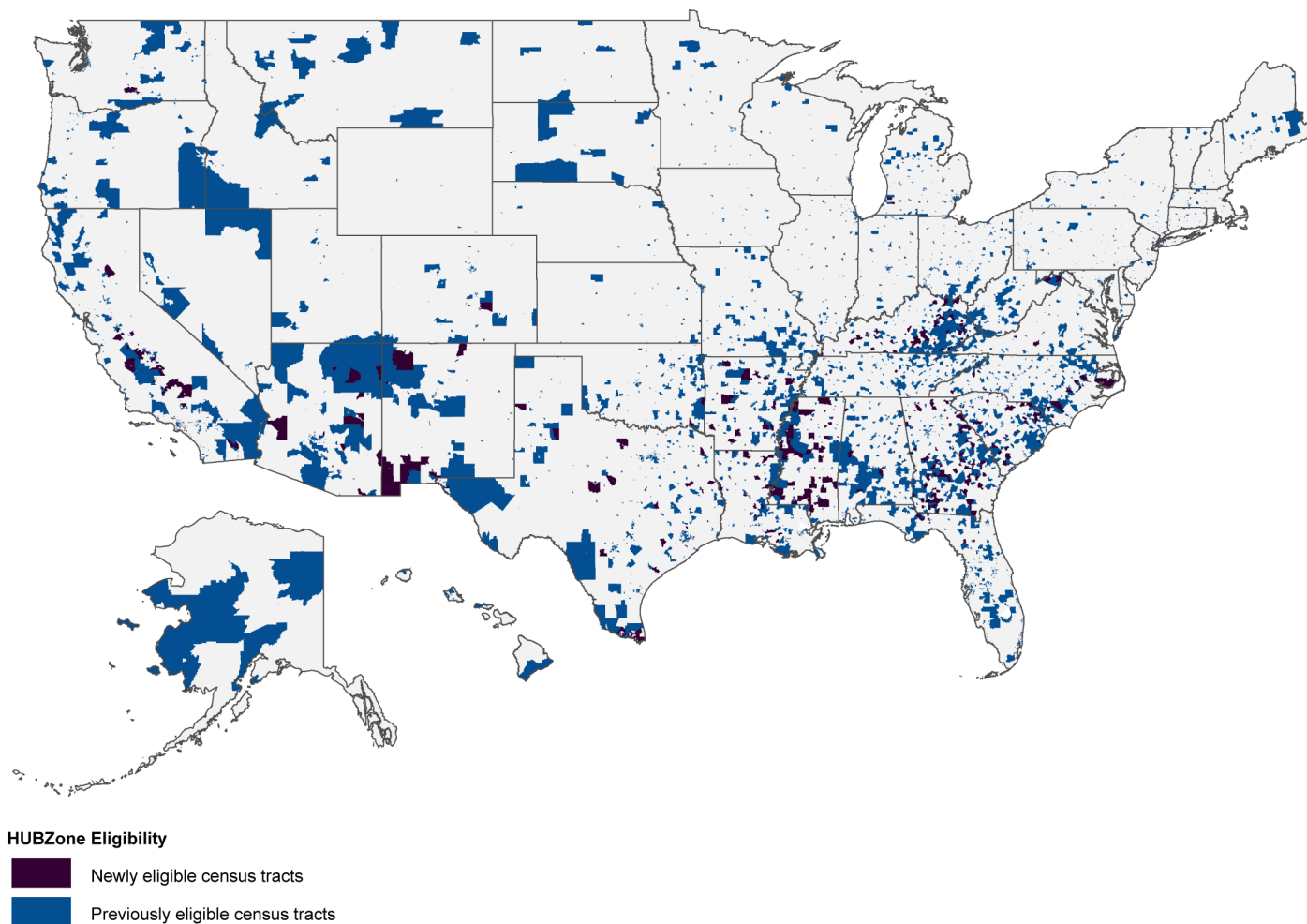
We conducted this performance audit from September 2016 to June 2017 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions 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.

Appendix II: Eligible Historically Underutilized Business Zone Census Tracts in the United States

On June 16, 2016, the Small Business Administration (SBA) announced that it had revised the definition of qualified census tracts eligible to be designated as Historically Underutilized Business Zones (HUBZone). Previously, in addition to poverty rate and income, a statutory population cap limited the number of eligible census tracts. Under the cap, in metropolitan areas where more than 20 percent of the population qualified, the list of eligible census tracts was ordered from the highest percentage of eligible households to the lowest until the 20 percent limit was exceeded. By lifting the population cap, the number of eligible census tracts increased by 1,499 (from 15,938 to 17,437) in the United States, excluding U.S. territories. Figure 4 shows newly eligible and previously eligible HUBZone census tracts in the United States.¹

¹On June 30, 2016, Congress enacted the Puerto Rico Oversight, Management, and Economic Stability Act which, among other things, authorized SBA not to apply the 20 percent cap but only for HUBZone designations in Puerto Rico and only for a limited time.

Figure 4: Eligible Historically Underutilized Business Zone Census Tracts in the United States after June 2016



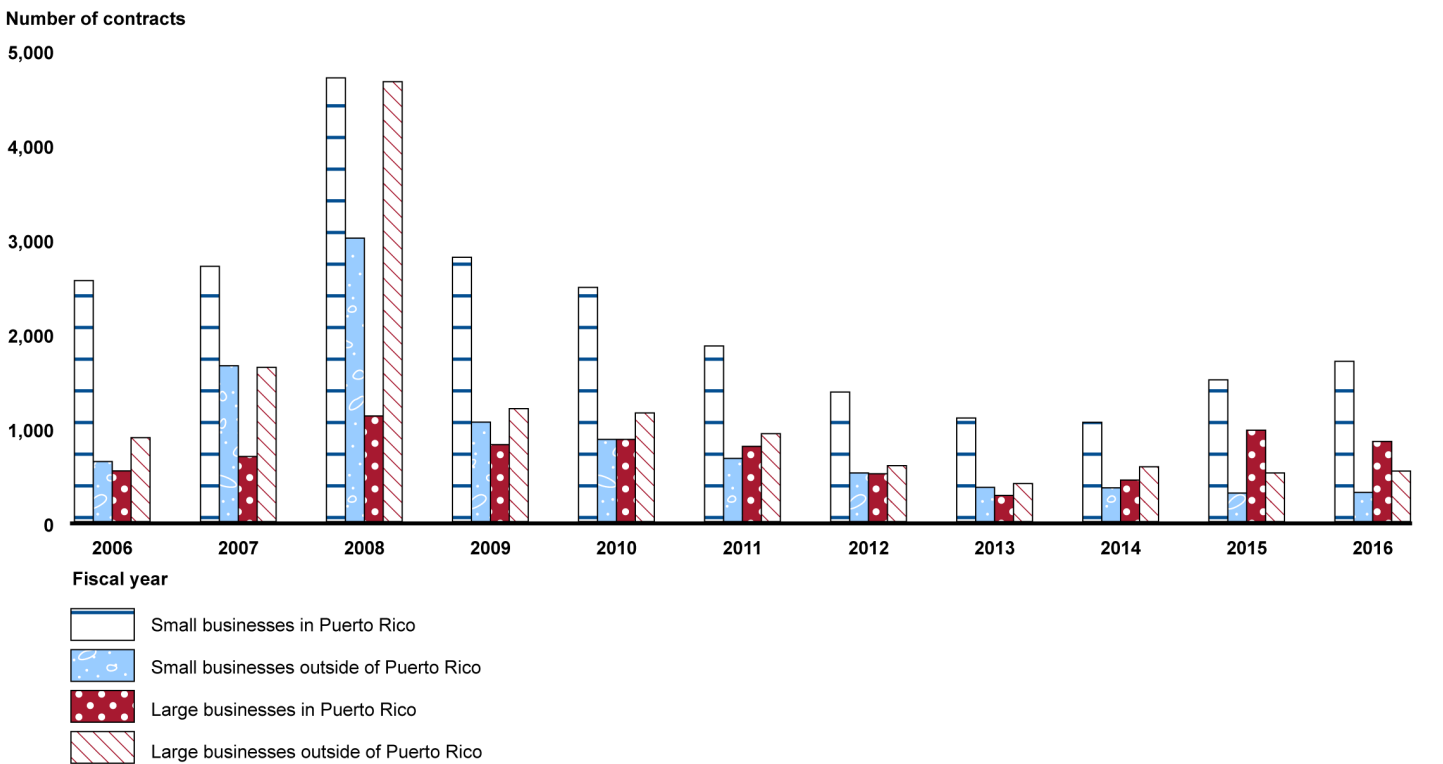
Source: GAO analysis of data provided by the Small Business Administration, Mapinfo (map). | GAO-17-550

Note: The Small Business Administration's (SBA) revision in the definition of qualified census tracts eligible to be designated as HUBZones in June 2016 led to an increase in the number of eligible HUBZone census tracts in the United States. "Previously eligible" census tracts are those that were eligible prior to the expansion of the HUBZone eligibility criteria and retained eligibility after the SBA revision.

Appendix III: Contract Awards and Obligations for Contracts Performed in Puerto Rico by Business Size and Location

From fiscal years 2006 through 2016, for contracts performed in Puerto Rico, more contracts went to small businesses in Puerto Rico than to large businesses in Puerto Rico and both small and large businesses outside of Puerto Rico. Figure 5 shows the award of contracts performed in Puerto Rico by business size and location.

Figure 5: Number of Contracts Performed in Puerto Rico by Business Size and Location, Fiscal Years 2006–2016



Source: GAO analysis of data from Federal Procurement Data System-Next Generation. | GAO-17-550

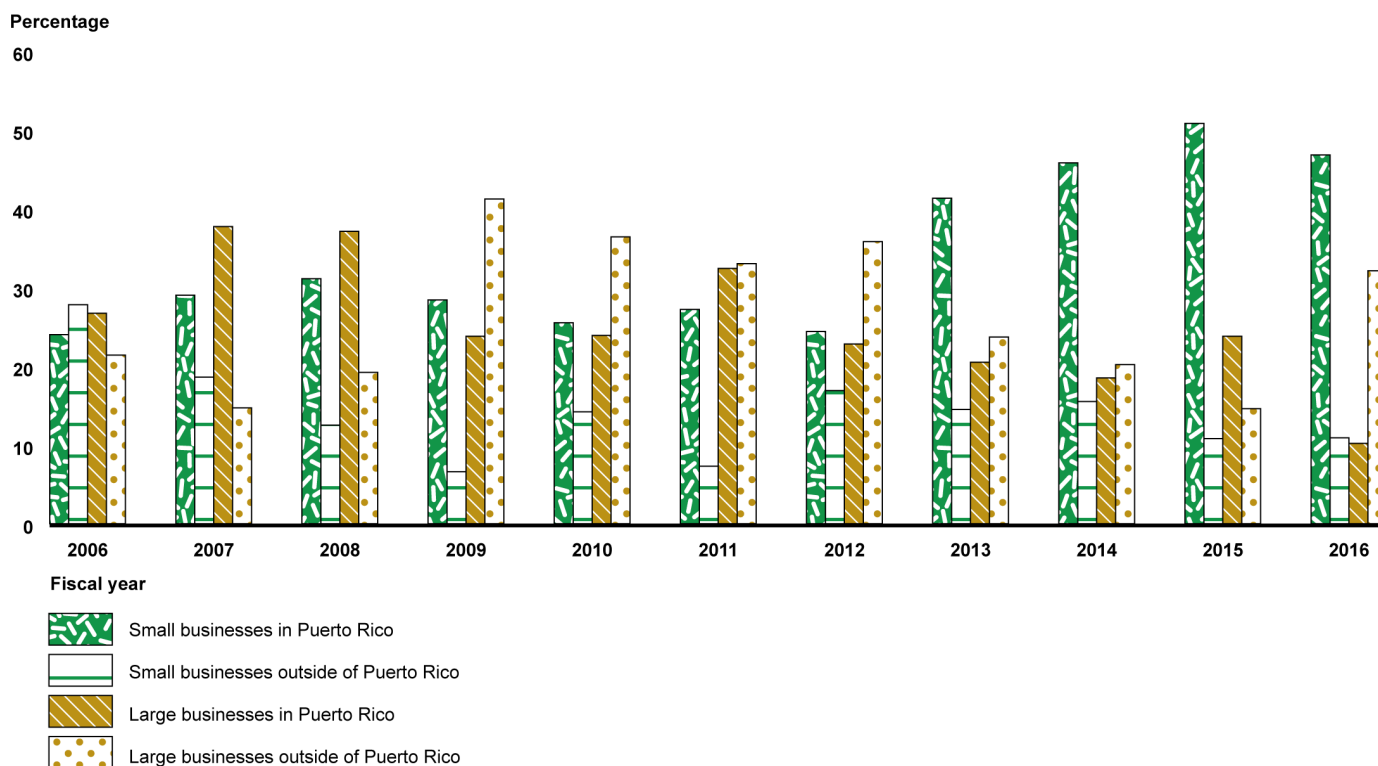
Note: We analyzed data for federal prime contracts performed in Puerto Rico. These contracts may include contracts awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the contracts’ place of performance was Puerto Rico. “Small businesses” are procurements for which a contracting officer has determined the awardees are small businesses. “Large businesses” are procurements that are not small businesses. The Small Business Administration (SBA) establishes size standards, which are usually number of employees or average annual receipts, to represent the largest size that a business (including its subsidiaries and affiliates) may be to remain classified as a small business for SBA and federal contracting programs. The definition of small business varies to reflect industry differences.

From fiscal years 2013 through 2016, for contracts performed in Puerto Rico, more obligations were awarded to small businesses in Puerto Rico than to large businesses in Puerto Rico and both small and large businesses outside of Puerto Rico. Figure 6 shows the award of

**Appendix III: Contract Awards and Obligations
for Contracts Performed in Puerto Rico by
Business Size and Location**

contracting obligations for contracts performed in Puerto Rico by business size and location.

Figure 6: Obligations Awarded for Contracts Performed in Puerto Rico by Business Size and Location, Fiscal Years 2006–2016



Source: GAO analysis of data from Federal Procurement Data System-Next Generation. | GAO-17-550

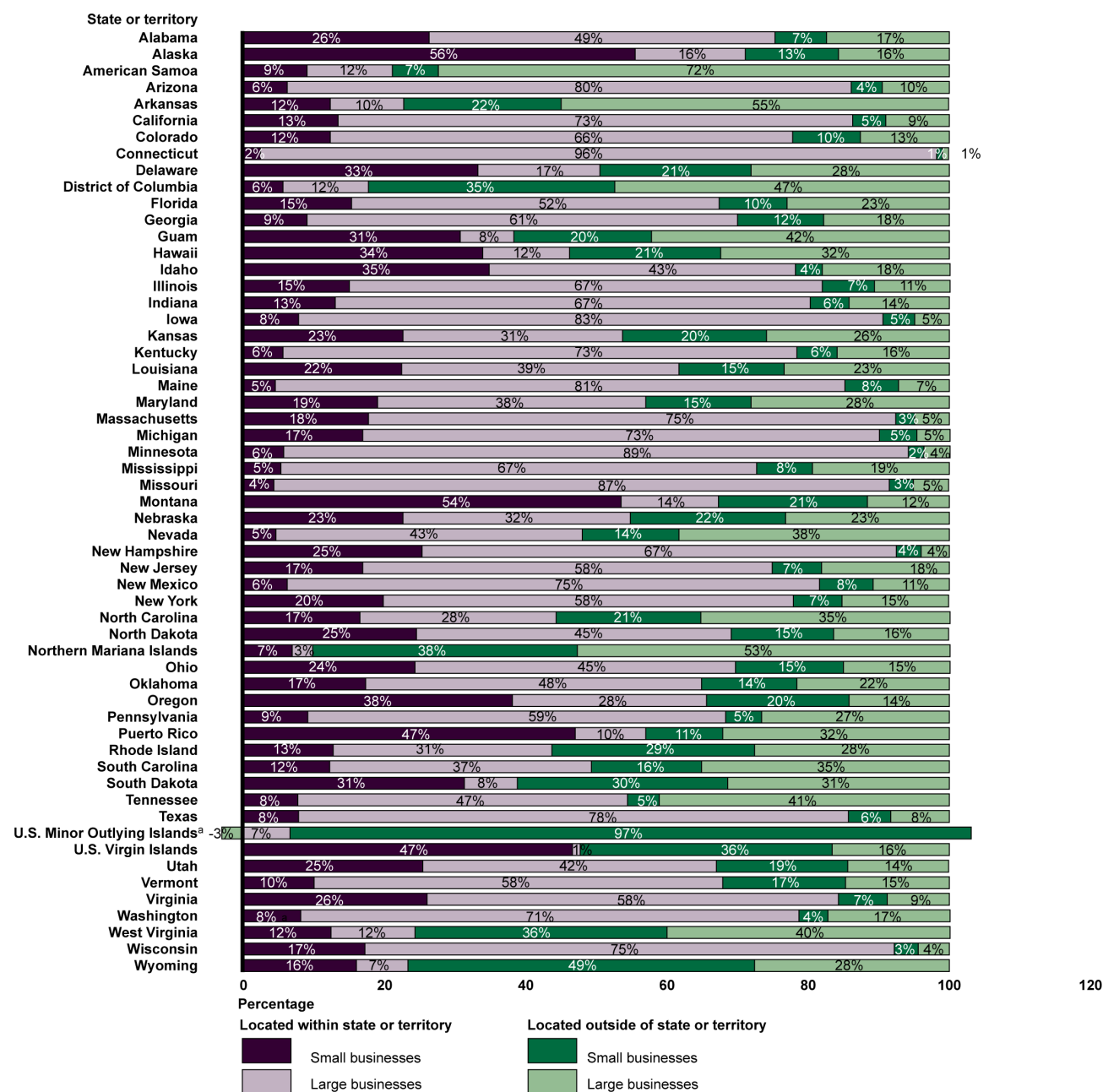
Note: We analyzed federal prime contracting obligations data for contracts performed in Puerto Rico. Prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico to the extent that the contracts' place of performance was Puerto Rico. "Small businesses" are procurements for which a contracting officer has determined that the awardees are small businesses. "Large businesses" are defined as procurements that are not small businesses. The Small Business Administration (SBA) establishes size standards, which are usually number of employees or average annual receipts, to represent the largest size that a business (including its subsidiaries and affiliates) may be to remain classified as a small business for SBA and federal contracting programs. The definition of small business varies to reflect industry differences.

Appendix IV: Contract Obligation Awards for Contracts Performed in a State or Territory by Business Size and Location

Figure 7 provides information on the award of federal prime contracting obligations to businesses by location and size for contracts where the place of performance was in that state or territory in fiscal year 2016.

Appendix IV: Contract Obligation Awards for
Contracts Performed in a State or Territory by
Business Size and Location

Figure 7: Obligations Awarded to Businesses for Contracts Performed In a State or Territory by Business Size, Fiscal Year 2016



Source: GAO analysis of data from Federal Procurement Data System-Next Generation. | GAO-17-550

Note: Percentages do not always sum to exactly 100 percent due to rounding. "Small businesses" are procurements for which a contracting officer has determined that the awardees are small businesses. "Large businesses" are defined as procurements that are not small businesses. The Small Business

**Appendix IV: Contract Obligation Awards for
Contracts Performed in a State or Territory by
Business Size and Location**

Administration (SBA) establishes size standards, which are usually number of employees or average annual receipts, to represent the largest size that a business (including its subsidiaries and affiliates) may be to remain classified as a small business for SBA and federal contracting programs. The definition of small business varies to reflect industry differences.

^aIn the U.S. Minor Outlying Islands, the percentage of obligations awarded to large businesses outside of the territory was negative due to de-obligations for prior-year contracts through contract cancellations or other actions.

Appendix V: Selected Major Regulatory or Programmatic Changes Made to SBA's Socioeconomic Programs, 2006–2016

The Small Business Administration (SBA) has issued various final rules as well as made certain programmatic changes to the 8(a) Business Development (8(a)), Historically Underutilized Business Zone (HUBZone), Women-Owned Small Business (WOSB), and Service-Disabled Veteran-Owned Small Business (SDVOSB) programs.

Table 4: Selected Major Regulatory or Programmatic Changes Made to the Small Business Administration's Socioeconomic Programs, 2006–2016

Program	Year	Programmatic or regulatory change
Historically Underutilized Business Zone (HUBZone)	October 2016	Rule allowed Native Hawaiian Organizations to own HUBZone small business concerns, expanded definition of base closure areas, and allowed inclusion of qualified disaster areas for the HUBZone program.
All programs	August 2016	Rule established government-wide mentor-protégé program for all small business concerns consistent with SBA's 8(a) Business Development (8(a)) mentor-protégé program.
HUBZone	June 2016	SBA removed population cap calculation that was used to determine qualified census tracts and announced designation of an additional 516 census tracts for Puerto Rico.
All programs	June 2016	Rule created an exclusion from the limitations on subcontracting for "similarly situated entities," that is, any work done by a similarly situated entity does not constitute "subcontracting" for purposes of determining compliance with the applicable limitation on subcontracting.
Women-Owned Small Business (WOSB)	March 2016	SBA authorized the use of 113 new industry groups for WOSB and Economically Disadvantaged Women-Owned Small Business (EDWOSB) set-asides.
WOSB	October 2015	Rule allowed sole source awards to WOSBs or EDWOSBs.
All programs	December 2013	Established policies and procedures for setting aside parts of multiple award contracts for small businesses, reserving one or more awards for small businesses on multiple award contracts that were established through full and open competition, and setting aside orders for small businesses under multiple award contracts awarded pursuant to full and open competition; prohibited an agency from conducting an acquisition that was a consolidation of contract requirements unless the agency demonstrated that the consolidation benefits substantially exceeded the benefits of separate contracts and identified the negative impacts on small businesses; established rules for bundling, a specific type of consolidation which consolidated two or more previously separate procurement requirements and which was likely unsuitable for award to a small business but might be suitable for award to a Small Business Teaming Arrangement.
WOSB	May 2013	Rule removed limitation on dollar amount of a contract that WOSB can compete for in a set-aside.
8(a) and HUBZone	August 2013	Rule clarified when size is determined for the purpose of entry into 8(a) and HUBZone programs.
All programs	August 2013	Established a presumption of loss to the United States equal to the total amount expended on the contract when a concern willfully sought and received an award by misrepresenting its size or status.

**Appendix V: Selected Major Regulatory or
Programmatic Changes Made to SBA's
Socioeconomic Programs, 2006–2016**

Program	Year	Programmatic or regulatory change
All programs	August 2013	Rule required the prime contractor for those contracts for which a small business subcontracting plan was required to notify the agency's contracting officer in writing if it failed to utilize a small business in preparing and submitting the prime contractor's bid or proposal; also required the prime contractor to notify the contracting officer in writing whenever a payment to the subcontractor was reduced or 90 days or more past due for goods and services for which the federal agency paid the contractor.
WOSB	February 2012	Rule amended WOSB's protest procedures to be consistent with the protest procedures for SBA's other government contracting programs.
HUBZone	2011	A large number of HUBZone areas nationwide lost their designation with the release of census data.
8(a)	March 2011	Overhauled 8(a) program including revisions to regulations covering, among other subjects, economic disadvantage, ownership and control, tribally-owned firms, and excessive withdrawals.
HUBZone	July 2011	Rule changed HUBZone re-application wait time from 1 year to 90 days.
HUBZone	May 2010	Rule simplified definition of "employee" to increase employment of HUBZone residents.
HUBZone	2008	SBA corrected a map error that incorrectly designated 50 metropolitan counties as difficult development areas that do not meet this or other criteria for inclusion as a HUBZone area. Nearly all of these incorrectly designated areas were in Puerto Rico.
Service-Disabled Veteran-Owned Small Business	July 2007	Rule encouraged the issuance of bonds on behalf of small businesses owned by veterans and service-disabled veterans by guaranteeing 90 percent of bond surety's loss.
All programs	June 2007	Rule required, for contracts with durations of more than 5 years (including options), a business concern to recertify its small business status at the end of the fifth year of the contract and before the exercise of any subsequent option.

Source: GAO analysis of Small Business Administration (SBA) final rules published in the Federal Register and SBA and GAO reports. | GAO-17-550

Appendix VI: Award of Puerto Rico-Based Contracts to Puerto Rico-Based Businesses with Socioeconomic Program Designations

Agencies can count federal prime contracting dollars awarded to small businesses under more than one socioeconomic category. For example, if a business with both Historically Underutilized Business Zone (HUBZone) and Service-Disabled Veteran-Owned Small Business (SDVSOB) designations received a contract through HUBZone set-aside, the contracting dollars would count towards both of these programs' contracting goals. For a majority of the fiscal years from 2006 through 2016, businesses with HUBZone and Women-Owned Small Business designations received small percentages of obligations using those respective set-asides as compared to other set-asides or full and open competition; see figures 9 and 10, respectively.¹ In contrast, obligations to businesses with 8(a) Business Development (8(a)) and SDVSOB designations generally received obligations using those respective set-asides, rather than other set-asides or through full and open competition; see figures 8 and 11, respectively. The Department of Veteran Affairs has a statutory mandate to prioritize SDVSOBs over other types of small businesses.

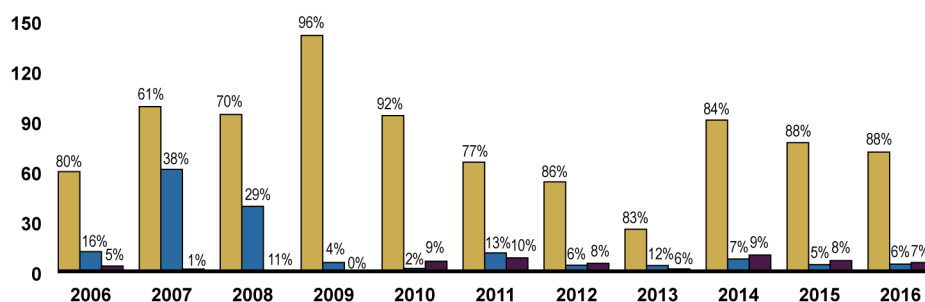
As shown in figure 8, 61 percent to 96 percent of obligations awarded to 8(a) businesses located in Puerto Rico for work performed there were awarded using the 8(a) program from fiscal years 2006 through 2016. Nationwide, the percentage was between 60 percent and 67 percent for all years during the same period.

¹Contract awards based on full and open competition consist of awards not identified as being awarded through any socioeconomic program and those specifically labeled as having no set-asides.

Figure 8: Obligations to Businesses with an 8(a) Business Development Designation by Socioeconomic Programs, Puerto Rico and Nationwide, Fiscal Years 2006–2016

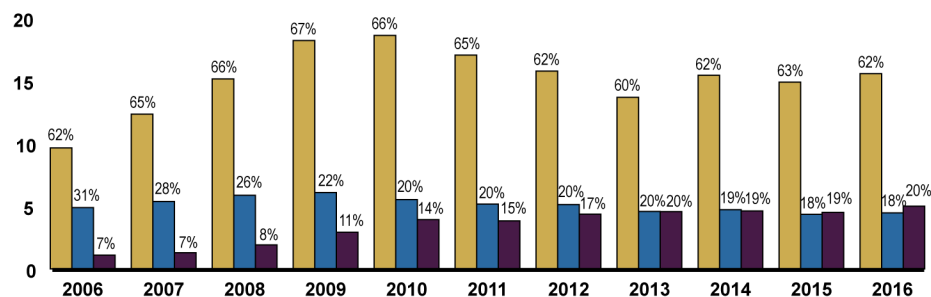
Obligations to 8(a) businesses in Puerto Rico

Dollars in millions

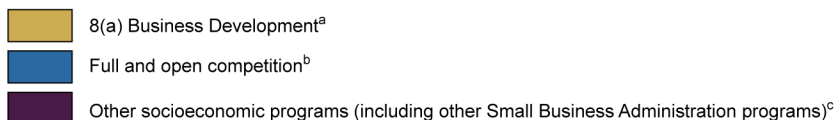


Obligations to 8(a) businesses nationwide

Dollars in billions



Fiscal year



% Percentage of obligations awarded by use of socioeconomic program each fiscal year

Source: GAO analysis of data from Federal Procurement Data System-Next Generation. | GAO-17-550

Note: For Puerto Rico, we analyzed data for federal prime contracting obligations awarded to small businesses with an 8(a) designation in Puerto Rico for contracts performed there. Prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the contracts' place of performance was Puerto Rico. The dollar amounts were adjusted for inflation using fiscal year 2016 dollars. Percentages do not always sum to exactly 100 percent due to rounding.

^a8(a) business development included an 8(a) set-aside with HUBZone preference, which are awards given to 8(a) businesses that were also a HUBZone business. This code became invalid after October 2008.

^bContract awards based on full and open competition consist of awards not identified as being awarded through any socioeconomic program and those specifically labeled as having no set-asides.

^cOther socioeconomic programs include obligations awarded through the HUBZone, Women-Owned Small Business, and Service-Disabled Veteran-Owned small business programs as well as various

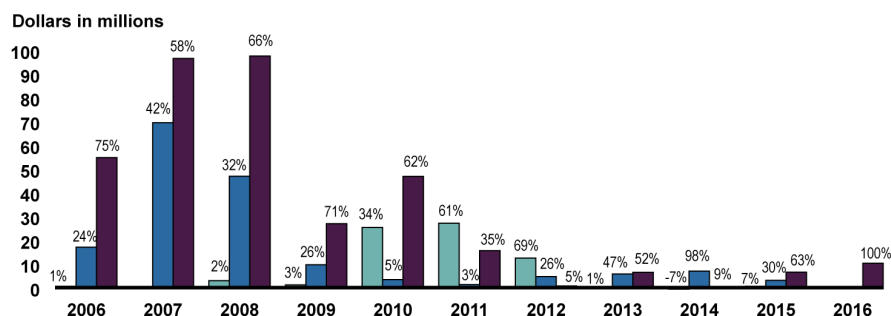
Appendix VI: Award of Puerto Rico-Based Contracts to Puerto Rico-Based Businesses with Socioeconomic Program Designations

other programs, such as those for veterans, small disadvantaged businesses, and other small businesses.

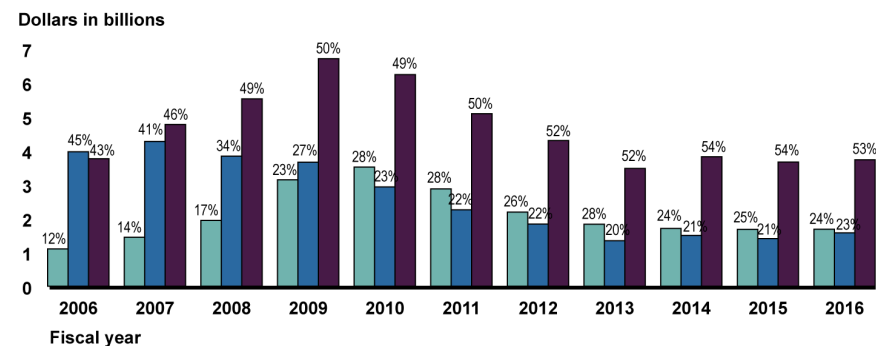
For obligations awarded to HUBZone businesses located in Puerto Rico, around 0 to 7 percent of the obligations were awarded through the HUBZone program with the exception of fiscal years 2010 through 2012, in which it ranged from 34 percent to 69 percent (see fig. 9). Nationwide, obligations to HUBZone businesses through the HUBZone program ranged from around 12 percent to 17 percent from fiscal years 2006 through 2009 and from 23 percent to 28 percent in fiscal years 2010 through 2016.

Figure 9: Obligations Awarded to Businesses with Historically Underutilized Business Zone (HUBZone) Designation by Socioeconomic Programs, Puerto Rico and Nationwide, Fiscal Years 2006–2016

Obligations to HUBZone businesses in Puerto Rico



Obligations to HUBZone businesses nationwide



Historically Underutilized Business Zone (HUBZone)^a
 Full and open competition^b
 Other socioeconomic programs (including other Small Business Administration programs)^c

% Percentage of obligations awarded by use of socioeconomic program each fiscal year

Source: GAO analysis of data from Federal Procurement Data System-Next Generation. | GAO-17-550

**Appendix VI: Award of Puerto Rico-Based
Contracts to Puerto Rico-Based Businesses
with Socioeconomic Program Designations**

Note: We analyzed data for federal prime contracting obligations awarded to small businesses with a HUBZone designation in Puerto Rico for contracts performed there. We included HUBZone awards made using sole source and set-asides and did not include awards made using price evaluation preference in our analysis. Prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico, to the extent that the contracts' place of performance was Puerto Rico. The dollar amounts are adjusted for inflation using fiscal year 2016 dollars. Percentages do not always sum to exactly 100 percent due to rounding.

^aNegative amounts of obligations for the HUBZone set-asides are a result of de-obligations for prior-year contracts through contract cancellations or other actions.

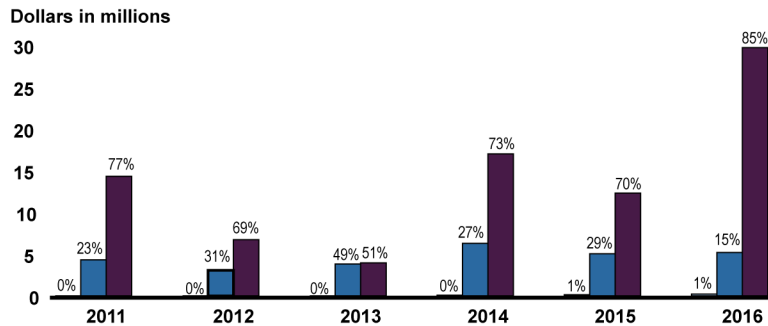
^bContract awards based on full and open competition consist of awards not identified as being awarded through any socioeconomic program and those specifically labeled as having no set-asides.

^cOther socioeconomic programs include obligations awarded through the 8(a) Business Development, Women-Owned Small Business, and Service-Disabled Veteran-Owned Small Business programs as well as various other programs, such as those for veterans, small disadvantaged businesses, and other small businesses.

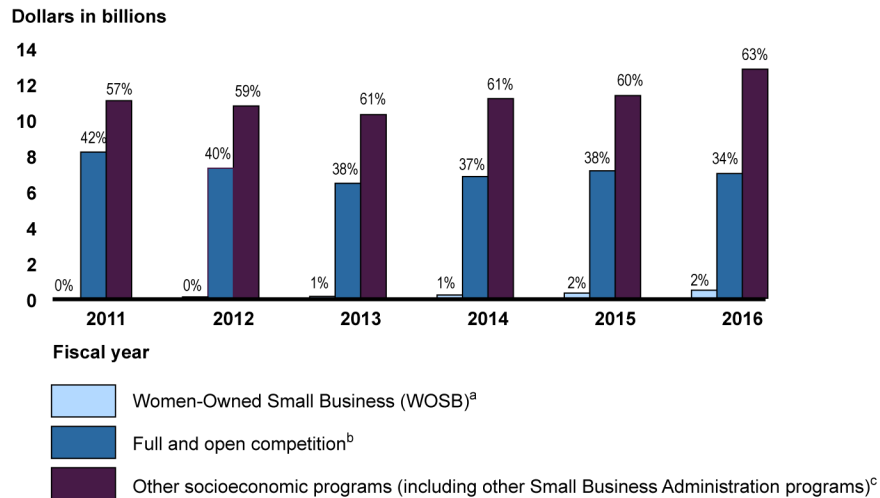
In Puerto Rico and nationwide, 2 percent or less of the obligations to WOSBs were WOSB set-asides or sole source awards from fiscal years 2006 through 2016 (see fig. 10).

Figure 10: Obligations Awarded to Businesses with Women-Owned Small Business (WOSB) Designation by Use of Socioeconomic Programs, Puerto Rico and Nationwide, Fiscal Years 2006–2016

Obligations to Women-Owned Small Businesses in Puerto Rico



Obligations to Women-Owned Small Businesses nationwide



% Percentage of obligations awarded by use of socioeconomic program each fiscal year

Source: GAO analysis of data from Federal Procurement Data System-Next Generation. | GAO-17-550

Note: We analyzed data for federal prime contracting obligations awarded to small businesses with a WOSB designation in Puerto Rico for contracts performed there. Prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies headquartered outside of Puerto Rico to the extent that the contracts' place of performance was Puerto Rico. The dollar amounts are adjusted for inflation using fiscal year 2016 dollars. Percentages do not always sum to exactly 100 percent due to rounding.

^aWOSB obligations include obligations to economically disadvantaged WOSBs.

^bContract awards based on full and open competition consist of awards not identified as being awarded through any socioeconomic program and those specifically labeled as having no set-asides.

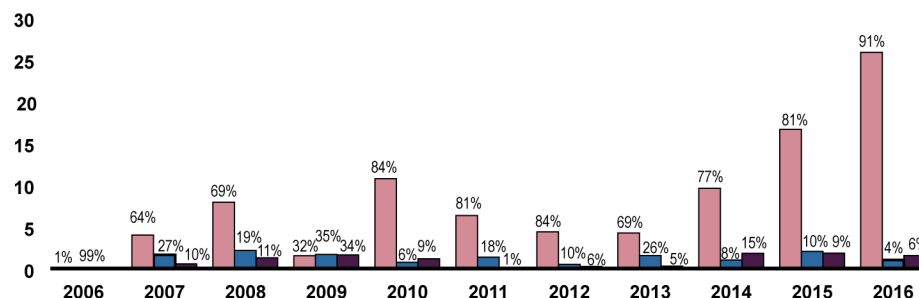
^cOther socioeconomic programs include obligations awarded through 8(a) Business Development, Historically Underutilized Business Zone, and Service-Disabled Veteran-Owned Small Business programs as well as various other programs, such as those for veterans, small disadvantaged businesses, and other small businesses.

In Puerto Rico, from fiscal years 2010 through 2016, around 70 percent to 90 percent of the obligations to SDVOSBs were SDVOSB set-aside or sole source awards. Nationwide, the percentage of obligations to SDVOSBs using SDVOSB set-asides or sole source awards was around 11 percent and 20 percent for fiscal years 2006 and 2007 but has since ranged from around 30 percent to 40 percent from fiscal years 2008 through 2016 (see fig. 11).

Figure 11: Obligations Awarded to Businesses with Service-Disabled Veteran-Owned Small Business (SDVOSB) Designation by Use of Socioeconomic Programs, Puerto Rico and Nationwide, Fiscal Years 2006–2016

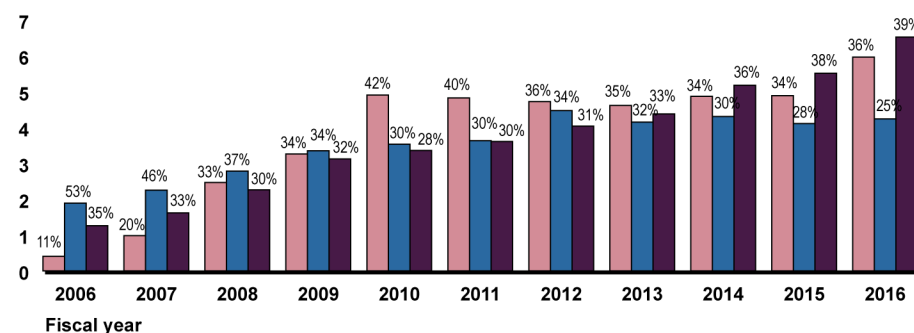
Obligations to SDVOSBs in Puerto Rico

Dollars in millions



Obligations to SDVOSBs nationwide

Dollars in billions



- Service-Disabled Veteran-Owned Small Businesses (SDVOSB)
- Full and open competition^a
- Other socioeconomic programs (including other Small Business Administration programs)^b
- % Percentage of obligations awarded by use of socioeconomic program each fiscal year

Source: GAO analysis of data from Federal Procurement Data System-Next Generation. | GAO-17-550

Note: We analyzed data for federal prime contracting obligations awarded to small businesses with an SDVOSB designation in Puerto Rico for contracts performed there. Prime contract obligations for Puerto Rico may include obligations awarded to businesses that are subsidiaries of companies

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headquartered outside of Puerto Rico, to the extent that the contracts' place of performance was Puerto Rico. The dollar amounts are adjusted for inflation using fiscal year 2016 dollars. Percentages do not always sum to exactly 100 percent due to rounding.

^aContract awards based on full and open competition consist of awards not identified as being awarded through any socioeconomic program and those specifically labeled as having no set-asides.

^bOther socioeconomic programs include obligations awarded through 8(a) Business Development, Historically Underutilized Business Zone, and Women-Owned Small Business programs as well as various other programs, such as those for veterans, small disadvantaged businesses, and other small businesses.

Appendix VII: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Harry Medina (Assistant Director), Weifei Zheng (Analyst in Charge), Abiud Amaro Diaz, Pamela Davidson, Julia Kennon, John McGrail, John Mingus, Jennifer Schwartz, and Jena Sinkfield made key contributions to this report.

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