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SMALL BUSINESS ADMINISTRATION

Export Promotion Grant Program Should Better Ensure Compliance with Law and Help States Make Full Use of Funds

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Chairwoman Finkenauer, Ranking Member Joyce, and Members of the Subcommittee:

I am pleased to be here today to discuss the Small Business Administration's (SBA) State Trade Expansion Program (STEP). Congress established STEP in 2010 and reauthorized the program in 2016 to provide funding for state programs that facilitate export opportunities for small businesses. According to SBA officials, the goals of the program are increasing (1) the number of small businesses exporting, (2) the number of small businesses exploring significant new trade opportunities, and (3) the value of exports for small businesses already engaged in international trade. In the years since STEP was first authorized, SBA has awarded about 300 STEP grants, and these grants have provided about $139 million of support to almost every U.S. state as well as several territories. Many states report that STEP is important to their export promotion operations; however, concerns have been raised related to the management of the program, including SBA's processes for administering and monitoring grants and the effectiveness of the program in reaching its goals.

My testimony today is based on our report, which is also being released today.[1] Our report examines the extent to which (1) SBA's STEP grants management process provides reasonable assurance of compliance with selected requirements of applicable law, and (2) SBA has taken steps to address challenges states report in using grant funds to achieve program goals.

To address these objectives, we analyzed relevant data on award and matching fund amounts. We reviewed the Small Business Jobs Act of 2010 and the Trade Facilitation and Trade Enforcement Act of 2015 (TFTEA), the statutes that established and reauthorized STEP, respectively. We also reviewed the Office of Management and Budget's (OMB) federal grant guidance, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*,[2] and the *Standards for Internal Control in the Federal*

[1]GAO, *Small Business Administration: Export Promotion Grant Program Should Better Ensure Compliance with Law and Help States Make Full Use of Funds,* GAO-19-276 (Washington, D.C.: Mar. 12, 2019).

[2]2 C.F.R. § 200.

Government.[3] In addition, we analyzed SBA program documents, and standard operating procedures for managing SBA grants. We also interviewed officials from SBA's Office of International Trade (OIT), which is responsible for making the awards and administering the program; the Office of Grants Management (OGM), which is responsible for managing grants across SBA.

To identify the states' challenges to fully using the grant funds, we spoke with officials from 12 of the 40 states that received a grant in fiscal year 2015, the most recent year for which complete grant expenditure data were available when we began this work. We selected these states because they used 75 percent or less of their award in that year. This group of 12 states constitutes a nongeneralizable sample, and as such, the challenges that these states reported may not be common to all states receiving a STEP grant. We conducted the work on which this statement is based in accordance with generally accepted government auditing standards. More details on our methodology can be found in the report being released today.

SBA awards STEP funds annually to state governments through a competitive application process. According to SBA, the annual STEP cycle begins with the funding opportunity announcement that SBA posts on www.grants.gov. This announcement indicates that the grant application is open and includes objectives, deadlines, eligibility, and requirements. When a state trade office applies for a STEP grant, its application outlines any intended activities and establishes performance targets within each of the activities for the fiscal year or period of the grant.[4] OIT selects grant recipients and notifies states of their award status in September. If a state receives a STEP grant, its trade office provides the funds to local small businesses through an application process. Once small businesses receive STEP funding, they can use the money for a variety of export-related purposes. These purposes are outlined in TFTEA, and include participation in foreign trade missions; subscriptions to Department of Commerce services; participation in trade shows, and; training.

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

[4]Currently, all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa are eligible to apply for STEP grants. Hereafter, we use "states" to refer to any of these eligible applicants.

SBA's STEP Grants Management Process Does Not Provide Reasonable Assurance of Compliance with Some Requirements of Applicable Law

Our report found that SBA's STEP grants management process does not provide reasonable assurance that STEP grant recipients meet two of the three TFTEA requirements we reviewed before the grant is closed out. TFTEA contains specific requirements for STEP, including:

- **Proportional distribution requirement.** SBA must distribute grant funds in a way that caps the amount of grant funds distributed to the 10 states with the largest numbers of eligible small businesses at 40 percent of the total amount awarded each year. This requirement ensures that states with fewer eligible small businesses receive funding, and is known as the "proportion of amounts" clause in the law.[5]
- **Total match requirement.** States must provide either a 25 percent or 35 percent nonfederal total match to the federal grant amount.[6]
- **Cash match requirement.** A state's match cannot be less than 50 percent cash.[7]

SBA's Process Provides Reasonable Assurance of Compliance with TFTEA's Proportional Distribution Requirement

First, we found that OIT has established a process for ensuring compliance with the TFTEA requirement outlined in the "proportion of amounts" clause of the statute. OIT officials told us they review data from the Department of Commerce's Census Bureau that show the number of exporting small and medium-sized businesses in each state, and then use these data to determine the top 10 states. According to OIT officials, they use the most recent data available, with an approximately 2- to 3-year lag. OIT officials told us that they planned to use available 2016 Census data to determine the top 10 states for the fiscal year 2018 award cycle and then, after receiving applications, determine award amounts that would comply with this requirement.

[5]15 USC 649(l)(3)(C)(ii).

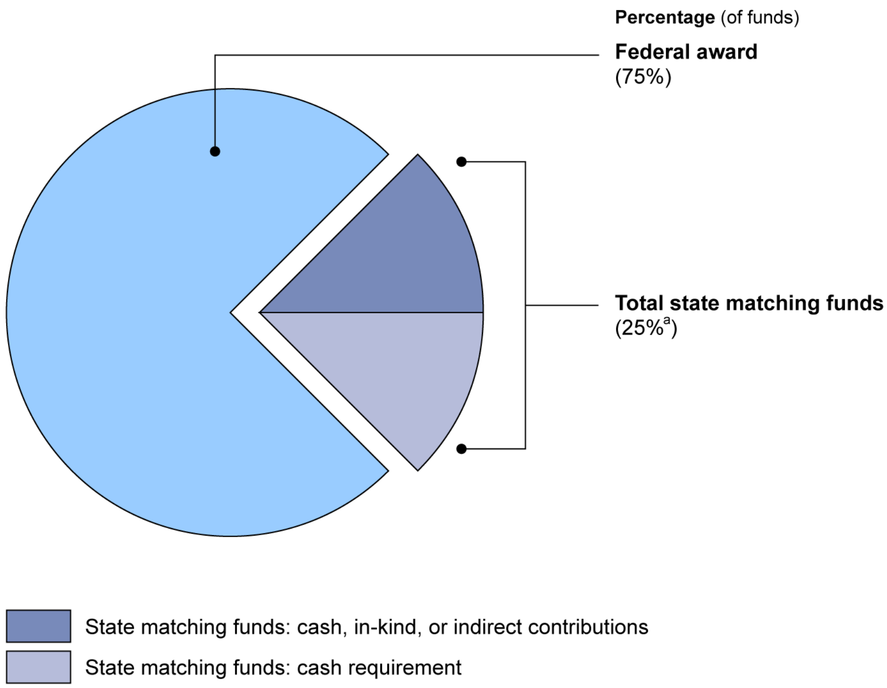
[6]STEP's authorizing statute requires that those states that SBA designates as having a "high trade volume" match at the higher rate of 35 percent of the total federal-state amount. To identify high trade volume states, SBA uses Census data on export volume by state, and each year identifies the top three states using the most recent data available.

[7]15 USC 649(l)(6). Not more than 50 percent of the nonfederal amount may consist of indirect costs and in-kind contributions.

SBA's Review Process Did Not Document that States Met TFTEA's Total Match Requirement before Grant Closeout

Second, we found SBA's process did not document that states met TFTEA's total match requirement before grant closeout. TFTEA requires that states provide matching funds, and the total match is typically 25 percent of the combined state-federal amount. At least half of the total match must be cash. Matching share requirements are often intended to ensure local financial participation, and may serve to hold down federal costs.[8] If SBA determines that a state is not providing sufficient matching funds, it can withhold reimbursement for expenses incurred under the grant. Figure 1 illustrates the STEP funding proportions described above.

Figure 1: Required Mix of State Trade Expansion Program (STEP) Funding, Including State Total and Cash Match Funds



Source: GAO analysis of Public Law 114-125. | GAO-19-444T

Note: This graphic depicts the minimum requirement for cash matching funds.

[a]The Trade Facilitation and Trade Enforcement Act of 2015 requires that those states the Small Business Administration (SBA) designates as having a "high trade volume" match at a higher rate of at least 35 percent of the total federal-state amount. To identify high trade volume states, SBA uses Census data on export volume by state, and identifies the top three states.

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[8]GAO, *Principles of Federal Appropriation Law, Volume II*, GAO-06-382SP (Washington, D.C.: February 2006).

In our report, we identified four instances where, according to OIT's documentation, states reported insufficient total matches—one in fiscal year 2015 and three in fiscal year 2016. OIT's documentation showed that these four states failed to meet the required total matching funds by about $76,000 combined over these 2 years of the program. SBA told us they nevertheless had closed these grants.

OIT officials provided several explanations for their actions. First, OIT officials told us that of these four states, two submitted additional information after the grant had closed, indicating that the states had met the matching requirement. OIT officials stated that they did not verify the accuracy of the total match information before grant closure because of OIT staff error. With respect to the other two states, OIT initially stated that it was working with OGM to verify that the total match requirement had not been met, and how best to recover the funds. Subsequently, OIT reported OGM's determination that one state had in fact met the match requirement, but that the other had not. In the case of the state that did not meet the requirement, OGM determined that SBA had overpaid federal funds to that state by about $19,600. However, after contacting the state and looking into the matter further, OGM conducted a review of quarterly reporting documentation for this state, and determined that the state had in fact exceeded its required match by about $3,800.

Though all four of the states initially identified were eventually determined to have met the total match requirement, SBA did not have an adequate process in place to ensure documentation of a full match before grant closeout. Federal internal control standards state that management should design control activities.[9] By designing and executing appropriate control activities, management helps fulfill its responsibilities and address identified risks in the internal control system. Without a process for effectively documenting that the total match requirement has been met and reviewing this documentation before grant closeout, SBA does not have reasonable assurance that states have complied with TFTEA's total match requirement, and risks overpayment of federal funds.

[9]GAO-14-704G, Principle 10: Design Control Activities.

SBA Does Not Monitor States' Compliance with TFTEA's Cash Match Requirement

Third, we found that OIT's process does not provide reasonable assurance that states have complied with the TFTEA cash match requirement. As previously noted, TFTEA requires that states provide at least half of their total match in the form of cash. TFTEA allows for the remaining half to be any mixture of cash, in-kind contributions, and indirect costs. OIT collects information about the types of expended matching funds, including the proportion provided in cash; however, OIT does not have a process in place to use this information to monitor states' compliance with this requirement.

OIT documents show that while proposed cash match amounts are recorded, OIT does not track or analyze states' expended cash matching funds during or at the close of the grant cycle. OIT officials told us that this information is included in the states' quarterly detailed expenditure worksheets, and therefore can be reviewed for compliance on a case-by-case basis. However, OIT program officials told us that they do not regularly analyze this information to determine what proportion of the total match the cash portion constitutes. The program's authorizing legislation does not define "cash," and neither does the *Uniform Guidance*. OIT considers the salaries of state trade office staff who work on administering the grant to be a form of cash and, according to OIT officials, most states use state staff salaries as their total match, including the required cash portion.[10]

In addition, we found that OIT does not have a process for ensuring that states reporting staff salaries as their required cash match are not also using grant funds from STEP to pay for portions of these same salaries. As such, SBA cannot consistently determine whether states are meeting the TFTEA cash match requirement, and risks closing out grants for which states have not met the cash match requirement. Using part of the grant to cover the cost of the state's matching requirement in this way could have the effect of reducing the match below the thresholds mandated by TFTEA. In our discussions with officials from 12 low-use states that received STEP grants in fiscal year 2015, 2 states reported using the grant to offset state staff salaries. When we asked OIT officials what process they had in place to determine whether states were using staff salaries paid for with STEP funds as part of their match amount, OIT

[10] 2 C.F.R. § 200.413. The *Uniform Guidance* notes that typical costs charged directly to a federal award include compensation of employees who work on that award and their related fringe benefit costs; expenses for administrative and clerical staff can also be charged directly to an award if conditions specified in the *Uniform Guidance* are met.

officials told us that they were not aware that STEP grantees had engaged in this practice, and therefore did not monitor for it.

SBA's grants management standard operating procedure states that the agency should monitor grantees for compliance with the terms and conditions of the awards, which includes compliance with applicable federal law. Further, according to federal standards for internal control, management should design and execute control activities, and use quality information to achieve the entity's objectives. Management should process reliable data into quality information to make informed decisions and evaluate the entity's performance in achieving key objectives and addressing risks.[11] Without processes to review whether states are meeting the cash match requirement, OIT is not implementing its responsibilities under SBA's standard operating procedure because it cannot consistently determine whether states are meeting this requirement. Without making such a determination, SBA does not have reasonable assurance that states are contributing to the program as required by STEP's authorizing statute.

In our report, we recommended that the SBA Administrator should establish a process that ensures documentation of states' compliance with the total match requirement before grant closeout, and develop a process to determine states' compliance with the cash match requirement. SBA agreed with these recommendations.

Some States Report Challenges to Using Grant Funds and SBA Has Not Adequately Assessed Risk to Program from Low Grant Use

Next, we looked at STEP's grant use rate. In our report, we found that nearly 20 percent of grant funds go unused each year, despite OIT officials stating that they seek 100 percent use of grant funds. Specifically:

- **2015.** Across all 40 recipient states, combined grant use was 81 percent, leaving 19 percent, or nearly $3.4 million, unused. This included one state that left 77 percent, or over $432,000, of its funds unused that year.
- **2016.** Across 41 of the 43 recipient states, combined grant use was 82 percent, leaving 18 percent, or nearly $3.2 million, unused. This

[11] GAO-14-704G, Principle 13: Use Quality Information.

included one state that left nearly 95 percent, or nearly $184,000, of its funds unused that year.[12]

We found that OIT made some changes to the program that could improve states' ability to use all their grant funds. Changes included:

(1) Extending funds usage period to 2 years. This change allows an additional 4 quarters to conduct program activities, which, in turn, may help enable states to use the full amount of their grant funding and achieve performance targets.

(2) Eliminating travel preauthorization requirement. This change may reduce the administrative burden on state trade office staff and allow greater flexibility to use grant funds when opportunities that require travel arise with limited notice.

(3) Reducing the length of the technical proposal. This change may help to streamline the program's application paperwork.

Some States Cited Challenges with the Program

We interviewed officials from low-use states to identify the continuing challenges they faced. We grouped the most commonly reported challenges into the following categories:

(1) Timing of the application and award processes. State officials discussed the variable and short application timeframes, and said that the award announcement happening close to the start of the grant period can make it difficult to use funds during the 1st quarter of the period.

(2) Administrative burden. State officials described challenges due to inflexible application requirements, a difficult process for repurposing funds, and burdensome and changing reporting requirements.

(3) Communication. State officials told us this was a challenge because of delays and inconsistent communication of requirements from OIT.

[12]At the time of our analysis, South Dakota and Texas had not submitted finalized data for the fiscal year 2016 cycle. According to SBA officials and documentation, OIT granted a 1-year extension to each of these states. Award and expenditure data related to these two states have been omitted from our calculations for the fiscal year 2016 cycle.

SBA Has Not Adequately Assessed Risk to Achieving Program Goals or Effectively Shared Best Practices

In our report, we found that OIT had not assessed and fully addressed the risk posed by some states' low use of funds. OIT officials told us that while they informally collect feedback from states, there is no systematic process to collect states' perspectives on challenges with the program, including obstacles to their ability to use funds. Officials said that they seek 100 percent use for each state that receives an award, as well as for the program as a whole. Federal internal control standards specify that agency leadership should define program objectives clearly to enable the identification of risks and define risk tolerances in order to meet the goals of the program's authorizing legislation.[13]

In addition, OIT has no systematic process to share best practices with sufficient detail that states struggling to use their STEP funds might apply those practices to improve their own programs. TFTEA requires SBA to publish an annual report regarding STEP, including the best practices of those states that achieve the highest returns on investment and significant progress in helping eligible small businesses. While 12 states used 75 percent or less of their grant funds in the fiscal year 2015 cycle, 19 states used all or almost all of their funds. SBA publishes high-level information on what it deems to be notable state activities in its annual report to Congress. OIT officials told us that, when possible, they share best practices with states that may have difficulty accessing external markets. However, OIT officials told us that they do not formally facilitate the sharing of best practices among the states, saying that best practices for promoting exports in one state might not be transferable to another state because each state is unique.

According to the *Uniform Guidance*, grant recipients' performance should be measured in a way that helps the federal awarding agency and other nonfederal entities improve program outcomes, share lessons learned, and spread the adoption of promising practices.[14] We have also previously reported on the importance of collecting and sharing best practices, as well as the processes for doing so.[15] By sharing detailed information with all participating states about the approaches that some grant recipients are using to successfully achieve STEP's goals, SBA could encourage all grant recipients to improve the effectiveness of their

[13]GAO-14-704G, Principle 6: Define Objectives and Risk Tolerances.

[14]See 2 C.F.R. § 200.301.

[15]GAO, *Best Practices Methodology: A New Approach for Improving Government Operations,* GAO/NSIAD-95-154 (Washington, D.C.: May 1995).

state STEP programs, including increasing fund use rates in pursuit of OIT's stated aim of 100 percent grant fund use.

In our report, we recommended that the SBA Administrator assess the risk to achieving program goals posed by some states' low grant fund use rates, and that assessing this risk could include examining the challenges that states reported related to the program's application and award processes, administrative burden, and communication. We also recommended that SBA enhance collection and sharing of best practices among states that receive STEP grant funds. SBA agreed with these recommendations.

Chairwoman Finkenauer, Ranking Member Joyce, and Members of the Subcommittee, this completes my prepared statement. I would be pleased to respond to any questions that you may have at this time.

GAO Contact and Staff Acknowledgments

If you or your staff have any questions about this statement, please contact me at (202) 512-8612 or gianopoulosk@gao.gov. Contacts for our Offices of Congressional Relations and Public Affairs are on the last page of this testimony. GAO staff who made key contributions to this statement are Adam Cowles (Assistant Director), Cristina Ruggiero (Analyst in Charge), Martin de Alteriis, Mark Dowling, Jesse Elrod, John Hussey, and Christopher Keblitis.

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