

CLIENT ALERT

OIG Audit Finds Nearly \$900 Million in SDVOSB Set-Aside Contracts Awarded to Ineligible Contractors

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In its February 18, 2020 [Report](#), the Inspector General for the U.S. Department of Defense (DoD) concluded that \$876.8 million in service-disabled veteran-owned small-business (SDVOSB) contracts were improperly awarded due to a lack of verification by contracting officials. The audit, which was conducted to determine whether DoD awarded contracts to businesses that actually qualified under the SDVOSB regulations, reviewed awards for 29 self-certified SDVOSBs. Of those 29 contractors, DoD found that 16 had misrepresented their status and wrongfully received a total of 27 SDVOSB set-aside awards valued at \$827.8 million in fiscal years 2017 and 2018 alone. Additionally, three other contractors received SDVOSB deals notwithstanding the fact that the Small Business Administration (SBA) had previously found them ineligible for award in response to size protests.

DoD currently relies on businesses' self-representations of SDVOSB status in the System for Award Management (SAM) when awarding contracts. The Report warns that until additional controls are established, "DoD contracting activities will continue to award SDVOSB contracts to ineligible contractors." The Report recommends that the DoD Office of Small Business Programs take several steps to remediate the problem, including requiring the submission of documentation establishing SDVOSB status prior to award, and taking action against the contractors determined to have misrepresented their status.

Given this Report, SDVOSBs, large businesses doing business with them, and their service providers (*e.g.*, surety firms) are well advised to pay close attention to eligibility issues.

For more information, please contact the professional(s) listed below, or your regular Crowell & Moring contact.

Amy Laderberg O'Sullivan

Partner – Washington, D.C.

Phone: +1 202.624.2563

Email: aosullivan@crowell.com

Brian Tully McLaughlin

Partner – Washington, D.C.

Phone: +1 202.624.2628

Email: bmclaughlin@crowell.com

Olivia Lynch

Partner – Washington, D.C.

Phone: +1 202.624.2654

Email: olynch@crowell.com

Lyndsay A. Gorton

Counsel – Washington, D.C.

Phone: +1 202.654.6713

Email: lgorton@crowell.com

Zachary Schroeder

Associate – Washington, D.C.

Phone: +1 202.624.2676

Email: zschroeder@crowell.com