



August 2022

SMALL BUSINESS ADMINISTRATION Recent Changes to the 8(a) Program's Financial Thresholds Need Evaluation

Accessible Version

GAO Highlight

Highlights of [GAO-22-104512](#), a report to the Chairwoman, Committee on Small Business, House of Representatives

Why GAO Did This Study

SBA's 8(a) Business Development Program is one of the federal government's primary vehicles for developing socially and economically disadvantaged small businesses. SBA determines whether 8(a) firms are economically disadvantaged by assessing the net worth, total assets, and average income of the individuals who own the firms.

GAO was asked to examine the 8(a) program's thresholds for determining economic disadvantage. This report addresses (1) SBA's compliance with the reporting requirement for the 8(a) program, and (2) SBA's revision of the economic disadvantage requirements for the program. GAO analyzed financial data on 8(a) applicants and federal contracting data, reviewed 8(a) program reports, and interviewed SBA officials and small business groups. GAO also held discussions with four groups of program participants.

What GAO Recommends

GAO recommends that SBA (1) document procedures for the report process, (2) assess the process and develop a plan to address report delays, and (3) evaluate the effects of the changes to the 8(a) program's thresholds. SBA concurred with the recommendations.

View [GAO-22-104512](#). For more information, contact William B. Shear at (202) 512-8678 or shearw@gao.gov.

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SMALL BUSINESS ADMINISTRATION

Recent Changes to the 8(a) Program's Financial Thresholds Need Evaluation

What GAO Found

The Small Business Administration (SBA) annually must report to Congress on the 8(a) Business Development Program. But SBA did not submit the 2016–2021 reports when they were due (April 30 of the following year). SBA submitted the 2016 and 2017 reports in February of 2020. SBA expects to submit the 2018 report in August 2022 and complete the 2019–2021 reports by December 2022. According to SBA officials, multiple factors, including manual data collection and data validation, implementation of a new data system, and the timing of certification for federal contract data contributed to delays in submitting prior reports. Many of these factors likely will continue to affect the timeliness of future reports. But SBA has not documented procedures for producing the reports or assessed its report process for operational efficiencies, and does not have a plan to address report delays. By not doing so, SBA faces the risk that staff may not implement reporting procedures appropriately, reports will continue to be long delayed, and Congress will not receive timely information on the 8(a) program.

In July 2020, SBA changed the 8(a) financial thresholds for determining whether an individual qualifies as economically disadvantaged, but did not conduct any empirical analyses before making the changes.

- SBA increased the threshold for net worth from \$250,000 (for program entry and \$750,000 for continued participation) to \$750,000 (for entry and continued participation); for income from \$250,000 (for program entry and \$350,000 for continued participation) to \$350,000 (for entry and continued participation); and for total assets from \$4 million (for program entry and \$6 million for continued participation) to \$6 million (for entry and continued participation).
- SBA officials said they wanted 8(a) thresholds to match those of the agency's Women-Owned Small Business program.

GAO found the new financial thresholds might increase program participation. Higher numbers of participants also might increase the competition for 8(a) contracts, which have been declining in number in recent years. However, SBA does not plan to assess the potential effects of the new thresholds. Federal standards for internal control state agencies should identify and address risks to achieving their objectives, including significant changes to external and internal conditions. Performing such an assessment could help SBA determine any effects on the ability of the 8(a) program to accomplish its mission—to help eligible small businesses develop over the program's 9-year period—and address any unintended consequences resulting from the new thresholds.

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Abbreviations

EDWOSB	economically disadvantaged women-owned small business
FPDS	Federal Procurement Data System
OIG	Office of Inspector General
PTAC	Procurement Technical Assistance Center
SBA	Small Business Administration
SBDC	Small Business Development Center
WOSB	women-owned small business

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August 30, 2022

The Honorable Nydia M. Velázquez
Chairwoman
Committee on Small Business
House of Representatives

Dear Madam Chairwoman:

The 8(a) Business Development Program of the Small Business Administration (SBA) was created to help small businesses owned and controlled by socially and economically disadvantaged individuals and entities. The 8(a) program generally provides up to 9 years of developmental support, such as business counseling and mentoring, contracting guidance, and access to capital and surety bond guarantees.¹ The program also sets aside federal contracting opportunities for program participants.

According to SBA data, 4,237 small businesses were participating in the 8(a) program as of December 31, 2021.² For fiscal year 2020, 3,364 program participants were awarded federal 8(a) contracts, and federal contract obligations for the overall SBA 8(a) program totaled about \$19.7 billion, according to SBA officials.

SBA's process for determining whether individuals are economically disadvantaged includes reviewing their net worth, income, and total assets when they apply for the 8(a) program and then annually determining continued program eligibility.³ On July 15, 2020, new SBA regulations for determining whether an individual qualifies as

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

²The data do not include small businesses owned by Alaska Native Corporations, Community Development Corporations, Native American tribes, and Native Hawaiian Organizations. These types of businesses can qualify for 8(a) contracts. An 8(a) contract may be awarded for performance by eligible 8(a) participants on either a sole source or competitive basis.

³According to SBA's operating procedures for the 8(a) program, SBA also can initiate an eligibility review whenever it has reason to question an individual's continued eligibility.

economically disadvantaged for the 8(a) program went into effect, including new financial thresholds for eligibility. SBA increased the threshold for net worth at program entry from \$250,000 to \$750,000, for average income (over the past 3 years) from \$250,000 (at program entry) to \$350,000, and for total assets from \$4 million (at program entry) to \$6 million.

SBA also is statutorily required to annually report to Congress (by April 30) on program operations in the preceding fiscal year.⁴ The report is to include information on the net worth of newly approved 8(a) program participants.

You asked us to evaluate the economic disadvantage requirements of SBA's 8(a) program. This report assesses (1) the extent to which SBA has complied with its reporting requirement for the 8(a) program; and (2) SBA's changes to the economic disadvantage requirements for the 8(a) program and the potential effects associated with the changes.

For the first objective, we reviewed documentation and interviewed SBA officials to obtain information on the timelines of, resources dedicated to, and any challenges in preparing the fiscal year 2016–2021 reports the agency was required to submit to Congress.

For the second objective, we analyzed information relating to the economic disadvantage criteria and spoke with SBA officials and stakeholders about the 8(a) program and the new thresholds.

- More specifically, we reviewed the proposed and final rules, including their preambles that describe SBA's rationale for changing the thresholds used to determine economic disadvantage. We also reviewed a contractor study that according to SBA officials, SBA commissioned to assist the agency in defining or establishing criteria for determining what constitutes economic disadvantage for 8(a) applicants. We interviewed SBA officials about the agency's rationale for changing the thresholds. We also calculated how the initial net worth threshold would have changed if it had been indexed for inflation from 1990 to 2020 (see app. II for more information).

⁴The reporting provision is Section 408 of the Business Opportunity Development Reform Act of 1988. Pub. L. No. 100-656, § 408, 102 Stat. 3853, 3877 (1988) (codified at 15 U.S.C. § 636(j)(16)).

- We analyzed data on the financial condition (net worth and income) of firm owners who applied to the 8(a) program between October 2, 2018, and February 16, 2021.⁵ We also determined the frequency with which firms that SBA certified (approved) in this period were awarded 8(a) contracts during their first year of participation. We reviewed documentation related to the data SBA provided and determined the data were sufficiently reliable for describing the relationship between contracts awarded to 8(a) firms in this period and the financial condition of the firms' owners.
- We interviewed representatives from a nongeneralizable sample of five Small Business Development Centers (SBDC), three Procurement Technical Assistance Centers (PTAC), two associations representing small businesses, and one association representing women-owned businesses. We selected the SBDCs and PTACs to reflect factors including share of businesses majority-owned by minorities, number of individually owned 8(a) businesses, and number of 8(a) contracts and geographic dispersion.
- We held four discussion groups with 8(a) participants (24 in total) about their experiences with the program. We report our findings by the number of discussion groups in which a topic was discussed. Opinions group participants expressed may not represent the views of all program participants.

For more information on our scope and methodology, see appendix I.

We conducted this performance audit from September 2020 to August 2022, 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.

⁵SBA data showed that 1,030 firms received an 8(a) certification between these dates. We initially sought data for fiscal years 2016–2021, which would have allowed analysis of participating firms at different stages during the 9-year program. See appendix I for additional discussion of data issues that limited our analyses to a shorter time frame.

Background

Program Administration

SBA's Office of Business Development and Office of Field Operations share responsibility for the administration of the 8(a) program. The Office of Business Development's responsibilities include providing recommendations on initial and continuing program eligibility, making recommendations on the approval of mentor/protégé agreements, maintaining program data on firm participation, and preparing an annual report to Congress on program participation and contracting. The office also provides technical assistance and support to SBA district offices.

More specifically, three offices within the Office of Business Development—Certification and Eligibility, Management and Technical Assistance, and Program Review—carry out these responsibilities. For example, the Office of Certification and Eligibility's functions include analyzing and processing applications for initial program participation; conducting annual continuing eligibility reviews; and processing requests to early graduate, terminate, voluntarily withdraw, or suspend 8(a) participants.

SBA also provides services through 10 regional offices and 68 district offices that are led by the Office of Field Operations. SBA district offices serve as the point of delivery for most SBA programs and services. Some district office staff (including business opportunity, lender relations, and economic development specialists) work directly with SBA clients.⁶ Each district office is responsible for implementation of 8(a) program activities in the geographic area it services. District offices are to conduct annual reviews of participants' accomplishments and compare accomplishments against business plan objectives; determine whether participants are in compliance with program requirements; and recommend program termination, early graduation, or suspension, as appropriate.

⁶Business opportunity specialists recruit, train, educate, and develop small businesses interested in SBA's contracting programs. Economic development specialists market SBA programs and conduct outreach, training, and education. Lender relations specialists interact with lenders to deliver SBA loan programs and services in the district.

8(a) Eligibility Requirements

SBA reviews 8(a) program applications to determine the eligibility of small business owners to participate in the program using a number of eligibility requirements (see table 1).

Table 1: Key Eligibility Requirements for 8(a) Program Participation

Requirement	Description of statutory and regulatory provisions
Socially disadvantaged individual	Individuals who have been subjected to racial or ethnic prejudice or cultural bias because of their identity as members of a group and without regard to their individual qualities. Designated groups include (1) Black Americans, (2) Hispanic Americans, (3) Native Americans, (4) Asian Pacific Americans, and (5) Subcontinent Asian Americans.
Economically disadvantaged individual	Socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired because of diminished capital and credit opportunities as compared with others in the same or similar business area who are not socially disadvantaged.
Ownership	Applicant or participant firms must be at least 51 percent unconditionally and directly owned by one or more socially and economically disadvantaged individuals who are U.S. citizens, except for concerns owned by Indian tribes, and Alaska Native Corporations (among others).
Control	Applicant or participant firm must be controlled by one or more socially and economically disadvantaged individuals. Control includes both strategic policy setting and day-to-day management and administration of business opportunities. A participant's management and daily operations also must be conducted by one or more disadvantaged individuals.
Small business	The firm must qualify as a small business concern as defined by SBA's size standards, based on the North American Industry Classification System code.
Good character	The applicant or participant firm and all of its principals must have good character. SBA considers such things as criminal conduct and violations of SBA regulations. Debarred or suspended concerns are ineligible.
Potential for success	The applicant or participant must possess reasonable prospects for success in competing in the private sector. Specifically, applicants or participants must show they have been in the primary industry for 2 years as of the date of application by showing revenues on 2 years of tax returns. This requirement may be waived if the firm shows, among other requirements, revenues and substantial business management and demonstrated technical expertise. Other requirements include demonstrating financial capability, contract success, and contract support for the industry of applicant or participant.
U.S. citizenship	Applicant or participant owner must be a U.S. citizen. Individuals born outside of the United States must show proof of citizenship through a U.S. passport or naturalization papers.

Source: GAO analysis of Small Business Act, as amended and Small Business Administration regulations. | GAO-22-104512

To determine whether an individual is economically disadvantaged, the agency examines documentation of the individual's personal income for the past 3 years, their net worth, and the fair market value of their assets.

An individual who exceeds the income, net worth, or asset thresholds generally will be deemed to have access to credit and capital and not be economically disadvantaged.

SBA Changes to the Economic Disadvantage Requirements for the 8(a) Program

In May 2020, SBA issued a final rule that amended its regulations for the 8(a) program, including changing the thresholds for determining whether an individual qualifies as economically disadvantaged.⁷ These changes were effective July 15, 2020. See table 2 for the previous and current thresholds for net worth, average gross income, and total assets.⁸ The changes also eliminated the distinction between initial and continuing eligibility thresholds. For example, before 2020 applicants' net worth could not exceed \$250,000 at program entry but could rise to \$750,000 during program participation.

Table 2: Previous and Current Economic Disadvantage Requirements Used to Determine Eligibility of 8(a) Program Applicants

Economic disadvantage requirements ^a	Previous thresholds (initial, used at program entry)	Previous thresholds (continuing)	Current thresholds (in effect since July 15, 2020; no distinction between initial and continuing thresholds)
Net worth (adjusted)	\$250,000	\$750,000	\$750,000
Total assets	\$4 million	\$6 million	\$6 million
Average gross income (past 3 years)	\$250,000	\$350,000	\$350,000

Source: GAO analysis of Small Business Administration (SBA) regulations. | GAO-22-104512

Note: We analyzed SBA regulations before and after SBA's issuance of the final rule, entitled Women-Owned Small Business and Economically Disadvantaged Women-Owned Small Business Certification, on May 11, 2020. (85 Fed. Reg. 27650).

^aFollowing the 2020 amendments, retirement accounts will be excluded from calculations of any economically disadvantaged individual's net worth irrespective of the individual's age.

When computing an individual's net worth (at program entry and for continued eligibility), SBA excludes (1) the value of the disadvantaged owner's ownership in the small business (2) the equity a disadvantaged owner has in a primary personal residence (except any portion attributable to excessive withdrawals from the business) and (3) funds

⁷Women-Owned Small Business and Economically Disadvantaged Women-Owned Small Business Certification, 85 Fed. Reg. 27650 (May 11, 2020).

⁸SBA first established the net worth thresholds in 1989 and the total assets and average gross income thresholds in 2011.

invested in an Individual Retirement Account or other official retirement account.⁹

Program for Women-Owned Small Businesses

SBA's Women-Owned Small Business program allows contracting officers at federal agencies to set aside contracting opportunities for two types of firms: women-owned small businesses (WOSB) and economically disadvantaged women-owned small businesses (EDWOSB). Program requirements include that WOSBs and EDWOSBs be at least 51 percent directly and unconditionally owned and controlled by one or more women who are U.S. citizens. Owners of EDWOSBs also must be economically disadvantaged—that is, not exceed eligibility thresholds of \$750,000 for net worth, \$6 million for total assets, and \$350,000 for average gross income (past 3 years). Unlike the (8a) program, the Women-Owned Small Business program does not have a business development component. Rather, its primary focus is contracting.

Section 408 Reporting Mandate

Section 408 of the Business Opportunity Development Reform Act of 1988 requires SBA to develop and implement a process to systematically collect 8(a) program data and submit a report to Congress by April 30 of each year on program operations in the preceding fiscal year.¹⁰ Among other things, the report must include information on the net worth of newly certified 8(a) program participants (see table 3). The Office of Business Development, which is responsible for preparing the report, compiles data from other SBA offices and from external sources, such as the Federal Procurement Data System (FPDS).

⁹In 2020, SBA revised how retirement accounts would be considered in the net worth calculation by excluding retirement accounts from calculations of an economically disadvantaged individual's net worth, irrespective of the individual's age.

¹⁰Business Opportunity Development Reform Act of 1988, Pub. L. No. 100-656, § 408, 102 Stat. 3853, 3877 (1988) (codified at 15 U.S.C. § 636(j)(16)).

Table 3: Information Required for Annual Section 408 Reports to Congress

Information required	Description
Net worth of newly certified 8(a) program participants	Include the average personal net worth of individuals who own and control 8(a) businesses that were initially certified for participation in the 8(a) program during the immediately preceding fiscal year. Indicate the dollar distribution of net worth, at \$50,000 increments, of the 8(a) participants.
Benefits and costs of the 8(a) program to the economy and government	Describe and estimate the benefits and costs that have accrued to the U.S. economy and the federal government in the immediately preceding fiscal year due to the operations of 8(a) participating businesses.
Evaluation of former 8(a) program participants	Compile and evaluate businesses that have exited the program during the immediately preceding 3 fiscal years. Detail the number of 8(a) businesses actively engaged in business operations, those that have ceased or substantially curtailed such operations, including the reasons for such actions, and those 8(a) businesses that have been acquired by other firms or organizations owned and controlled by other than socially and economically disadvantaged individuals. For 8(a) businesses that have continued operations after they exited from the program, separately detail the benefits and costs that have accrued to the economy during the immediately preceding fiscal year due to the operations of such concerns.
Compilation of the current fiscal year program participants	List all participants in the 8(a) program during the preceding fiscal year identifying, by state and by region, for each participant: the name of the business; race or ethnicity and gender of disadvantaged owners; dollar value of all contracts received in the preceding year; and the dollar amount of advance payments received by each concern pursuant to contracts awarded.
Total 8(a) and non-8(a) contract obligations of all 8(a) participants	List the total dollar value of contracts and options awarded during the preceding fiscal year and such amounts as a percentage of total sales of all businesses participating in the 8(a) program during such year; and of firms in each of the 9 years of program participation.
Requested resources and program authorities	Describe additional resources or program authorities as may be required to provide the types of services needed over the next 2-year period to service the expected portfolio of firms certified pursuant to Section 8(a).
Dollar obligations for 8(a) contracts by North American Industry Classification System code	List 8(a) contract dollars obligated by six-digit North American Industry Classification System code for the preceding fiscal year.

Source: GAO analysis of the Small Business Act, as amended. | GAO-22-104512

SBA Has Not Met Mandated Deadline for Section 408 Reports, and Lacks a Plan to Address Report Delays

SBA did not submit Section 408 reports on time for fiscal years 2016–2021. According to SBA officials, the agency faced several constraints—including manual processes, wait time to obtain federal contracting data, and staffing and IT issues—that contributed to reporting delays. However, SBA has not assessed its report process for operational efficiencies and does not have a plan to mitigate report delays.

SBA Has Not Met Mandated Due Dates for Recent Section 408 Reports

SBA did not submit reports that provide Congress with data on the operations of the 8(a) program by the mandated due date. Specifically, SBA submitted the Section 408 reports for fiscal years 2016 and 2017 more than 600 and 1,000 days (respectively) after the due date (see table 4). As of April 30, 2022, SBA had not submitted past due reports to Congress for fiscal years 2018–2021.

Table 4: Status of Section 408 Reports, Fiscal Years 2016–2021

Fiscal year	Due date	Status	Days submitted after due date
2016	April 30, 2017	Submitted February 13, 2020.	1,019
2017	April 30, 2018	Submitted February 13, 2020.	654
2018	April 30, 2019	SBA expects to submit the report to Congress in August 2022.	Not applicable
2019	April 30, 2020	SBA expects to complete the report by December 2022.	Not applicable
2020	April 30, 2021	SBA expects to complete the report by December 2022.	Not applicable
2021	April 30, 2022	SBA expects to complete the report by December 2022.	Not applicable

Source: GAO analysis of Small Business Administration information. | GAO-22-104512

In May 2022, SBA officials told us they had completed the agency clearance process for the 2018 report. SBA officials added they planned to send the 2018 report to the Office of Management and Budget for review and then to Congress. As of July 2022, SBA officials told us the agency is waiting on the Office of Management and Budget’s final approval and anticipates submitting the 2018 report to Congress in August 2022. During our review, SBA developed milestones for completing the 2019—2021 reports (by December 2022).

SBA Has Not Documented Procedures for Producing Section 408 Reports

SBA has not documented procedures for producing Section 408 reports. For example, SBA's standard operating procedures for the 8(a) program do not describe the report development process. In addition, SBA officials told us that they did not have other documentation that describes the process.

Instead, SBA officials described to us how they obtain data from internal and external sources to prepare the Section 408 report. For example, the agency obtains data on the net worth of newly certified 8(a) firms from its business opportunity specialists and data on federal contracts awarded to 8(a) firms from FPDS.

Federal internal control standards state that effective documentation establishes and communicates the knowledge necessary for personnel to implement processes, and allows management to hold personnel accountable for their assigned responsibilities. Documentation also provides a means to retain organizational knowledge and mitigate the risk of having that knowledge limited to a few personnel.

SBA officials could not explain why they have not documented procedures for producing Section 408 reports. By not documenting the process, SBA increases the risk that report development procedures may not be implemented appropriately and decreases staff and management understanding of and accountability for their responsibilities.

SBA Cited Various Factors Contributing to 408 Report Delays, but It Has Not Assessed Its Process and Developed a Plan to Address Delays

SBA officials told us that several factors (described below) contributed to delays submitting Section 408 reports to Congress, but the agency has not assessed its report development process for operational efficiencies and does not have a plan for addressing the delays.

- **Manual processes/IT issues.** SBA officials also told us that the agency currently does not have a system that maintains financial data on individuals who own 8(a) firms and that has automated reporting functions. SBA manually compiles data on the financial condition of 8(a) firm owners—a process that significantly delayed, and might

continue to delay, the submission of Section 408 reports. For example, SBA officials explained that net worth and other financial data on 8(a) firm owners are saved in individual spreadsheets maintained by different business opportunity specialists and are not consolidated. SBA officials said that collecting and aggregating this information can take several months.

SBA officials told us that the agency's implementation of a new 8(a) certification system (known as Certify) contributed to significant delays in preparing the fiscal 2018 report. Specifically, SBA officials stated that it took several months for the agency to reconcile data between the previous and new systems. SBA officials stated that it was important to complete this effort to ensure the integrity of the data. SBA officials also told us they discovered some data migration issues and errors between the two systems when compiling the data for the fiscal year 2018 report; correcting these errors further delayed the completion of this report.

We and SBA's Office of Inspector General (OIG) previously reported on challenges SBA has faced implementing systems to manage the 8(a) program. For example, we reported in September 2015 that SBA experienced problems implementing the OneTrack system, which the Office of Government Contracting and Business Development planned to use to track 8(a) program participants.¹¹ More recently, SBA's OIG reported in July 2020 that the agency's Certify system, which was initiated in 2015, did not have the search, analytical, and reporting tools it was intended to have.¹² The report also noted that program analysts must use labor-intensive methods external to the system to compensate for its shortcomings, reducing the system's expected benefits for both program analysts and program participants.

SBA officials told us that the agency obtained a contractor to recommend a new financial data system for the 8(a) program. In the contractor's February 2022 report, it presented SBA with an analysis of three alternative approaches to improve the overall operations of its certification programs, including the 8(a) program technology infrastructure used by both small business applicants and SBA program staff. SBA officials stated that the report supported the

¹¹GAO, *Small Business Administration: Leadership Attention Needed to Overcome Management Challenges*, [GAO-15-347](#) (Washington, D.C.: Sept. 22, 2015). The report made eight recommendations designed, among other things, to improve SBA's oversight of IT investments. SBA implemented all our recommendations.

¹²Small Business Administration, Office of Inspector General, *Evaluation of Certify.SBA.Gov, 20-17* (Washington, D.C.: July 30, 2020).

agency's goal to integrate all the management systems for its certification program into one point of entry for small businesses. SBA officials added that the contractor's work provided information needed to prepare an operational analysis and mission needs statement for the new system. However, SBA did not provide an expected time frame for implementing a new system or indicate how the new system's functions would provide tools for reporting on 8(a) program participants over the cycle of the program.

- **Timing of annual certification of federal contract data.** According to SBA officials, the agency's goal is to start preparing Section 408 reports in February. SBA officials stated that this start date was based on when federal agencies are required to certify contracting data reported in FPDS for the previous fiscal year (which generally occurs by February).¹³ Based on a February start date, SBA would have about 2 months to complete the report by the due date (April 30). SBA officials told us that it would be a challenge to complete the Section 408 report in 2 months.
- **Staffing issues.** SBA officials attributed delays in submitting the fiscal year 2016 and 2017 reports to staffing shortages. However, SBA officials said that staffing shortages were not a factor contributing to delays in the 2018–2021 reports.

Standards for Internal Control in the Federal Government state that management should assign responsibility to achieve objectives and remediate deficiencies.¹⁴ Office of Management and Budget Circular A-123 emphasizes that when developing corrective actions, agencies should ensure that subsequent strategies and plans address the root of the problem and not just the symptoms.¹⁵

SBA has not assessed its Section 408 report process for operational efficiencies, such as starting the report development process before

¹³According to the Federal Acquisition Regulation, the chief acquisition officer of each agency required to report its contract actions must submit an annual certification of whether, and to what degree, agency contracting data for the preceding fiscal year are complete and accurate to the General Services Administration within 120 days after the end of each fiscal year.

¹⁴GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

¹⁵Office of Management and Budget, *Management's Responsibility for Enterprise Risk Management and Internal Control*, Circular A-123 (Washington, D.C.: July 15, 2016).

February. SBA officials told us they did not believe an earlier start date would make the process more efficient because most of the work to prepare the report involves compiling federal contract data from FPDS. However, by not assessing its procedures—particularly in relation to factors SBA identified as contributing to report delays—SBA risks continuing or exacerbating reporting delays in future. Although not all the factors SBA cited may be applicable currently, or within the agency’s control, SBA has opportunities to identify other operational efficiencies, particularly around current manual processes, that would help expedite report submission.

SBA Has Not Assessed Potential Effects of Changes to the 8(a) Economic Disadvantage Thresholds

SBA Stated It Changed Thresholds for Consistency with Another Program

According to the preamble to the May 2020 final rule, SBA changed the economic disadvantage thresholds for the 8(a) program to match the thresholds that applied to EDWOSBs in the Women-Owned Small Business program.¹⁶ SBA said that before the change, a firm applying for the Women-Owned Small Business and 8(a) programs could be found economically disadvantaged under one program but not the other. SBA stated that inconsistent treatment of firms by the programs did not make sense and having the same economic disadvantage thresholds for both programs would avoid confusion among program applicants.

Half of the small business advocacy groups we interviewed did not find the differing economic disadvantage requirements for the 8(a) and Women-Owned Small Business programs confusing.¹⁷ For example, we interviewed officials from 10 organizations that assist small businesses, including SBDCs, PTACs, and small business trade associations. Representatives of five of the 10 organizations told us that having different economic disadvantage requirements for the two programs had

¹⁶85 Fed. Reg. 27650, 27650 (May 11, 2020).

¹⁷In interviews with representatives of eight SBDCs and PTACs and two small business trade associations, we asked: “From your perspective, to what extent did the different eligibility requirements cause confusion for interested small businesses?”

not created “confusion” among their clients. Representatives from three organizations told us that the differing requirements had created confusion and that the change in requirements had either addressed that confusion or made it easier for small businesses. Representatives from two organizations did not state that they had observed confusion among small businesses, but felt that the 2020 change in requirements was positive since it allowed more firms to be eligible. SBA did not empirically assess how the changes made in 2020 to the eligibility thresholds for the 8(a) program might affect achievement of the program’s purpose. The regulation governing the 8(a) program states the program’s purpose is to help eligible socially and economically disadvantaged small businesses compete in the American economy through business development.¹⁸ The small businesses receive one-on-one assistance, compete for set-aside contracts, and pursue opportunities for mentorship and joint ventures through SBA’s Mentor-Protégé program over a 9-year period.¹⁹

In contrast to the 8(a) program, the regulation governing the Women-Owned Small Business program states that its purpose is to ensure that women-owned small businesses have equal opportunity to participate in federal contracting.²⁰ The program does not have a business development component. It is solely a contracting assistance program, limiting competition for certain federal contracts to WOSBs and EDWOSBs in specific industries where those businesses are underrepresented. EDWOSBs in the Women-Owned Small Business program must certify annually that they meet economic disadvantage requirements for continued eligibility; however, there is no program participation time limit as long as the participants continue to be eligible.

SBA’s OIG reported in October 2021 that SBA faced a challenge developing objective and reasonable criteria for determining at which point socially disadvantaged individuals also are deemed economically

¹⁸13 C.F.R. § 124.1. Socially disadvantaged individuals are those who have been subjected to racial and ethnic prejudice or cultural bias within American society because of their identities as members of groups without regard to their individual qualities.

¹⁹SBA’s mentor-protégé program helps eligible small businesses (protégés) gain capacity and win government contracts through partnerships with more experienced companies that are willing to fill the mentor role.

²⁰13 C.F.R. § 127.100.

disadvantaged for the 8(a) program.²¹ The OIG noted when crafting a program that strives to benefit a select demographic group, the financial limits to determine eligibility should be based on verifiable empirical analysis to ensure the intended population of small disadvantaged businesses benefited from the 8(a) program.

Prior to proposing the regulation on the new thresholds SBA had made an effort to develop methodologies to support different thresholds. Specifically, in September 2017, SBA awarded a contract for a study to assist the agency in defining or establishing criteria for determining what constitutes economic disadvantage for 8(a) applicants. In the contractor's February 2019 final report, it described three methodologies it developed (noting limitations with each) for estimating an adjusted net worth threshold, which resulted in an amount lower than the \$250,000 initial threshold in place at the time. The estimates ranged from \$59,100 to \$183,900, after excluding business and home equity and retirement accounts.²² According to SBA officials, the contractor's draft report supported the 2020 change; for example, the officials stated that the contractor cited net worth thresholds used by similar programs in the draft report that were higher than the \$250,000 initial threshold in place at the time.

SBA Has Not Assessed Potential Effects of Changes but Our Analysis Found Higher Thresholds Might Increase Participation and Competition for Limited 8(a) Contracts

SBA Does Not Plan to Assess Changes

To date, SBA has not assessed the impact of the new thresholds on the 8(a) program. For instance, SBA has not examined how the thresholds affected or might affect program participation, time in the program (such as early exits), or contract awards. According to SBA officials, the agency also currently does not plan to do so.

²¹Small Business Administration, Office of Inspector General, *Top Management and Performance Challenges Facing the Small Business Administration in Fiscal Year 2022*, 22-02 (Washington, D.C.: Oct. 15, 2021).

²²The contractor did not develop estimated thresholds for total assets or average income as part of the study.

Federal standards for internal control state that agencies should identify and address risks to achieving their objectives, including significant changes to both external and internal conditions.²³

SBA officials said the agency has not planned an assessment because the agency received overwhelming support for the financial thresholds during the notice and comment rulemaking process and concluded that the new thresholds promote consistency across SBA's other set-aside contracting programs.

By not assessing the potential effects of the program changes, SBA lacks information to help understand any impacts, challenges, or unintended consequences of the changes. Assessing the potential effects also would help to inform its decision-making about the program.

We Found a Slight Increase in Firm Participation and Potentially More Contract Competition

We found the new thresholds might increase program participation, which might affect the awarding of 8(a) contracts to participants. New 8(a) certifications fell from a high of 512 in the third quarter of 2016 to a low of 50 in the third quarter of 2018.

Our analysis of SBA data on firms that applied for 8(a) certification before and after the changes went into effect showed a small increase in the number of firms approved for the program in that period.²⁴ Specifically,

- Between October 1, 2018, and July 14, 2020, the final day under the old thresholds, SBA added about 1.1 new 8(a) participants per day.
- From July 15, 2020, the first day under the new thresholds, to September 30, 2021, SBA added 1.5 new 8(a) participants per day.
- The increase in participation included newly eligible businesses. Between July 15, 2020, and February 16, 2021, 46 businesses that would have exceeded the former thresholds for adjusted net worth were approved for 8(a) certification. These businesses represented

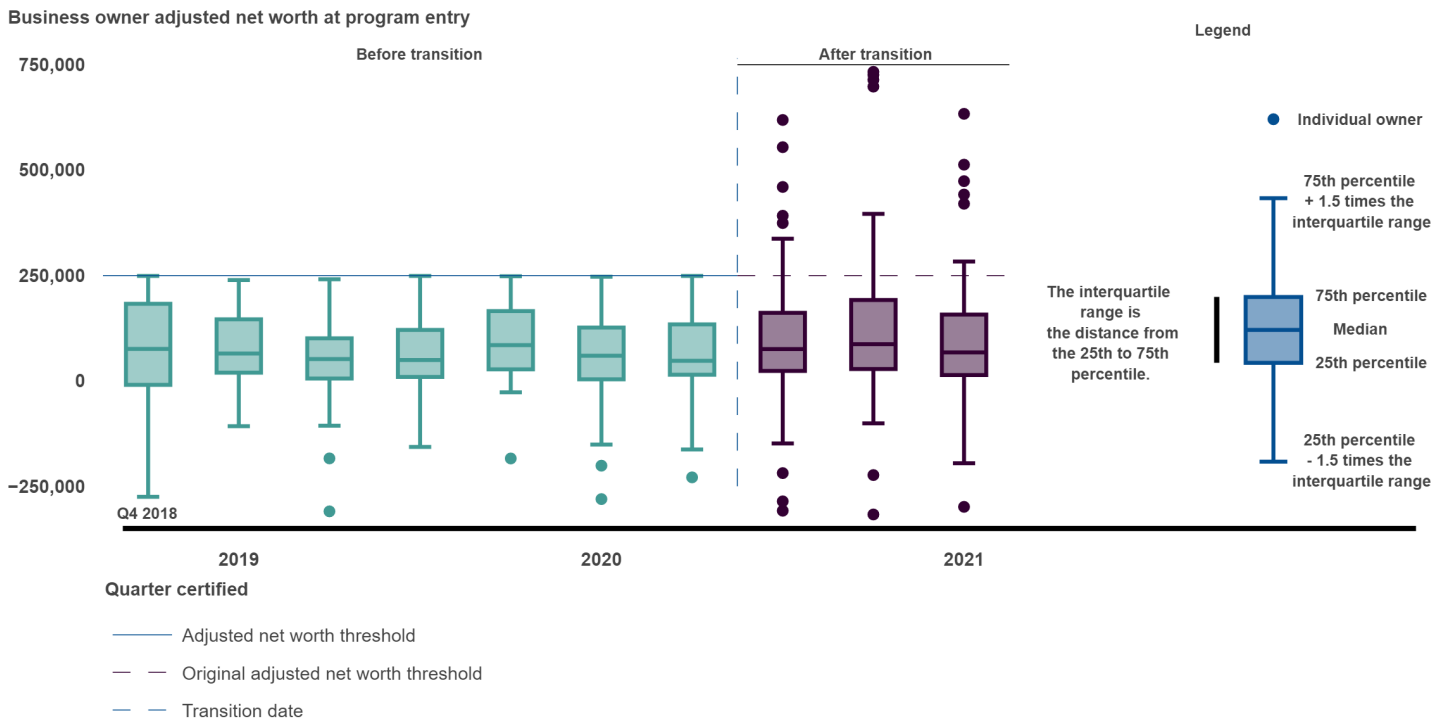
²³[GAO-14-704G](#).

²⁴SBA's lack of readily available data on the financial condition of 8(a) firm owners limited the analyses we could conduct. For example, we could not analyze changes or identify trends in the financial condition of 8(a) firm owners over time. See appendix I for more information.

almost 18 percent of all applicants approved in that time frame (see fig. 1).

Figure 1: Adjusted Net Worth of Business Owners at Approval Before and After 8(a) Threshold Change (from October 2, 2018, to February 16, 2021)

An increased number of previously ineligible businesses joined the 8(a) program after July 15, 2020, when the Small Business Administration (SBA) raised the eligibility threshold for net worth from \$250,000 to \$750,000.



Source: GAO analysis of Small Business Administration data. | GAO-22-104512

Note: When computing an individual's net worth (at program entry and for continued eligibility), SBA excludes (1) the value of the disadvantaged owner's ownership in the small business; (2) the equity a disadvantaged owner has in a primary personal residence (except any portion attributed to excessive withdrawals from the business); and (3) funds invested in an Individual Retirement Account or in other official retirement account. Additionally, income from an S corporation or limited liability company or partnership will be excluded from an individual's net worth in certain circumstances. SBA's calculation of adjusted net worth can result in a negative amount.

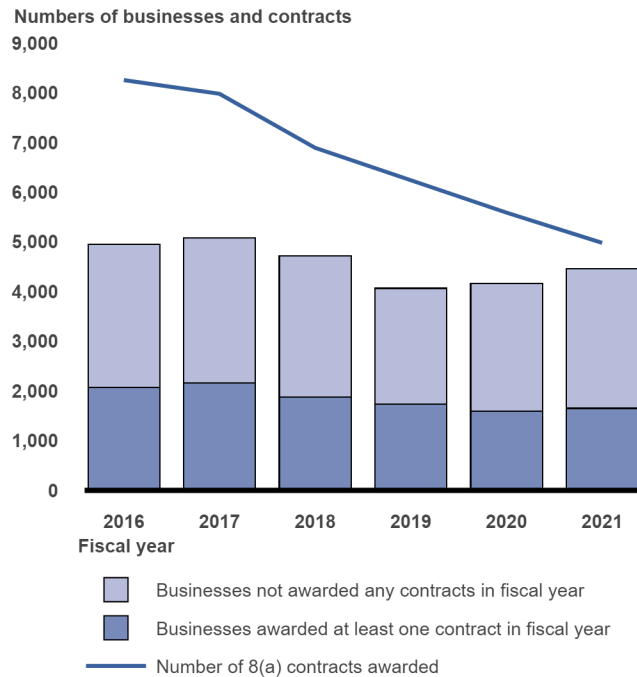
To the extent that the new requirements increase the number of firms entering the program (including those with net worth exceeding the previous initial threshold), participating businesses (including those with lower initial levels of net worth) might have fewer opportunities as they compete against more businesses for contracts.²⁵

²⁵A set-aside award is a contract for which small businesses, or in certain instances only certain small businesses, may compete. A sole-source contract award is non-competitive (for instance, if competition is deemed inadequate or a good or service is deemed available from only one source).

Furthermore, as figure 2 shows, the number of 8(a) contracts awarded annually decreased from fiscal year 2016 through 2021. Specifically,

- The number of contracts per participant declined in that period. In fiscal year 2016, 1.7 contracts were awarded per active participant. In fiscal year 2021, the last full year of available data, 1.1 contracts were awarded per active participant.
- Many participants in the 8(a) program were not awarded a contract in a given fiscal year. The percentage of participants not awarded a contract varies each year but averaged about 60 percent.
- Of those participants awarded contracts, the average number of contracts per firm declined from 4.0 in fiscal year 2016 to 3.0 in fiscal year 2021.

Figure 2: Number of 8(a) Contracts Awarded to Businesses (from October 1, 2015, to September 30, 2021)



Source: GAO analysis of Small Business Administration and Federal Procurement Data System data. | GAO-22-104512

Accessible Data Table for Figure 2

Year	8A contracts issued	number of businesses that won contracts	number of businesses that did not win contracts
2016	8255	2069	2878
2017	7980	2158	2923
2018	6893	1883	2838
2019	6251	1737	2329
2020	5589	1597	2566
2021	4981	1652	2814

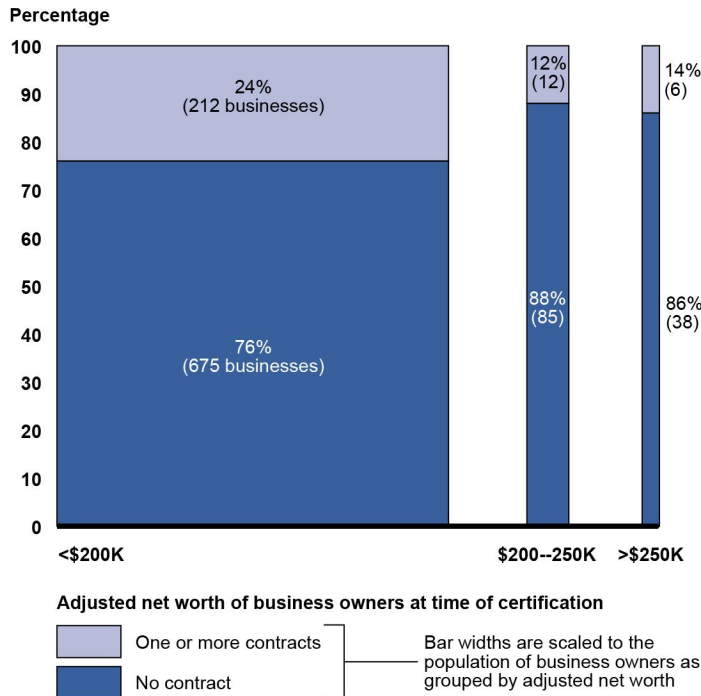
Note: Figure includes only participants and contracts awarded to individual 8(a) firms. The data do not include 8(a) firms owned by Alaska Native Corporations, Community Development Corporations, Native American tribes, and Native Hawaiian Organizations. These types of businesses can qualify for 8(a) contracts. Due to inconsistencies in firm DUNS numbers and names, we were unable to match between six and 18 firms that collectively won between six and 45 contracts in each year. We did not include these firms and contracts in the graphic.

According to SBA officials, category management, bundling, and consolidation have contributed to decreased numbers of contracts awarded to 8(a) businesses during this time frame.²⁶ In addition, SBA officials noted that the number of contracts awarded to 8(a) businesses had been affected by the COVID-19 pandemic, which created a strain on the global economy, in particular for small disadvantaged firms participating in the 8(a) program.

We recognize that a number of factors in addition to the net worth threshold affect contract awards for 8(a) participants. To illustrate the potential impact of the net worth threshold, we analyzed the number of contracts awarded to each 8(a) business in the first year of their program participation by the 8(a) owner’s adjusted net worth (see fig. 3). While higher net worth does not appear to create a competitive advantage in the awarding of contracts in their first year, the threshold change was fairly recent. Thus, our analysis of effects after the threshold change was limited to a relatively short time period (from July 15, 2020, through February 16, 2021).

²⁶Category management is a government-wide initiative led by the Office of Management and Budget that saves the federal government billions of dollars each year by improving how agencies buy common products and services. Bundling generally takes place when two or more requirements that were previously performed by small businesses are combined into a single solicitation and result in a contract that is likely to be unsuitable for small business award. Consolidation generally occurs when a federal agency combines in a solicitation two or more contract requirements that were previously provided to that agency under separate contracts.

Figure 3: Number and Percent of Firms Awarded Contracts in First Year of 8(a) Participation, by Owner Adjusted Net Worth, October 2, 2018–February 16, 2021



Source: GAO analysis of Small Business Administration data. | GAO-22-104512

Accessible Data Table for Figure 3

Adjusted Net Worth (groups)	Contracts Awarded in First Year	Frequency
Net worth <= \$200K	None	675
Net worth <= \$200K	At least One	212
Net worth > \$200K and <= \$250K	None	85
Net worth > \$200K and <= \$250K	At least One	12
Net worth > \$250K	None	38
Net worth > \$250K	At least One	6
		1028

As previously discussed, SBA’s changes to the economic disadvantage requirements for the 8(a) program eliminated the distinction in thresholds for entry and continued eligibility. This also might increase the number of 8(a) firms that graduate early, limiting the developmental benefits these businesses receive. Furthermore, SBA’s changes might decrease the extent to which the 8(a) program assists business owners with net worth considered economically disadvantaged under the previous thresholds.

These potential impacts could in turn limit the ability of the program to accomplish its mission.

Program participants in our discussion groups expressed mixed views about the potential effects of the changes. Participants from one of the four discussion groups stated that having more small businesses in the 8(a) program would increase competition for 8(a) set-aside contracts and some participants in one group said they did not see any benefit in increasing the thresholds. Participants from one of the four groups told us the higher financial thresholds could increase participation in the program, but two of the four groups stated the new thresholds might bring in participants who are not really economically disadvantaged.

Conclusions

The 8(a) program helps socially and economically disadvantaged small businesses compete effectively in the marketplace. SBA has faced challenges in submitting program reports to Congress by their mandated due date because of manual data collection, staffing, and other issues. But the agency has not documented procedures for producing the reports, assessed its process to identify potential operating efficiencies, or developed a plan to address report delays. Taking these steps would facilitate report production, help SBA meet its statutory responsibilities, and give Congress more timely information to inform its decision-making and oversight.

SBA's changes to the eligibility criteria relating to economic disadvantage could have effects on the program, but SBA does not plan to assess potential effects. Such an assessment is particularly important because SBA did not conduct empirical assessments before making the threshold changes and because of the SBA's OIG continued concerns about the development of these criteria. An assessment of the potential effects could provide SBA with important information for its decision-making and help policymakers understand any impacts, challenges, or unintended consequences these changes may have on program participation and participants' initial net worth and other financial characteristics.

Recommendations for Executive Action

The Associate Administrator of SBA's Office of Government Contracting and Business Development should document the procedures for the Section 408 report process. (Recommendation 1)

The Associate Administrator of SBA's Office of Government Contracting and Business Development should assess the process for producing Section 408 reports in light of identified delay-causing factors and use the results of the analysis to identify potential operational efficiencies and develop a plan to address report delays, including revising procedures as needed and developing time frames for report submission. (Recommendation 2)

The Associate Administrator of SBA's Office of Government Contracting and Business Development should conduct an assessment of the 2020 changes to the economic disadvantage thresholds for the 8(a) program. (Recommendation 3)

Agency Comments

We provided a draft of this report to SBA for review and comment. In written comments, reproduced in appendix III, SBA stated that it concurred with the report's recommendations and planned to take action to address them.

SBA stated in its written comments that it took exception to our statement in the draft report that the agency's contracted study did not support the \$750,000 personal net worth threshold implemented in SBA regulations (as published in the Federal Register, May 11, 2020). Specifically, SBA stated that the contractor's draft report (dated May 7, 2018) concluded that available data supported an economic disadvantage threshold between \$375,000 and \$1.2 million, and the \$750,000 standard was within that range. Our report states that the contractor's final report (dated February 2019) described three methodologies for estimating adjusted net worth threshold, which resulted in an amount lower than the \$250,000 initial threshold in place at the time. The estimates in the contractor's final report ranged from \$59,100 to \$183,900, after excluding business and home equity and retirement accounts. We clarified in our report that we refer to the contractor's final report and that SBA's statement about the thresholds referred to the contractor's draft report. We maintain it is

appropriate that our report's discussion refers to the contractor's completed estimates in the final report.

SBA further stated that GAO's interviews with 10 organizations that assist small businesses was not sufficient to override its policy decision to change the economic disadvantage thresholds for the 8(a) program and our summary of these interviews might be misleading. We do not use our interviews with these organizations as criteria to override SBA's policy decision. Although the results of the individual and group interviews cannot be generalized to the population of all 8(a) participants, we maintain that these interviews provide useful information on the experiences of 8(a) firms.

In addition, SBA stated that our report inferred that SBA should be providing more support to certain 8(a) program participants although all active 8(a) participants have demonstrated their disadvantaged status. Our report does not state that SBA should provide more support to certain 8(a) program participants. Furthermore, we recognize that SBA has determined that all active 8(a) program participants have demonstrated their disadvantaged status.

SBA also stated that it was not clear in the draft report whether views expressed by individuals in certain discussion groups GAO conducted should be representative of the small disadvantaged business community. As our report states, discussion groups are intended to generate in-depth information about the reasons for participants' views on specific topics. We also explicitly state that the opinions group participants expressed may not be representative of the views of program participants.

We incorporated technical comments SBA provided as appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to the appropriate congressional committees, the Administrator of SBA, and other interested parties. In addition, the report will be available at no charge on the GAO website at <https://www.gao.gov>

If you or your staff have any questions about this report, please contact William B. Shear 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 IV.

Sincerely yours,

A handwritten signature in black ink that reads "William B. Shear". The signature is written in a cursive, flowing style.

William B. Shear
Director, Financial Markets and Community Investment

Appendix I: Objectives, Scope, and Methodology

For this report, we examined (1) the extent to which the Small Business Administration (SBA) has complied with its reporting requirement for the 8(a) program; and (2) SBA's changes to the economic disadvantage requirements for the 8(a) program and the potential effects associated with the changes.

Section 408 Reporting

To address the first objective, we reviewed the fiscal year 2016 and 2017 reports SBA submitted to Congress on the 8(a) program—the two most recent reports SBA had submitted at the time of our review—and determined the timeliness of the submissions.

We discussed with SBA officials the challenges SBA experienced submitting the fiscal year 2018–2021 reports to Congress, which were past due at the time of our review. We also discussed with SBA officials challenges, including IT-related challenges, the agency experienced in compiling data for reports and SBA's time frames for submitting the past due reports to Congress.

Changes to Economic Disadvantage Requirement

To address the second objective, we analyzed information and data relating to SBA criteria for determining economic disadvantage, the financial condition of 8(a) participants, and any relationship to 8(a) contracts awarded. We also spoke with stakeholders, including program participants about the new financial thresholds for eligibility.

Criteria for Threshold Changes

We reviewed the proposed and final rules and their preambles that describe SBA's rationale for changing the initial thresholds that SBA uses to determine whether individuals who own firms applying for entry into the 8(a) program are economically disadvantaged and interviewed SBA officials about the agency's rationale for changing the thresholds. We also reviewed a contractor study that according to SBA officials the agency

commissioned to assist its Office of Business Development in defining or establishing criteria for determining what constitutes economic disadvantage for purposes of applying to the 8(a) program. We calculated what the initial threshold for net worth established in 1989 would have been in 2020 if SBA had indexed the initial thresholds to inflation using the gross domestic product price index (see app. II for more information).

Data Challenges Relating to Financial Condition and Contracting Analyses

We analyzed data on the financial condition (net worth and income) of individuals who owned firms that applied for 8(a) certification between October 2, 2018, and February 16, 2021.¹ We initially sought data over a longer time frame; however, SBA was only able to provide data for a limited time frame.

Specifically, we initially requested data on the financial condition (net worth and income) of individuals who owned 8(a) firms, including applicants and participants in fiscal years 2016–2021, which would have allowed analysis of participating firms at differing stages during the 9-year program. But SBA officials said it would take 4 months or longer to provide us those data because the agency would have been required to conduct a separate calculation spreadsheet for each applicant (which would have resulted in approximately 2,000 separate spreadsheets). Based on further discussions with SBA officials, we requested data on the financial condition of individual owners of firms who applied for 8(a) program between October 2018 and March 2021.

We then examined the number of businesses SBA approved for entry into the 8(a) program before and after the changes to the economic disadvantage requirements went into effect on July 15, 2020, and examined the adjusted net worth of the individuals who owned these

¹SBA data showed that 1,030 firms received an 8(a) certification between these dates. The data do not include small businesses owned by Alaska Native Corporations, Community Development Corporations, Native American tribes, and Native Hawaiian Organizations, which are eligible to participate in program but were not affected by the revision to financial thresholds because the economic disadvantage status of these businesses is determined differently.

businesses.² We also analyzed federal contracting data to determine the number of 8(a) contracts these businesses were awarded during their first year of certification. We matched the contracts signed in each fiscal year with the 8(a) program participants. We then calculated the percent of program participants who were awarded a contract and the percent of those who were not awarded a contract in that fiscal year. We examined the relationship between contracts awarded to these 8(a) firms and the financial condition of the individuals who owned these firms. We analyzed the percent of 8(a) firms that were approved from October 2, 2018, to February 16, 2021, who were awarded at least one 8(a) contract in their first year in the 8(a) program or through the end of fiscal year 2021, whichever came first, separating firms with owner adjusted net worth below or equal to \$200,000, between \$200,001 and \$250,000, and those over \$250,000. This allowed us to compare lower-net worth firms with firms that were eligible under both thresholds (net worth \$200,000–\$250,000) and with firms eligible only after the threshold was raised (net worth above \$250,000).

We reviewed documentation related to the data used and determined that the data were reliable for describing the extent to which 8(a) firms were awarded 8(a) contracts during their first year of certification and the relationship between the financial contracts awarded to 8(a) firms and the financial condition of the individuals who owned these firms.

Interviews and Discussion Groups

We interviewed representatives from a non-generalizable sample of three Procurement Technical Assistance Centers (PTAC) in Florida, Illinois, and Virginia; and five regional Small Business Development Centers (SBDC) in Louisiana, New Jersey, Northern California, Virginia, and Texas about their clients' experiences with the 8(a) program and the new financial thresholds for eligibility. We also interviewed representatives from the National 8(a) Association, an organization representing 8(a) participants, SCORE, a network of volunteers who assist and mentor small businesses, and the U.S. Women's Chamber of Commerce. We selected the SBDCs and PTACs to reflect factors including share of

²SBA determines adjusted net worth by first calculating the business owner's total assets minus total liabilities. SBA then subtracts the (1) value of the business owner's ownership in the small business; (2) equity the business owner has in their primary personal residence (except any portion of such equity that is attributed to excessive withdrawals from the applicant or participant); and (3) funds the business owner has invested in an Individual Retirement Account or in other official retirement account. SBA's calculation of adjusted net worth can result in a negative amount.

businesses majority-owned by minorities, number of individually owned 8(a) businesses and number of 8(a) contracts in the states, and for geographic dispersion.

We also conducted four virtual discussion groups with 8(a) participants to identify their views on the risks and benefits of the increase to the net worth threshold for initial program eligibility. We spoke with 24 participants (each group consisted of from four to eight participants). We recruited the participants through the National 8(a) Association and the SBDCs/PTACs located in Louisiana and Virginia, which emailed the businesses on our behalf. After the recruitment phase, we selected the firms for each discussion group based on geographical dispersion. A GAO moderator guided the discussions and used a standardized list of questions to encourage participants to share perspectives on and experiences with the 8(a) program. Because we relied on non-generalizable samples, the results of the individual and group interviews cannot be generalized to the population of all 8(a) participants. However, they provided useful information on the experiences of 8(a) firms in the program from the perspective of 8(a) firms and their representatives.

An outside vendor digitally recorded and transcribed each group discussion and we used the transcripts to summarize participants' responses. A GAO analyst reviewed the transcripts and assigned codes that best summarized the participants' statements. A reviewer verified the accuracy of the coding and documented any disagreements about code assignments. The analyst and reviewer discussed any disagreements and, upon reaching consensus, documented the final results.

Discussion groups are intended to generate in-depth information about the reasons for participants' views on specific topics. While we report our findings by the number of discussion groups in which a topic was discussed, this does not necessarily mean that all discussion group participants came to a consensus or agreed on a given topic. The opinions expressed by the participants may not represent the views of all 8(a) program participants.

We conducted this performance audit from September 2020 to August 2022, 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: Change in Net Worth Threshold for 8(a) Program Had It Been Indexed for Inflation, 1990–2020

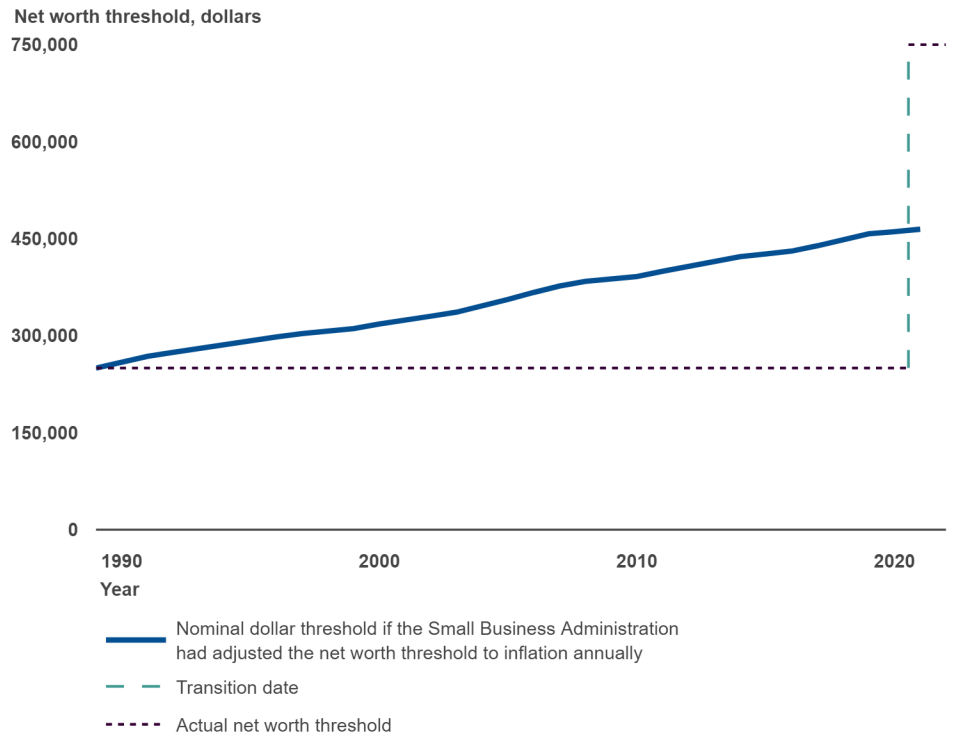
In 1989, the Small Business Administration (SBA) established the net worth threshold—for determining whether a socially disadvantaged small business owner qualifies as economically disadvantaged for the 8(a) Business Development Program.¹ SBA set the initial net worth threshold for eligibility to enter the 8(a) program at \$250,000 and the threshold for continued participation at \$750,000. Effective July 15, 2020, SBA increased the initial threshold to \$750,000, which also effectively erased the distinction with the continuing eligibility threshold (which remained unchanged at \$750,000).

The new initial net worth threshold (\$750,000) is higher than it would have been if SBA had adjusted the threshold for inflation. We indexed the initial net worth threshold and found it would have increased to above \$461,000 in calendar year 2020 (see fig. 4).

¹The Small Business Act defines economically disadvantaged individuals as socially disadvantaged individuals whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same business area, who are not socially disadvantaged. SBA reviews the net worth, income, and total assets of business owners applying for the 8(a) program and also annually determines continued program eligibility. An individual who exceeds the income, net worth, or asset thresholds generally will be deemed to have access to credit and capital and not be economically disadvantaged.

**Appendix II: Change in Net Worth Threshold
for 8(a) Program Had It Been Indexed for
Inflation, 1990–2020**

Figure 4: Change in the Initial Net Worth Threshold for 8(a) Program Based on the Inflation Rate, 1990–2020



Source: GAO analysis. | GAO-22-104512

Appendix III: Comments from the Small Business Administration



WASHINGTON, DC 20416

August 2, 2022

Mr. Bill Shear
Director, Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Shear:

Thank you for providing the U. S. Small Business Administration (SBA) with a copy of the Government Accountability Office (GAO) draft report titled "Recent Changes to the 8(a) Program's Financial Thresholds Need Evaluation", GAO-22-104512 (104512). The draft report examines the extent to which SBA is complying with its mandated reporting requirement for the 8(a) program, as well as SBA's changes to the economic disadvantage requirements for the 8(a) program and the potential risks and benefits associated with the changes. SBA appreciates the role GAO plays in working with management in ensuring that SBA's programs are administered effectively and understands the importance of the work you do to support risk mitigation for the agency.

This draft report presents the results of GAO's performance audit examination of the 8(a) program's personal net worth threshold for determining whether an individual applicant is economically disadvantaged, and SBA's compliance with the annual statutory reporting requirements set forth in Section 408 of the Business Opportunity Development Reform Act of 1988, and codified in Section 7(j)(16)(A)(B)(C) of the Small Business Act, 15 U.S.C. 636(j)(16)(A)(B)(C) (*hereinafter* the Section 408 report).

While SBA generally concurs with the spirit of GAO's recommendations, we would like to acknowledge the outstanding work of the Office of Business Development and the Office of Field Operations and all Business Opportunity Specialists who provide business development assistance to 8(a) Participants.

In its draft report GAO examined SBA's compliance with submitting timely our annual report to Congress. SBA appreciates GAO's acknowledgement of the manual effort required to collect and validate data amidst system migration activities that occurred in 2017, causing a ripple effect of delayed timely report submission. Moving forward, and as GAO has reflected in the draft report, SBA has implemented a plan of action to remedy report backlog. The 2018 report is currently pending with OMB, and the 2019 and 2020 408 Reports will be completed by end of calendar year 2022. SBA agrees with GAO and will take action to assess the Section 408 report process and formalize the business process and procedures and get timely reporting back on track. However, SBA is requesting that

1



All SBA programs and services are extended to the public on a nondiscriminatory basis.

**Appendix III: Comments from the Small
Business Administration**

recommendations 1 and 2 be combined into one recommendation since we believe both recommendations can be addressed as part of one consolidated management action.

In its draft report GAO examined the threshold for determining economic disadvantage. SBA's Final Rule for economic disadvantage was published in the Federal Register, May 11, 2020. SBA believes that through the rulemaking process it has developed objective and reasonable criteria under which SBA will assess economic disadvantage in our programs. Further, the informal rulemaking under the Administrative Procedures Act is a process specifically designed to solicit and consider input from key stakeholders to ensure that an agency's proposed rule is reasonable. Relevant here, the above-referenced rule was first submitted for internal agency clearance to all potentially affected program offices. Next, the rule was submitted to the Office of Management and Budget for inter-agency clearance – a key step intended to give other federal agencies an opportunity to comment or raise concerns. Neither clearance process raised any concerns with respect to SBA's rule. In addition, SBA's criteria for economic disadvantage were adopted based on the 889 comments received from interested individuals and entities in the small business community. We maintain that this robust review process has produced reasonable and objective criteria for economic disadvantage in the 8(a) BD and EDWOSB programs.

GAO suggests that SBA's study did not support the \$750,000 personal net worth standard implemented in SBA regulations. SBA takes exception to GAO's interpretation of draft report on this matter. In the draft report, the study concluded available data support an economic disadvantage threshold between \$375,000.00 and \$1.2 million. This range reflects the complexity of establishing a threshold that considers the ability of disadvantaged business owners to compete in the free enterprise system, as well as those individuals' access to credit and capital. The \$750,000.00 standard is within that range and entirely supported by the study. The SBA used the contractor's draft report, which unequivocally supported a range of personal net worth figures based on the applicable methodology. SBA used this range to develop its proposed and final rule. The final report was not prepared and presented to SBA until after SBA implemented the final rule.

As provided in response to GAO's audit examination, in September 2017, SBA awarded a contract to conduct a study to assist the Office of Business Development in defining or establishing criteria for determining what constitutes "economic disadvantage" for purposes of firms applying to the 8(a) BD program. The results supported a \$375,000 adjusted net worth for initial eligibility, as compared to the current \$250,000 threshold. The study did not, however, consider differences in economic disadvantage between applying to the 8(a) BD program and continuing in the program once admitted. Because SBA believes that it is important to have the same economic disadvantage criteria for the 8(a) BD program as for the EDWOSB program, to avoid confusion and inconsistency between the programs, SBA considered applying a \$375,000 net worth standard to both the 8(a) BD and EDWOSB programs. SBA concluded that the \$375,000 net worth standard may not be appropriate as the standard for determining economic disadvantage because it related to entry into the 8(a) BD program as opposed to participation in the free enterprise system as an economically disadvantaged business owner. SBA specifically requested comments on whether the \$375,000 net worth standard or the \$750,000 net worth standard should be used for both the 8(a) BD and EDWOSB programs. As such, this Final Rule adopts the \$750,000 net worth continuing eligibility standard for all economic disadvantage determinations in the 8(a) BD program.

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All SBA programs and services are extended to the public on a nondiscriminatory basis.

Appendix III: Comments from the Small Business Administration

Determining the economic threshold for economic disadvantage is a matter of policy delegated by Congress to SBA. SBA followed appropriate laws, rules and requirements in enacting its policy. More importantly, SBA was responsive and inclusive in listening to small businesses and other stakeholders when taking a holistic approach and issuing the final rule to eliminate the continuing eligibility threshold and maintain a \$750,000 standard for all individual 8(a) applicants and Participants.

As noted in GAO's report SBA has not conducted an assessment of our 2020 changes to the economic disadvantage thresholds for the 8(a) program. SBA concurs with GAO's recommendation and will initiate an assessment in FY23 of the 2020 changes to the economic disadvantage thresholds for the 8(a) program.

In its draft GAO reports that:

- Representatives of seven of the 10 organizations told GAO that having different economic disadvantage requirements for the two programs had not created confusion among their clients. Representatives from three organizations told GAO that the differing requirements had created confusion. **SBA believes that the data set is not sufficient to override our policy decision especially absent details from the organization on the different services that they provide to certain small business types. We believe GAO's summary may be misleading. We also have concerns that "confusion" among the perceived differences may have been taken out of context.**
- On page 17, GAO found the new thresholds might increase program participation, which might affect the awarding of 8(a) contracts to participants..." **SBA requests to remove complete sentence. As drafted, it is not clear from the report or the supporting evidence how these two factors are related.**
- On page 19 GAO writes "The percentage of participants not awarded a contract varies each year but averaged about 60 percent." **SBA would like to request the data source for this statement. SBA would also request clarification as to whether this figure applies to new prime 8(a) contracts without regard to orders or executed options.**
- On page 20 GAO writes "While higher net worth does not appear to create a competitive advantage in the awarding of contracts in their first year, the threshold change was fairly recent so our analysis was limited to analyzing data for a relatively short time period (from July 15, 2020, through February 16, 2021) and after the threshold change (see fig. 3)." **SBA would like to request for additional information/insight on this statement.**
- On page 21 GAO writes "This also might increase the number of 8(a) firms that graduate early, limiting the developmental benefits these businesses receive. Furthermore, SBA's changes might decrease the extent to which the 8(a) program targets business owners that are more disadvantaged. These potential impacts could in turn limit the ability of the program to accomplish its mission." **SBA's Response: This statement concerns SBA. As drafted, the statement suggests that SBA did not consider the broad range of implications on the program as a result of the change, and is speculative. It also infers that SBA should be providing more support to certain 8(a) program participants even though all active 8(a)**

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Appendix III: Comments from the Small Business Administration

Participants have demonstrated their disadvantaged status.

- On page 21 GAO writes “also might bring in participants who are not truly economically disadvantaged. Participants from two of the four discussion groups stated that having more small businesses in the 8(a) program would increase competition for 8(a) set-aside contracts, but some participants in one group said they did not see any benefit in increasing the thresholds.” **SBA’s Response: This statement concerns SBA. Without further clarification, it’s not clear whether the individuals from this particular group should be representative of the small disadvantaged business community with respect to this issue. We would also request that GAO recognize that this change went through the notice and comment rulemaking process, where feedback like this would have been helpful to the development of the economic disadvantage threshold changes.**
- GAO’s Conclusion “Such an assessment is particularly important because SBA did not conduct empirical assessments before making the threshold changes and because of the SBA’s OIG continued concerns about the development of these criteria.” **SBA’s Response: SBA requests clarification on this statement. To the extent GAO is suggesting that SBA did not conduct substantive analysis in developing the economic disadvantage threshold changes, SBA has a major concern with this statement.**

GAO made the following three recommendations and Management’s responses to the recommendations in the draft report are noted as follows:

GAO Recommendation 1: The Associate Administrator of SBA’s Office of Government Contracting and Business Development should document the procedures for the Section 408 report process.

SBA’s Response to Recommendation 1: SBA concurs with the recommendation.

GAO Recommendation 2: The Associate Administrator of SBA’s Office of Government Contracting and Business Development should assess the process for producing Section 408 reports in light of identified delay-causing factors and use the results of the analysis to identify potential operational efficiencies and develop a plan to address report delays, including revising procedures as needed and developing time frames for report submission.

SBA’s Response to Recommendation 2: SBA concurs with the recommendation.

GAO Recommendation 3: The Associate Administrator of SBA’s Office of Government Contracting and Business Development should conduct an assessment of the 2020 changes to the economic disadvantage thresholds for the 8(a) program.

SBA’s Response to Recommendation 3: SBA concurs with the recommendation and will consider study in FY23, using FY21 and FY22 data.

Thank you for the opportunity to comment on this draft report. SBA has included its technical comments in the attached draft report. SBA appreciates GAO’s consideration of our comments prior to publishing the final report

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**Appendix III: Comments from the Small
Business Administration**

Sincerely,

Donna L. Peebles

Dr. Donna L. Peebles,
Associate Administrator
Office of Business Development



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Text of Appendix III: Comments from the Small Business Administration

WASHINGTON, DC 20416

August 2, 2022

Mr. Bill Shear
Director, Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Shear:

Thank you for providing the U. S. Small Business Administration (SBA) with a copy of the Government Accountability Office (GAO) draft report titled “Recent Changes to the 8(a) Program’s Financial Thresholds Need Evaluation”, GAO-22-104512 (104512). The draft report examines the extent to which SBA is complying with its mandated reporting requirement for the 8(a) program, as well as SBA’s changes to the economic disadvantage requirements for the 8(a) program and the potential risks and benefits associated with the changes. SBA appreciates the role GAO plays in working with management in ensuring that SBA’s programs are administered effectively and understands the importance of the work you do to support risk mitigation for the agency.

This draft report presents the results of GAO’s performance audit examination of the 8(a) program’s personal net worth threshold for determining whether an individual applicant is economically disadvantaged, and SBA’s compliance with the annual statutory reporting requirements set forth in Section 408 of the Business Opportunity Development Reform Act of 1988, and codified in Section 7(j)(16)(A)(B)(C) of the Small Business Act, 15 U.S.C. 636(j)(16)(A)(B)(C) (hereinafter the Section 408 report).

While SBA generally concurs with the spirit of GAO's recommendations, we would like to acknowledge the outstanding work of the Office of Business Development and the Office of Field Operations and all Business Opportunity Specialists who provide business development assistance to 8(a) Participants.

In its draft report GAO examined SBA's compliance with submitting timely our annual report to Congress. SBA appreciates GAO's acknowledgement of the manual effort required to collect and validate data amidst system migration activities that occurred in 2017, causing a ripple effect of delayed timely report submission. Moving forward, and as GAO has reflected in the draft report, SBA has implemented a plan of action to remedy report backlog. The 2018 report is currently pending with OMB, and the 2019 and 2020 408 Reports will be completed by end of calendar year 2022. SBA agrees with GAO and will take action to assess the Section 408 report process and formalize the business process and procedures and get timely reporting back on track. However, SBA is requesting that recommendations 1 and 2 be combined into one recommendation since we believe both recommendations can be addressed as part of one consolidated management action.

In its draft report GAO examined the threshold for determining economic disadvantage. SBA's Final Rule for economic disadvantage was published in the Federal Register, May 11, 2020. SBA believes that through the rulemaking process it has developed objective and reasonable criteria under which SBA will assess economic disadvantage in our programs. Further, the informal rulemaking under the Administrative Procedures Act is a process specifically designed to solicit and consider input from key stakeholders to ensure that an agency's proposed rule is reasonable. Relevant here, the above-referenced rule was first submitted for internal agency clearance to all potentially affected program offices. Next, the rule was submitted to the Office of Management and Budget for inter-agency clearance – a key step intended to give other federal agencies an opportunity to comment or raise concerns. Neither clearance process raised any concerns with respect to SBA's rule. In addition, SBA's criteria for economic disadvantage were adopted based on the 889 comments received from interested individuals and entities in the small business community. We maintain that this robust review process has produced reasonable and objective criteria for economic disadvantage in the 8(a) BD and EDWOSB programs.

GAO suggests that SBA's study did not support the \$750,000 personal net worth standard implemented in SBA regulations. SBA takes exception to GAO's interpretation of draft report on this matter. In the draft report, the study concluded available data support an economic disadvantage threshold between \$375,000.00 and \$1.2 million. This range reflects the complexity of establishing a threshold that considers the ability of disadvantaged business owners to compete in the free enterprise system, as well as those individuals' access to credit and capital. The \$750,000.00 standard is within that range and entirely supported by the study. The SBA used the contractor's draft report, which unequivocally supported a range of personal net worth figures based on the applicable methodology. SBA used this range to develop its proposed and final rule. The final report was not prepared and presented to SBA until after SBA implemented the final rule¹.

As provided in response to GAO's audit examination, in September 2017, SBA awarded a contract to conduct a study to assist the Office of Business Development in defining or establishing criteria for determining what constitutes "economic disadvantage" for purposes of firms applying to the 8(a) BD program. The results supported a \$375,000 adjusted net worth for initial eligibility, as compared to the current \$250,000 threshold. The study did not, however, consider differences in economic disadvantage between applying to the 8(a) BD program and continuing in the program once admitted. Because SBA believes that it is important to have the same economic disadvantage criteria for the 8(a) BD program as for the EDWOSB program, to avoid confusion and inconsistency between the programs, SBA considered applying a \$375,000 net worth standard to both the 8(a) BD and EDWOSB programs. SBA concluded that the \$375,000 net worth standard may not be appropriate as the standard for determining economic disadvantage because it related to entry into the 8(a) BD program as opposed to participation in the free enterprise system as an economically disadvantaged business owner. SBA specifically requested comments on whether the \$375,000 net worth standard or the \$750,000 net worth standard should be used for both the 8(a) BD and EDWOSB programs. As such, this Final Rule adopts the \$750,000 net worth continuing eligibility standard for all economic disadvantage determinations in the 8(a) BD program.

Determining the economic threshold for economic disadvantage is a matter of policy delegated by Congress to SBA. SBA followed appropriate laws, rules and requirements in enacting its policy. More importantly, SBA was responsive and inclusive in listening to small businesses and other stakeholders when taking a holistic approach and issuing the final rule to eliminate the continuing eligibility threshold and maintain a \$750,000 standard for all individual 8(a) applicants and Participants.

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Sincerely,
Dr. Donna L. Peebles,
Associate Administrator
Office of Business Development

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

William B. Shear at (202) 512-8678, or shearw@gao.gov

Staff Acknowledgments

In addition to the contact named above, Marshall Hamlett (Assistant Director), Nancy Eibeck (Analyst in Charge), Abigail Brown, Pamela Davidson, Peter Kramer, Robert Letzler, Marc Molino, Barbara Roesmann, and Jessica Sandler made key contributions to this report.

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