



**HANNIBAL "MIKE" WARE  
INSPECTOR GENERAL  
U.S. SMALL BUSINESS ADMINISTRATION**

**BEFORE THE**

**COMMITTEE ON SMALL BUSINESS SUBCOMMITTEE ON  
RURAL DEVELOPMENT, AGRICULTURE, TRADE, AND  
ENTREPRENEURSHIP  
U.S. HOUSE OF REPRESENTATIVES**

**MARCH 12, 2019**

## INTRODUCTION

Chairwoman Finkenauer, Ranking Member Joyce, and distinguished members of the Subcommittee, thank you for inviting me to testify before you today and for your continued support of the Office of Inspector General (OIG). We have published three reports and one management advisory memorandum regarding what is now known as the State Trade Expansion Program, or STEP. The Small Business Jobs Act of 2010 authorized SBA to establish the STEP grant program as a 3-year pilot program to both increase the number of eligible small business concerns in the states that export and increase the export value of those eligible small businesses that already export. Through the Trade Facilitation and Trade Enforcement Act of 2015, Congress authorized STEP as a full-fledged program.

## OIG's ROLE

OIG was established within SBA by statute to promote economy, efficiency, and effectiveness and to deter and detect fraud, waste, abuse, and mismanagement in the Agency's programs and operations. During fiscal year (FY) 2018, OIG achieved more than \$224,472,559 million in monetary recoveries and savings—an elevenfold return on investment to the taxpayers—and made 111 recommendations for improving SBA's operations and reducing fraud and unnecessary losses in the Agency's programs.

OIG audits are conducted in accordance with federal audit standards established by the Comptroller General, and other reviews generally are conducted in accordance with standards established by the Council of the Inspectors General on Integrity and Efficiency. In addition, we coordinate with the Government Accountability Office to avoid duplicating federal audits. We also establish criteria to ensure that the nonfederal auditors that OIG uses (typically, certified public accountant firms) comply with federal audit standards.

## OIG'S WORK ON STEP

Since the inception of the STEP pilot in 2010, OIG has produced three reports and one management advisory memorandum. The Agency has been mostly amenable to our findings and recommendations, and OIG has closed all 22 recommendations from the reports and advisory based on management's implemented actions. Nonetheless, OIG continues to identify systemic risks in the Agency's grants programs and thus, identified grants management as one of the most serious management and performance challenges facing the Agency in FY 2019.

### ***Report 12-21: Review of SBA's State Trade and Export Promotion Grant Program***

The Small Business Jobs Act of 2010, in addition to authorizing SBA to create STEP, also required my office to conduct a review of STEP. To fulfill this requirement, my office produced report 12-21. There were two objectives for this audit: (1) to determine the extent to which grant recipients were measuring program performance and the results of those measurements and (2) to review the overall management and effectiveness of the program. To achieve our objectives, we reviewed the Small Business Jobs Act of 2010 and the FY 2011 program announcement for STEP. We judgmentally selected all STEP grants exceeding \$1 million to review. Six grant

recipients met this threshold, including the states of California, Illinois, Michigan, Pennsylvania, Washington, and the Commonwealth of the Northern Mariana Islands. We conducted site visits to California, Pennsylvania, Washington, Michigan, and Illinois. In addition, we interviewed SBA personnel from the Office of International Trade (OIT) and the Office of Grants Management (OGM). We also reviewed pertinent codes of federal regulation, federal public laws, and the Office of Management and Budget Circular A-123.

#### *What OIG Found*

We found that recipients of STEP grants did not implement adequate metrics by which to measure program performance. In addition, the results of performance measurements did not demonstrate whether grant recipients achieved milestones and remained on track to meet proposed goals. This occurred because personnel in OIT, which administers STEP, did not hold STEP grant recipients accountable for meeting reporting requirements.

Further, SBA personnel did not meet with Congress to identify and clarify the FY 2011 STEP program measures for success. OIT personnel could have ensured that grant recipients' performance measures included measurable targets, established baselines against which to measure performance, and directly corresponded to Congress' intentions for the FY 2011 STEP grant program.

SBA personnel also relied on inaccurate information, did not conduct adequate oversight, and did not maintain documentation in the grant award files. Due to SBA's mismanagement, more than \$1 million in funding was misspent, grant recipients and SBA personnel were confused about the governance of the program, and OIT authorized no cost extensions that directly violated grant terms and conditions.

#### *OIG Recommendations*

OIG recommended a total of nine specific actions aimed at improving the accountability and performance of STEP, all of which were addressed to SBA's Associate Administrator (AA) for OIT: (1) meet with Congress to determine STEP expectations for FY 2012; (2) ensure that STEP grant recipients' FY 2012 performance measures align with Congress' expectations; (3) require STEP grant recipients to establish and provide SBA with quarterly milestones that will measure effectiveness and efficiency on a quarterly basis; (4) in cases where STEP grant recipients do not meet established milestones, require grant recipients to provide SBA with revised work plans and budget estimates to meet proposed performance goals; (5) hold STEP grant recipients accountable for adhering to reporting requirements established in the notices of award and the FY 2012 STEP grant program announcement; (6) document and maintain all analyses, evaluations, and rationale used to award STEP grants; (7) provide Grant Officer's Technical Representative (GOTR) training to OIT personnel acting in that capacity; (8) establish and implement a policy requiring GOTRs to conduct in-depth reviews of STEP grant recipients' quarterly submissions and provide feedback to grant recipients; and (9) consult with OGM to modify STEP grant terms and conditions to align with SBA's management of the program.

### *Summary of Actions Taken by SBA to Close the Recommendations*

Based on the documentation SBA provided to OIG demonstrating that it had implemented the recommendations, we closed the nine recommendations. Notably, OIT personnel met with Congressional staff members to discuss FY 2012 STEP expectations. As a result, OIT personnel modified STEP reporting requirements during the first quarter of FY 2013 in order to ensure that they aligned with Congress' expectations. OIT personnel implemented a reporting process to monitor recipients' performance against planned milestones. Further, OIT personnel provided training to STEP program managers on grants management policies and practices. OIT personnel also established and implemented a policy requiring program managers conduct in-depth reviews of STEP grant recipients' quarterly submissions and provide feedback to grant recipients, beginning in the first quarter of FY 2013.

### ***Management Advisory Memorandum Report No. 12-12: The SBA's Office of International Trade Inappropriately Awarded a One Million Dollar State Trade and Export Promotion (STEP) Program Grant to an Ineligible Recipient***

As reported in report 12-21, we determined that OIT and OGM personnel mismanaged the STEP grant program by awarding a \$1,022,781 grant to an ineligible applicant, the Commonwealth of the Northern Mariana Islands. Due to the severity of this error, we issued this advisory. The Small Business Jobs Act of 2010 did not list the Commonwealth of the Northern Mariana Islands as an eligible grant recipient. Therefore, the statutory grant authority for STEP did not permit the use of STEP grant funds for the Commonwealth of the Northern Mariana Islands. OIT personnel did not have the experience or training required to manage and administer such a complex grant program.

### *OIG Recommendations*

The advisory made four recommendations to the AA for OIT: (1) instruct grant officers to immediately terminate STEP grant number SBAHQ-11-IT-0047 awarded to the Commonwealth of the Northern Mariana Islands; (2) withhold fund disbursements of grant number SBAHQ-11-IT-0047 to the Commonwealth of the Northern Mariana Islands; (3) in the event that funds are disbursed between the issuance of the draft version and final version of this advisory Memorandum, recover all funds that were disbursed, redistribute the funds to other qualified STEP recipients or return the funds to the United States Department of Treasury; and (4) take precautions to ensure the Commonwealth of the Northern Mariana Islands or any other ineligible applicant is not awarded a STEP grant in future years, unless Congress modifies the Small Business Jobs Act to make the Commonwealth of the Northern Mariana Islands eligible.

### *Summary of Actions Taken by SBA to Close the Recommendations*

Based on the documentation SBA provided to OIG demonstrating that it had implemented the recommendations, we closed the four recommendations. Notably, OIT personnel cancelled the STEP award to the Commonwealth of the Northern Mariana Islands and did not disburse the funds.

### *Congressional Response*

In 2015 Congress amended the Small Business Jobs Act, 15 U.S.C. 649B, to include a definition of state: “the term ‘State’ means each of the several States, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa.” This further resolved the ineligible recipient issue we identified in our advisory.

### ***Report 17-11: Review of the Small Business Administration’s State Trade and Export Promotion Grant Program***

As required by the Trade Facilitation and Trade Enforcement Act of 2015, my office reviewed STEP to determine how the funds were used. To answer our objective, we requested the grant award and expenditure totals from OIT, OGM, and the Office of the Chief Financial Officer (OCFO). We also queried STEP data from the USAspending.gov website. Additionally, we judgmentally selected and reviewed 15 grant awards totaling \$15.2 million.

### *What OIG Found*

We found that SBA could not provide consistent STEP award and expenditure data. OIT, OGM, and OCFO provided different totals for FYs 2011, 2012, 2014, and 2015 grant awards and expenditures. Additionally, we compared the totals received from the three offices with USAspending.gov and found that SBA did not update the website with complete and accurate award data.

We also found that SBA implemented new reporting requirements for the FY 2014 STEP that significantly improved the quality of the grant recipients’ performance and financial reports. However, we were unable to determine how the grant recipients spent the funds the first 2 years of the program, FYs 2011 and 2012, because SBA did not define program management procedures for the STEP grant program at the time. Additionally, we found that most of the grant recipients we reviewed did not expend all the funds awarded.

### *OIG Recommendations*

We made three recommendations to improve SBA’s oversight of STEP: (1) that the Chief Financial Officer, the AA for OIT, and the Chief Operating Officer implement corrective actions to ensure consistency in financial reporting within SBA; (2) that the Chief Financial Officer develop a process to ensure that SBA submits timely, complete, and accurate data in USAspending.gov; and (3) that the AA for OIT establish and document oversight procedures to ensure that the STEP program managers effectively monitor the grant recipient’s process in meeting targeted milestones.

### *Summary of Actions Taken by SBA to Close the Recommendations*

Based on the documentation SBA provided to OIG demonstrating that it had implemented the recommendations, we closed the three recommendations. Notably, SBA management

implemented a data quality plan to ensure consistency in financial reporting for federal assistance grant awards. Further, SBA management implemented a process to submit timely, complete, and accurate data to USAspending.gov. Additionally, SBA management enhanced its oversight procedures to assess grants recipients' performance in meeting their targeted quarterly achievements.

### ***Report 18-11: Audit of State Trade Expansion Program***

This review also was performed pursuant to requirements of the Trade Facilitation and Trade Enforcement Act of 2015. The objectives of the audit were (1) to determine the extent to which STEP recipients measured program activity performance and the results of those measurements and (2) to review the overall management and effectiveness of STEP. To answer our objectives, we judgmentally selected five cooperative agreement awards totaling \$3.9 million based on dollar value and risk. We conducted site visits and obtained documentation from recipients in the states of California, North Carolina, Washington, and Mississippi. We also interviewed and obtained documentation from cooperative agreement officials for the state of Illinois. Additionally, we interviewed personnel and obtained documentation from OIT.

#### *What OIG Found*

SBA made significant progress in improving the overall management and effectiveness of STEP since our audit of the pilot program in 2012; however, SBA needs to improve its performance measures and program oversight. Although SBA designed a program specific performance progress report that assists program managers in monitoring recipients' progress and requires states to report measurable results, SBA did not effectively analyze the information to report on program success. SBA relied on unverified return on investment measurements when other performance measures may provide more comprehensive program results. Additionally, SBA did not provide effective oversight of the recipients to ensure they achieved program goals; all five fiscal year 2016 recipients we reviewed were not on track to spend the full award amount.

Absent improving existing performance measurements and providing effective oversight to assist recipients with meeting their goals, SBA is at risk of not fully realizing the impact of the program in increasing the number of small businesses exploring significant new trade opportunities.

#### *OIG Recommendations*

This audit made six recommendations to improve the overall management and effectiveness of STEP, all of which were addressed to the AA for OIT: (1) establish performance measurements using the recipients' reported data, such as eligible small business concerns new to the State Trade Expansion Program, and include them in the annual report as a verifiable measure of program success; (2) develop policies and implement a process to ensure recipients report accurate and complete information for participating eligible small business concerns that reconciles to the quarterly performance reports; (3) clearly define essential measurement criteria, specifically sales, new-to-export, and market expansion, to ensure reporting consistency among the STEP recipients and include these definitions in the program announcement; (4) require

STEP applicants to include reimbursement and activity thresholds for participating eligible small business concerns in their proposals and review for reasonableness to ensure the program meets the objective of the Trade Facilitation and Trade Enforcement Act of 2015; (5) enhance the quarterly review process to include strategic planning to emphasize recipients' meeting performance goals; and (6) increase oversight of cooperative agreement recipients, and establish and implement a risk-based approach to monitor recipients that are not meeting their quarterly milestone goals.

#### *Summary of Actions Taken by SBA to Close the Recommendations*

Based on the documentation SBA provided to OIG demonstrating that it had implemented the recommendations, we closed the six recommendations. Notably OIT personnel established performance measurements using the recipients' reported data and included them in the annual report to Congress as part of its assessment of program success. OIT personnel defined essential measurement criteria, required STEP applicants to include reimbursement and activity thresholds for participating eligible small business concerns in their proposals, and implemented a process to ensure recipients accurately reported their results. Further, OIT implemented a risk-based site visit program for greater oversight of the cooperative agreement recipients.

### **GRANTS MANAGEMENT CHALLENGES**

In our recently published report on the most serious management and performance challenges facing SBA in FY 2019, we identified grants management as an Agency challenge for the first time. In FY 2018, SBA administrated more than \$247 million in grants and cooperative agreements to its resource partners and other nonfederal entities to provide technical assistance and training programs to develop small businesses. With recent governmentwide emphasis on grant management reform, it is SBA's responsibility to develop processes and policies to ensure its grants programs effectively and efficiently accomplish program objectives. However, our reviews of SBA's grant programs, including STEP, continue to identify systemic issues with SBA's accuracy of grant data for both financial and performance reporting, ineffective oversight, and inadequate standard operating procedures.

OGM officials acknowledge that there are systemic issues within its grants management processes and plan to address these issues by implementing a new grants management system, implementing policies to establish an overarching oversight function for all SBA's grants, establishing training requirements for grants officers, and focusing resources on closing out grants to comply with Grants Oversight and New Efficiency Act requirements. It is my understanding SBA is currently updating its standard operating procedure pertaining to federal assistance, which seeks to incorporate recommendations made by my office.

## CONCLUSION

SBA's STEP has certainly matured and has benefited from the recommendations my office has made through its work over the years. As I stated previously, SBA has been amenable to our recommendations since the inception of the pilot program and has accepted and implemented all our recommendations from all three OIG reports as well as the advisory. That said, grants management continues to be an issue for the Agency, as we identified in our management challenges report for FY 2019.

OIG will continue to provide independent, objective oversight to improve the integrity, accountability, and performance of SBA and its programs for the benefit of the American people. Our focus is to keep SBA leadership, our congressional stakeholders, and the public currently and fully informed about the problems and deficiencies in the programs as identified through our work. We value our relationship with the Committee and the Congress at large, and we look forward to working together to address identified risks and the most pressing management challenges facing SBA.