Performance Audit Report

The SBA Needs to Improve Its Management of the State Trade and Export Promotion Grant Program

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September 25, 2012 **Report Number 12-21**

U.S. Small Business Administration
Office of Inspector General
Washington, D.C. 20416

REPORT TRANSMITTAL
REPORT NO. 12-21

DATE: September 25, 2012

TO: Dario Gomez
Associate Administrator for International Trade

SUBJECT: *The SBA Needs to Improve Its Management of the State Trade and Export Promotion Grant Program*

This report presents the results of our audit, *Review of the Small Business Administration's (SBA's) State Trade and Export Promotion (STEP) Grant Program.* Our objectives were to determine the extent to which STEP grant recipients are measuring program performance and the results of those measurements, and to determine the overall management and effectiveness of the program.

We appreciate the courtesies and cooperation of the Office of International Trade and the Grants Management Office during this audit. If you have any questions concerning this report, please call me at (202) 205-7390 or Riccardo R. Buglisi, Director, Business Development Programs Group, (202) 205-7489.

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/S/ original signed
John K. Needham
Assistant Inspector General for Auditing

EXECUTIVE SUMMARY:
The SBA Needs to Improve Its Management of the State Trade and Export Promotion Grant Program

September 25, 2012
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What OIG Audited

This report presents the results of the SBA Office of Inspector General's audit, entitled *Review of SBA's State Trade and Export Promotion (STEP) Grant Program*. The Small Business Jobs Act of 2010 required the SBA Office of Inspector General to conduct a review of the STEP Grant Program. 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 STEP Program Announcement. We also conducted site visits and obtained documentation from the recipients of the five largest STEP grants: 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 Office of Management and Budget (OMB) Circular A-123.

OIG Recommendations

The OIG recommended a total of nine specific actions, all of which were addressed to SBA's Associate Administrator (AA) for International Trade. We believe that these recommended actions will improve the accountability and performance of the STEP grant program.

Agency Comments and OIG Response

On August 14, 2012, we provided a draft of this report to the OIT for comment. On September 11 and September 14, 2012, the AA for International Trade submitted formal comments on the draft of this report. We found that the AA for International Trade did not state whether management concurred or non-concurred with seven of the nine recommendations. However, management was responsive to seven recommendations, partially responsive to one recommendation, and unresponsive to the remaining recommendation.

What OIG Found

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 OIT personnel did not hold STEP grant recipients accountable for meeting reporting requirements. As a result, grant recipients are behind schedule to achieve FY 2011 performance goals and have been authorized to request no cost extensions in order to accomplish FY 2011 goals and expend federal funds.

Further, SBA personnel did not meet with Congress to identify and clarify the FY 2011 STEP program measures for success, the first year of the program, which is contrary to key practices. This information could have allowed OIT personnel to communicate intended outcomes to applicants. In addition, 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. Without this information, grant recipients and OIT personnel could not ensure that the STEP program would have the effect that Congress intended.

Additionally, OIT and OGM personnel mismanaged the STEP grant program by awarding a grant to an ineligible applicant, providing untimely and inaccurate responses to inquiries, and failing to enforce grant terms and conditions. Personnel from the OIT did not have the experience or training required to manage and administer such a complex grant program. 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 violate grant terms and conditions.

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Introduction

This report presents the results of our audit project, *Review of the Small Business Administration's (SBA's) State Trade and Export Promotion (STEP) Grant Program*. The Small Business Jobs Act of 2010[1] required the SBA Office of Inspector General to perform a review of the STEP Grant Program. We were required to provide our report to the Committee on Small Business and Entrepreneurship of the Senate and the Committee on Small Business of the House of Representatives no later than September 30, 2012.

Objectives

There were two objectives for this audit: 1) to determine the extent to which STEP grant recipients were measuring the performance of the activities being conducted and the results of those measurements, and 2) to review the overall management and effectiveness of the STEP Grant Program.

To achieve these objectives, we judgmentally selected all STEP grants exceeding $1 million for review. Six grant recipients met this threshold: the states of California, Illinois, Michigan, Pennsylvania, Washington, and the Commonwealth of the Northern Marianas Islands (NMI). In addition, we reviewed the Small Business Jobs Act of 2010 and the Small Business Administration's FY 2011 STEP Program Announcement. We also conducted site visits and obtained documentation from grant recipients in the states of Pennsylvania, California, Washington, Michigan, and Illinois. Further, 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 (CFRs), Public Law 111-240, and OMB Circular A-123.

We conducted this audit from March 2012 to June 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Office of International Trade

Prior to December 2010, the OIT was a division within SBA's Office of Capital Access. It was led by the Director for International Trade, who reported to the Associate Administrator (AA) for Capital Access. The Small Business Jobs Act of 2010 required the SBA Administrator to appoint an AA for International Trade no later than December 27, 2010. In conjunction with this new position, the OIT's reporting structure was realigned: the AA for International Trade reported directly to the Office of the Administrator. On December 23, 2010, the Administrator approved the reorganization that included the formation of the OIT and appointed an AA for International Trade in August 2011.

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[1] Public Law 111-240, *Small Business Jobs Act of 2010*, September 27, 2010

State Trade and Export Promotion Grant Program

The Small Business Jobs Act of 2010 authorized the SBA to establish the STEP Grant Program as a three-year trade and export pilot program. Congress authorized funding of $30 million per year in fiscal years (FY) 2011, 2012, and 2013. To execute the program, the SBA awarded grants to states with the goal of assisting eligible small business concerns[2] with exporting. The objectives of the program were (1) to increase the number of eligible small business concerns in the state that export, and (2) to increase the export volume of those eligible small businesses that already export. The express purpose of the program was to award grants to states to execute export programs that assist eligible small business concerns in:

- participation in a foreign trade mission;
- a foreign market sales trip;
- a subscription to services provided by the US Department of Commerce;
- the payment of website translation fees;
- the design of international marketing media;
- a trade show exhibition;
- participation in training workshops; or
- any other export initiative determined appropriate by the AA for SBA's Office of International Trade.

The Small Business Jobs Act of 2010 defined the term "state" to include each of the 50 several states, the District of Columbia, the Commonwealth of Puerto Rico, the US Virgin Islands, Guam, and American Samoa. The AA for International Trade was responsible for establishing the STEP grant program and was given the authority to award each of the 55 eligible recipients' no more than one grant per fiscal year on a competitive basis. In addition, the AA for International Trade was required to submit an annual report to Congress. This report must include the number and value of grants made under the program in the preceding year, a list of states that received a STEP grant, and a list of activities performed under each grant. Further, the report must describe the effect that each grant has had on exports of eligible small business concerns. The OIT has not provided an annual report to Congress because the first year of the program is not yet complete. In addition to establishing the STEP program and awarding grants to eligible recipients, the OIT is responsible for the management and oversight of each grant. However, the Office of Grants Management (OGM) oversees the financial aspects of the STEP program.

In FY 2011, OIT awarded 52 STEP grants valued at $29,999,875. For a full list of the FY 2011 STEP grants awarded, see Appendix II. Between September 17, 2011 and September 30, 2011, the SBA obligated FY 2011 single year appropriations to fund the STEP program that states executed during FY 2012.

[2] Small business concerns that are eligible to participate in STEP activities must be in business for more than one year; operate profitably; demonstrate an understanding of costs associated with exporting; possess a strategic plan for exporting; and meet small business size requirements as defined in 13 CFR 121.

On March 30, 2012, the SBA Office of Inspector General issued an advisory memorandum[3], in which the audit team determined that STEP grant number SBAHQ-11-IT-0047, awarded to the Commonwealth of the Northern Mariana Islands (NMI) and valued at $1,022,781 was inappropriate because the NMI did not meet the definition of the term "state" as prescribed by the Small Business Jobs Act of 2010. As a result of this memorandum, grant number SBAHQ-11-IT-0047 was terminated on March 27, 2012.

Nature of Limited or Omitted Information

Our audit included performance results for the first and second quarters of the FY 2011 STEP grant program, which was executed throughout FY 2012. Because Congress mandated that we provide our report by September 30, 2012, we were unable to include performance results for quarters three and four. According to grant recipients, performance results related to export sales may not be realized until future years.

Review of Internal Controls

The Office of Management and Budget (OMB) Circular A-123[4] provides guidance to federal managers on improving the accountability and effectiveness of federal programs and operations by establishing, assessing, correcting, and reporting on internal controls. It also requires a strengthened process for conducting management's assessment of the effectiveness of internal controls over financial reporting based on widely recognized internal control standards. We determined that material internal control weaknesses existed in the award and management of the STEP grant program. Specifically, the SBA did not:

- maintain documentation to support its rationale for the award of STEP grants ;
- ensure that STEP grant recipients' goals aligned with Congress' intent for the STEP program ;
- perform adequate reviews of quarterly reports submitted by grant recipients ; and
- enforce STEP grant terms and conditions.

Implementing our recommendations will improve SBA's award process and overall management of the STEP grant program.

Results

Finding: Grant Recipients' Performance Measures Did Not Demonstrate Whether STEP Program Goals Were Achievable

Recipients of STEP grants did not implement adequate metrics by which to measure program performance. The results of performance measurements that we reviewed did not demonstrate whether STEP grant recipients achieved milestones to ensure that they remained on track to

[3] SBA OIG Advisory Memorandum Number 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*, March 30, 2012.

[4] OMB Circular A-123, *Management's Responsibility for Internal Control*, December 21, 2004

meet proposed goals. This occurred because OIT personnel did not hold grant recipients accountable for meeting established federal and programmatic reporting requirements. As a result, STEP grant recipients may fall short of Congress' expectations and may force SBA to return a high amount of unexpended STEP funding. Contrary to key performance accountability practices, OIT personnel also did not consult with Congress to ensure that STEP grant program's performance goals[5] were specific and results-oriented. This prevented SBA personnel from discussing performance measures and goals with grant recipients to ensure that they were in line with Congress' intended outcomes.

The Small Business Jobs Act of 2010 established the STEP grant program's strategic goals,[6] which were to increase the number of small businesses that export and increase the export volume of those small businesses that already export.

The FY 2011 STEP Program Announcement and the STEP Grant Notices of Award state that at the end of each federal fiscal quarter, grant recipients must provide quarterly Performance Progress Reports to SBA program officials. These reports must include financial reports, performance narratives, and quarterly data reflecting project activities and results.
The narrative section of each quarterly performance report must include the following:

- A brief summary of the period's activities, challenges, and accomplishments and success stories;
- Measurement data and a comparison of actual accomplishments to the goals established for the reporting period;
- Any reasons for goals not being met and a proposed plan of action or steps already taken to overcome the identified difficulties;
- Information relation to actual financial expenditures of budget cost categories versus the quarterly advance or reimbursement received, including an explanation of any cost overrun;
- Names of key personnel (those individuals expending 50 percent or more time); and
- Description of project activities for small business regarding trade and exporting.

A grant recipient's performance measures[7] should capture the most important aspects of a program's objectives. These measures are the indicators that are used to gauge program performance and should incorporate targets and timeframes to measure performance. Targets are the quantifiable or otherwise measurable characteristics that determine how well a program must be executed in order to achieve performance objectives. Appropriate performance measures should include both measurable targets and timeframes.

[5] Performance goals are the target levels of performance expressed as a measurable objective, against which actual achievement can be compared; they can be stated as either outcomes or outputs.
[6] Strategic goals are statements of purpose or mission and should be used to develop specific, operational performance goals.
[7] Performance measures are the indicators or metrics that are used to gauge program performance and can be either outcome or output measures.

Grant Recipients Developed Performance Measures That Did Not Meet Federal Standards as Required

All five grant recipients that we reviewed developed year-end performance goals for the FY 2011 STEP grant program. However, none of these STEP grant recipients developed performance measures that established monthly or quarterly targets or established baselines by which to measure performance. All STEP grant recipients were also required to develop a chart of measurable monthly projections for all activities to be performed. These monthly projections were intended to demonstrate how each grant recipient planned for its STEP program to progress throughout the year. The annual performance goals for each of the states that we reviewed were not broken down into monthly or quarterly targets. Therefore, OIT personnel were not able to accurately determine whether grant recipients were on track to achieve annual performance goals or fully expend federal STEP funding because the recipients did not develop targets that could be measured at regular intervals.

None of the five STEP grant recipients that we reviewed established baselines or timelines against which to measure performance. For example, Michigan's FY 2011 technical proposal did not include historical data regarding the number of small businesses involved in exporting or the markets in which current exporters were involved. In addition, the state relied on its strategic partners to establish a baseline for export sales; the baseline included small and medium businesses and could not be verified. However, Michigan developed the following performance goals: 1) increase the value and volume of exports by 7 percent; 2) increase the number of small business exporters by 15 percent; and 3) increase the number of new markets for small business exporters by 25 percent. Without establishing a verifiable baseline for small business export sales, the number of current small business exporters, and current export markets, it was not possible for OIT personnel to determine Michigan's success in these areas. For instance, a 15 percent increase in the number of small business exporters from 100 represents a smaller increase than a 15 percent increase from 200 small business exporters. In addition, Michigan did not indicate when they expected to realize export sale increases. According to representatives from multiple states, export sales may not be realized until future years. Without providing timelines to realize export sales, OIT personnel could not determine whether Michigan achieved its performance goal to increase export sales by seven percent. Establishing baselines and timelines is essential to measuring targets; without them, there is no way to verify that recipients achieve their performance measures.

The state of Illinois developed performance measures that did not promote the goals of the STEP grant program. Rather, Illinois' performance measures focused on increasing the number of small businesses that receive export assistance from the state's Office of Trade and Investment. In addition, the state established goals to provide financial and technical assistance to small businesses in order to attend trade shows and conduct market research.
These performance measures do not relate to the overarching STEP program strategic goals to increase the number of small business exporters and to increase the volume of exports for those small businesses that are already exporting. Providing small businesses with financial and technical assistance in order to attend trade shows or conduct market research do not align with the strategic goals of the STEP grant program. However, they are included in the list of activities a state may conduct in order to meet these strategic goals. In addition, Illinois' performance measures did not contain measurable targets. The state used terms such as "significant expansion" and "direct growth in dollar value of export sales." These are not measurable

characteristics and did not allow the grant recipient to measure performance in a way that would be meaningful to Congress .

The Results of Grant Recipients' Performance Measurements Did Not Demonstrate that the STEP Grant Program Would Achieve Desired Outcomes

The first and second quarter reports submitted by the five grant recipients we reviewed did not include effectiveness and efficiency information required by the FY 2011 STEP Program Announcement and the Notices of Award. For example, none of the quarterly reports that we reviewed for California, Illinois, Michigan, Pennsylvania, and Washington contained a comparison between estimated and actual accomplishments for the period, as required by the program announcement. These five grant recipients did not develop quarterly or monthly targets by which to measure performance and therefore, could not compare estimated accomplishments with actual accomplishments for a particular period. Without these types of comparisons, SBA personnel were unable to determine accurately whether grant recipients were on track to achieve annual performance goals.

Grant recipients estimated the value of federal STEP funds that would be expended in each quarter. None of the five states that we reviewed were able to expend their federal STEP funds as estimated. For example, in its FY 2011 STEP budget, Pennsylvania estimated that it would expend 25 percent of its federal STEP funds in the first quarter. However, in its quarter one Performance Progress Report, Pennsylvania had obligated only 1.65 percent of the total STEP grant award. Similarly, in its FY 2011 STEP budget, California estimated that it would expend 50 percent of its federal funding throughout quarters one and two. Contrary to the state's budget submission, representatives from California stated that the majority of STEP-funded activities would take place in the third and fourth quarters. The state submitted a single reimbursement request for the first two quarters and received only 4.24 percent of the overall STEP budget, despite prior indications that 50 percent of the budget would have been expended. We determined that the grant recipients that we reviewed were far behind schedule in terms of federal funding expenditures.

In addition to these omissions, we found that the information contained in the grant recipients' quarterly reports was insufficient to support STEP program goals and objectives. For instance, California, Pennsylvania, Washington, and Michigan categorized participating firms as "Small and Medium Enterprises (SMEs)."[8]On November 8, 2011, the OIT issued a memorandum entitled "Clarification of STEP Grant Issues." This memorandum included the definition of the term "eligible small business concern" as it applies to the STEP program – see footnote 2 on page 6 for further clarification. The definition of a STEP "eligible small business concern" does not correlate to the definition of an SME. Additionally, Pennsylvania's first quarter performance report included both the small and large businesses that were scheduled to attend trade shows and missions, rather than reporting on only those business concerns that were STEP program eligible. According to Pennsylvania representatives, they could not exclude large businesses from attending trade shows sponsored by STEP funds because the trade shows were sponsored by the state. As a result, Pennsylvania inaccurately reported the results of qualified small businesses participating in STEP activities. California, Washington, and Michigan were also

[8] According to the US Department of Commerce's International Trade Administration, small and medium enterprises (SMEs) are defined as firms with 500 or less employees.

unable to verify that only eligible small business concerns participated in STEP activities and received federal STEP funds.

Upon reviewing first quarter performance reports, SBA personnel determined that the free-form narrative report presented several problems. Grant recipients provided inconsistent information, did not fulfill requirements as prescribed by the FY 2011 STEP Program Announcement and Notices of Award, and none of the states followed a standard reporting format. In response to these issues, OIT personnel developed and distributed a simplified spreadsheet to use for future quarterly reports. This template was an improvement over the narrative reports, in that it provided a consistent method for each grant recipient to identify accomplishments throughout the period and what was planned for subsequent quarters. However, the template still did not provide comparisons between estimated accomplishments and expenditures with actual accomplishments and expenditures. Without monthly or quarterly milestones and baseline data, this report template did not provide SBA personnel with an accurate representation of grant recipients' progress in achieving annual goals and STEP program objectives.

Personnel from the SBA's Offices of International Trade and Grants Management Did Not Hold Grant Recipients Accountable for Reporting Requirements

By applying for and accepting a STEP grant award, states agreed to the terms and conditions of both the FY 2011 STEP Program Announcement and the Notice of Award that each received. However, STEP grant recipients did not meet the reporting requirements established in these documents and SBA officials did not hold them accountable for adhering to the reporting requirements. According to three of the grant recipients with whom we met, SBA personnel did not provide feedback to the states on the first and second quarter narrative reports. Therefore, the SBA did not inform states that they failed to meet established standards for quarterly reporting. In addition, most of the grant recipient's first and second quarter reports identified numerous setbacks and challenges but did not include proposed steps or a discussion of actions taken to address these problems. Small Business Administration personnel should have required grant recipients to propose remedial and corrective actions for problems identified in each reporting period. According to OIT personnel, they did not spend enough time reviewing quarterly reports. States may have been held accountable for meeting reporting requirements and submitting mitigation plans if SBA personnel had performed adequate reviews of quarterly reports.

Meeting with Congress Would Have Been Useful in Determining Specific STEP Program Goals

The Small Business Jobs Act of 2010 established broad parameters by which the success of the STEP grant program should be measured. A key practice that agencies should follow is consulting with Congress and other stakeholders to establish a basic understanding of specific program expectations and to ensure the credibility and usefulness of performance information.[9] According to OIT personnel, no one from the SBA met with Congressional staff members to identify and clarify the STEP program's measures for success for FY 2011, the first year of the

[9] Government Accountability Office (GAO) Report Number GAO-06-1046, *Grants Management: Enhancing Performance Accountability Provisions Could Lead to Better Results*, September 2006 and GAO Report Number GAO-12-621SP, *Managing for Results: A Guide for Using the GPRA Modernization Act to Help Inform Congressional Decision Making*, June 2012.

program. Had SBA personnel consulted with Congress to develop results-oriented goals, the OIT could have communicated the program's intended outcomes for states that intended to apply for FY 2011 STEP grant awards. In turn, this information could have allowed grant applicants to develop strong performance measures that included measurable targets, established baselines against which to measure performance, and directly corresponded to Congress' intentions for the STEP grant program.

Conclusion

Grant recipients were behind schedule for achieving FY 2011 performance goals. To accomplish FY 2011 goals and expend federal funds, STEP grant recipients were authorized to request no cost extensions to perform STEP activities originally proposed for FY 2011 in FY 2012. It is unclear whether grant recipients will achieve their established goals. Through proper management, SBA personnel could have prevented the need for no cost extensions of FY 2011 STEP grants by performing adequate reviews of quarterly reports and holding grant recipients accountable for reporting requirements. Further, due to the SBA's lack of communication with Congress, STEP program expectations were not well defined. Grant recipients and OIT personnel did not receive specific guidance as to the desired outcomes of the program and could not ensure that the STEP program would have the effect that Congress intended.

Recommendations

We recommend that the Associate Administrator for the Office of International Trade:

1. Meet with Congress to determine STEP program 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 the 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 the 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.

Finding: The SBA's Mismanagement of the STEP Grant Program May Result in the Program Not Achieving Intended Results and Misspent Funds

Small Business Administration OIT and OGM personnel mismanaged the STEP grant program. For example, SBA personnel awarded a grant to an ineligible applicant, did not provide timely responses to grant recipient inquiries, and sometimes provided inaccurate information. In addition, documentation was not properly maintained in the grant award files. Also, SBA personnel did not have the experience or the training required to manage and administer a grant program of this magnitude and complexity . Moreover, SBA personnel conducted inadequate oversight of grantee activities, leaving the STEP program vulnerable to waste. Due to SBA's mismanagement, STEP funding may be misspent and the program may not achieve the desired results.

According to the STEP program announcement, SBA's duties, and responsibilities were to ensure that STEP activities adhered to federal regulations and the STEP program announcement. To accomplish this task, SBA personnel were required to:

- Ensure federal funds are used effectively and efficiently;
- Provide written approval of contracts supported by project funds;
- Review performance reports and financial records for completeness and accuracy; and
- Conduct mid-year and year-end reviews of programmatic and financial aspects of the State STEP projects.

The SBA Awarded a STEP Grant to an Ineligible Recipient

The Commonwealth of the Northern Mariana Islands (NMI) received a $1,022,781 STEP grant, despite the fact that the NMI was not an eligible recipient according to the Small Business Jobs Act of 2010. Officials from the SBA could not provide any rationale for making the award and stated that former personnel made the decision based on an opinion from SBA's Office of General Counsel. However, they could not provide any documentation to substantiate Counsel's opinion that NMI was an eligible recipient. In response to Advisory Memorandum Number 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* (see footnote 3, page 7), the SBA terminated NMI's STEP grant prior to disbursing any funds. As a result, the SBA misallocated $1,022,781 of STEP funds that could have been put to better use by additionally funding the other 51 STEP grant recipients. See Appendix II for a full list of FY 2011 STEP grant awards.

The SBA Did Not Effectively Communicate with Grant Recipients

The SBA mismanaged the STEP grant program by providing untimely and contradictory responses to inquiries, failing to enforce grant terms, and conducting inadequate reviews of recipient submissions. In doing so, the SBA did not fulfill its duty to oversee STEP project activities and ensure that federal funds were used effectively and efficiently.

Four of the five grant recipients with whom we met stated that SBA personnel failed to respond to inquiries in a timely manner. For example, the state of Washington submitted its first quarter request for reimbursement on January 30, 2012 and did not receive approval for payment until April 26, 2012. During this 87-day span, representatives from the state of Washington contacted the SBA multiple times and rarely received a prompt response. One month after submitting documents for reimbursement, the SBA responded via e-mail, stating that they "have not had the opportunity to review these requests." Similarly, Pennsylvania, Washington, and Michigan personnel felt that the SBA was slow to respond to programmatic issues, such as adherence to the Fly America Act and clarification on the definition of the term "eligible small business concern."

In addition to untimely responses, SBA personnel provided grant recipients with contradictory information. For example, the state of Pennsylvania had questions regarding reimbursement for pre-award costs. Title 2 of the Code of Federal Regulations (CFR) Section 225[10] states that grant recipients may be reimbursed for pre-award costs; however, the Grant Officer's Technical Representative (GOTR) advised Pennsylvania that it could not be reimbursed for those costs. On November 8, 2011, the program manager issued a memorandum that reversed this decision. Pennsylvania and Washington also had concerns about the application of the Fly America Act. Initially, the SBA advised grant recipients that the Fly America Act did not apply and that subgrantees[11] could be reimbursed for travel using non-U.S. carriers. After subgrantees reserved their flights, SBA personnel revised their position and determined that the Fly America Act applied to STEP grant recipients and subgrantees.

Officials at the SBA also provided contradictory information regarding subgrants. Each of the grant recipients indicated that their state intended to subgrant a portion of its STEP funds. However, the Notice of Award provided to each grant recipient stated that federal STEP funds could not be subgranted. In the OIT's November 8, 2011 memorandum, "Clarification of STEP Grant Issues," the SBA further clarified that subgrants were not permissible under the STEP program. The memorandum also stated that express statutory authority was required to award subgrants and the Small Business Jobs Act of 2010 did not afford STEP grant recipients the right to award subgrants.[12] Personnel from OIT instructed grant recipients to remove the word "subgrant" from their proposals and work plans and substitute it with words such as "stipend" and "voucher," in effect, disguising the action. With SBA's permission, grant recipients changed the names of these activities without altering the intent to award subgrants. In doing this, SBA personnel provided information that was contradictory to grant terms and conditions and advised grant recipients to violate grant terms. In addition, SBA's guidance placed the grant recipients at risk of not being reimbursed for subgrants because grant recipients can only be reimbursed for costs in accordance with the approved budget and Notices of Award. If the SBA intended for the states to award subgrants, the SBA should have modified the Notices of Award to allow subgrants.

Similarly, the Notices of Award allowed the SBA to issue no cost extensions that comply with specific provisions. A no cost extension allows the grant recipient to use grant funds beyond the expiration date in order to meet the needs established in the technical proposal. However, the provision requires extenuating circumstances, such as delays due to a "natural or man-made

[10] 2 CFR 225, Appendix B – Selected Items of Cost

[11] 13 CFR 143.3 defines the term "subgrant" as an award in the form of money made under a grant by a grantee to a subgrantee. The term includes financial assistance when provided by contractual legal agreement.

[12] We reviewed federal laws and regulations and could not verify SBA's assertion in the "Clarification of STEP Grant Issues" memorandum, dated November 8, 2011. However, the grant terms and conditions prohibited the use of subgranting.

disaster" and states that a grant recipient must not be awarded a follow-on grant to be performed during FY 2013. None of the grant recipients met SBA's definition of extenuating circumstances and each expects to receive another STEP grant in FY 2012. Contrary to the provision, SBA personnel said that they would allow states to use current year funds during the following year. In addition, SBA personnel did not take steps to modify grant terms and conditions. As a result, OIT personnel are placing grant recipients at risk of losing current funding because the grant recipients do not meet the requirements for a no cost extension.

The SBA Did Not Hold Grant Recipients Accountable for Grant Terms and Conditions

Grant recipients and SBA personnel signed Notices of Award, agreeing to the terms and conditions of the STEP grant. These terms included, but were not limited to: quarterly reporting requirements, no cost extensions, contracting and subgranting, and disallowed costs.[13] Personnel at the SBA did not enforce these terms and conditions as stated in the Notices of Award. For example, grant recipients were required to provide a written report to the SBA on progress made during each of the four quarters of the STEP grant. This report was to include a comparison between actual project accomplishments for the quarter and the projected accomplishments established for that period. However, none of the quarterly reports that we reviewed included this comparison. Personnel at the SBA did not provide feedback to grant recipients, nor did they request that quarterly reports be amended to include these required comparisons. Further, OIT personnel responsible for program oversight stated they did not perform adequate reviews of grant recipients' quarterly reports.

Likewise, grant recipients could only be reimbursed for activities conducted in accordance with the Notices of Award and approved budgets. Activities conducted outside the parameters of the Notices of Award and approved budgets result in disallowed costs and, when paid, are considered to be improper payments. Each of the states we reviewed had subgranted a portion of the STEP funds received by passing STEP funds to small businesses in order to subsidize trade show fees, travel expenses, and translation services. For instance, the SBA reimbursed Pennsylvania for trade shows attended by both large and small businesses. During the first quarter of performance, Pennsylvania sponsored six large businesses, allowing them to attend STEP-funded international trade shows. Rather than requesting a prorated reimbursement based on the percentage of small businesses in attendance at each show, Pennsylvania requested and received a full-cost reimbursement. Personnel at the SBA approved the reimbursement and processed it for payment without questioning these costs. Similarly, Illinois held several receptions, during which the state provided small business owners with information about the STEP program. However, Illinois' Notice of Award prohibits the use of STEP funding for any entertainment costs, receptions, or other social activities. Again, officials at the SBA disregarded the parameters established by the Notice of Award and approved Illinois' request for advance. Each of the states' reimbursement and advance requests for quarter one were paid in full, despite the fact that four of the five included disallowed costs.

[13] 2 CFR 215.2 defines the term "disallowed costs" as those charges to an award that the federal awarding agency determines to be unallowable, in accordance with the applicable federal cost principles or other terms and conditions contained in the award.

Inexperience and Inadequate Oversight Resulted in SBA's Mismanagement of STEP Grants

Inexperience and limited training contributed to the mismanagement of the STEP grant program. The OIT was established on December 23, 2010 as an independent office with a direct chain of reporting to the SBA Administrator. The OIT had never administered a grant program and most personnel were unfamiliar with the laws and regulations that govern grants. In addition, OIT personnel assigned to the STEP program did not receive training or obtain GOTR certifications. Further, OGM personnel stated that none of the individuals assigned to the STEP program had managed this type of grant in the past, including the Grants Management Officers (GMOs).[14] Because of their inexperience and inadequate training, SBA officials provided inconsistent and untimely direction to grant recipients.

In addition, GOTRs inappropriately recommended payment for costs outside the scope of the grant terms and conditions, which may have led to a bottleneck for reimbursement and advance request approval. Grant management officers were each responsible for 150-200 grants, which did not allow them sufficient time to conduct thorough reviews of recipients' requests for advance or reimbursement. Because GOTRs conducted insufficient reviews of advance and reimbursement requests, GMOs were forced to repeat the review process in order to correct mistakes. This added considerable time to the payment process, which according to one GMO, already included a lag time of six to eight weeks.

Another contributing factor in the mismanagement of the STEP program was SBA's inadequate oversight. State representatives indicated that SBA personnel have not conducted any site visits or reviews related to the STEP grant program. According to an OIT official, GOTRs did not perform a detailed review of quarterly reports and requests for advance and reimbursement. This same official indicated that oversight was conducted based on trust between the GOTR and the grant recipient. Had SBA conducted adequate oversight, SBA officials might have determined that grant recipients were being reimbursed for disallowed costs and were behind schedule. In addition, SBA personnel could have directed grant recipients to take appropriate action to expend STEP funds in accordance with grant terms and conditions and accelerate the schedule.

Conclusion

The SBA misallocated $1,022,781 in STEP funds by awarding a grant to the NMI, which was not an eligible recipient. These funds could have been put to better use by additionally funding eligible grant recipients' programs. Instead, the SBA will likely return the funds to the US Department of the Treasury because the funds expire on September 30, 2012. This would defeat Congress' intent to award $30 million to eligible STEP grant recipients. Had SBA's Office of International Trade been more experienced with grant program management, they may have recognized many of the program's shortcomings. Experienced grant personnel also could have been more responsive and consistent in their communications with STEP grant recipients, leading to a more effective and efficient program. However, inconsistent interpretations of the Notices of Award, the FY 2011 STEP Program Announcement, and the Code of Federal

[14] The Grants Management Officer (GMO) is the SBA official with delegated authority to obligate federal funds by signing the Notice of Award. According to the STEP grant program GMOs, they are responsible for monitoring and administrating all financial aspects of the STEP grants, including payment of advance and reimbursement requests.

Regulation (CFR) appear to have created confusion for grant recipients and SBA personnel. Further, SBA's mismanagement has caused OIT to authorize grant recipients to request no cost extensions contrary to the grant terms and conditions.

Recommendations

We recommend that the Associate Administrator for International Trade:

6. Document and maintain all analyses, evaluations, and rationale used to award STEP grants.
7. Provide Grant Officers 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.
9. Consult with the Office of Grants Management (OGM) to modify STEP grant terms and conditions to align with SBA's management of the program.

Agency Comments and Office of Inspector General Response

On August 14, 2012, we provided a draft of this report to the SBA's Office International Trade (OIT) for comment. On September 11 and September 14, 2012, the Associate Administrator (AA) for International Trade submitted formal comments, which are included in their entirety in Appendix III. The AA for International Trade acknowledged the cooperative relationship established between the OIG and the OIT. In addition, the AA for International Trade stated that the OIG's recommendations will improve program administration, increase grant recipients' financial accountability, increase the number of small businesses that export, and increase the value of exports for small businesses that are currently exporting. In many cases, the OIT had already taken action to mitigate issues and improve SBA's management of the STEP grant program; however, the AA for International Trade did not state whether management concurred or non-concurred with seven of our nine recommendations. We consider management comments to be responsive to seven recommendations, partially responsive to one recommendation, and unresponsive to the remaining recommendation. A summary of management's comments and our response follows.

Recommendation 1 – Meet with Congress to determine STEP program expectations for FY 2012.

Agency Comments

According to the AA for International Trade, OIT personnel have met with House and Senate staff members to discuss FY 2012 STEP program expectations. Specifically, the AA for International Trade met with staff members from the House and Senate Small Business Committees in the fall of 2011 and the summer of 2012. In addition, the SBA hosted a congressional panel, which included staff members from the House and Senate Small Business Committees, during the STEP Best Practices Conference in February 2012. During these meetings, House and Senate staff provided feedback on the FY 2011 STEP program, its legislative history, and FY 2012 performance expectations. Further, OIT staff solicited ideas on specific performance metrics that the STEP program should be measuring. These dialogues have informed the implementation of the program.

OIG Response

We consider management comments to be responsive to our recommendation.

Recommendation 2 – Ensure that STEP grant recipients' FY 2012 performance measures align with Congress' expectations.

Agency Comments

The AA for International Trade stated that the OIT intends to modify the STEP program reporting requirements during the first quarter of FY 2013 in order to ensure that they align with Congress' expectations.

OIG Response

We consider management comments to be responsive to our recommendation.

Recommendation 3 – Require STEP grant recipients to establish and provide the SBA with quarterly milestones that will measure effectiveness and efficiency on a quarterly basis.

Agency Comments

The AA for International Trade stated that when the OIT became aware of our concerns, the reporting process was modified to reflect accomplishments against milestones. In addition, the OIT plans to aggressively enforce the new process in the upcoming year.

OIG Response

We consider management comments to be responsive to our recommendation.

Recommendation 4 – In cases where STEP grant recipients do not meet established milestones, require grant recipients to provide the SBA with revised work plans and budget estimates to meet proposed performance goals.

Agency Comments

In cases where STEP grant recipients do not meet established milestones, OIT staff members plan to require grant recipients to provide the SBA with revised work plans to meet new performance goals. In the future, the OIT will also require grant recipients to provide new budget estimates, as necessary.

OIG Response

We consider management comments to be responsive to our recommendation.

Recommendation 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.

Agency Comments

According to the AA for International Trade, OIT staff members will research the grant regulations at 13 CFR 143 and 2 CFR 225 in order to ensure compliance.

OIG Response

We consider management comments partially responsive to our recommendation. While ensuring compliance with grant regulations is both important and necessary to the success of the STEP grant program, the grant Notices of Award and the STEP Grant Program Announcement may be more restrictive. Therefore, STEP grant recipients must be held to the terms established in those documents.

Recommendation 6 – Document and maintain all analyses, evaluations, and rationale used to award STEP grants.

Agency Comments

According to OIT staff, all analyses, evaluations, and rationale used to award STEP grants for FY 2011 and FY 2012 have been documented. However, the OIT plans to make these documents more readily available.

OIG Response

We consider management comments to be non-responsive to our recommendation. The audit team requested that OIT staff provide documentation related to the analyses, evaluations, and rationale used to award FY 2011 STEP grants on several occasions. However, the OIT did not respond to our requests and we concluded that the documentation had not been properly maintained. Therefore, there is no evidence to support OIT's assertion that it maintained adequate documentation and this remains a potential area of weakness.

Recommendation 7 – Provide Grant Officers Technical Representative (GOTR) training to OIT personnel acting in that capacity.

Agency Comments

According to the AA for International Trade, several OIT staff members have received GOTR training. However, the OIT plans to provide training to all staff members that act as STEP grant program GOTRs.

OIG Response

We consider management comments to be responsive to our recommendation.

Recommendation 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.

Agency Comments

The OIT concurred with our recommendation and stated that OIT staff will establish and implement a policy requiring GOTRs to conduct in-depth reviews of STEP grant recipients' quarterly submissions and provide feedback to grant recipients, beginning in the first quarter of FY 2013.

OIG Response

We consider management comments to be responsive to our recommendation. However, we believe that these in-depth reviews should begin with the fourth quarter of FY 2012. Grant recipients' fourth quarter reports are due 90 days from the end of the quarter. This timeframe coincides with the first quarter of FY 2013 and therefore, reviews should be conducted and feedback should be provided for both quarters.

Recommendation 9 – Consult with the Office of Grants Management (OGM) to modify STEP grant terms and conditions to align with SBA's management of the program.

Agency Comments

The OIT concurred with our recommendation and stated that staff members have worked and coordinated with OGM staff to address management issues. In addition, OIT and OGM have established a weekly problem resolution meeting to ensure SBA's management of the program is aligned with STEP grant terms and conditions.

OIG Response

We consider management comments to be responsive to our recommendation.

Actions Required

Please provide your management decision for each recommendation on the attached SBA Forms 1824, Recommendation Action Sheet, within 30 days from the date of this report. Your decision should identify the specific action(s) taken or planned for each recommendation and the target date(s) for completion.

We appreciate the courtesies and cooperation of the Small Business Administration during this audit. If you have any questions concerning this report, please call me at (202) 205-7390 or Riccardo R. Buglisi, Director, Business Development Programs Group at (202)205-7489.

Appendix I: Scope and Methodology

We conducted this audit from March 2012 to June 2012 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.

Congress directed the Small Business Administration (SBA) Office of Inspector General to review the SBA's State Trade and Export Promotion (STEP) Grant Program, which was established by the Small Business Jobs Act of 2010. One of our audit objectives was to determine the extent to which grant recipients were measuring the performance of activities being conducted and the results of those measurements. In addition, we reviewed the overall management and effectiveness of the STEP grant program. To meet these objectives, 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 (NMI). We limited our scope because the Small Business Jobs Act of 2010 required the Office of Inspector General to provide a report to the Senate Committee on Small Business and Entrepreneurship and the House Committee on Small Business no later than September 30, 2012. Due to time constraints, we were unable to review grant recipients' FY 2011 STEP grant performance results for quarters three and four.

To achieve our audit objectives, we reviewed the Small Business Jobs Act of 2010 and the Small Business Administration's FY 2011 STEP Program Announcement. We also conducted site visits and obtained documentation from grant recipients in the states of Pennsylvania, California, 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, Public Law 111-240, and OMB Circular A-123.

Use of Computer Processed Data

We relied on the SBA's financial management system, Joint Administrative Accounting Management System (JAAMS), to obtain accounts payable transactions associated with California, Illinois, Michigan, Pennsylvania, and Washington. We reviewed these transactions in order to identify first quarter advance or reimbursement payments made to each state.

Prior Coverage

The Office of Inspector General issued Advisory Memorandum Number 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*, on March 30, 2012. We reported that the NMI inappropriately received a STEP grant valued at $1,022,781. Based on the definition of the term "state" found in the Small Business Jobs Act of 2010, the audit team determined that the NMI was ineligible to receive a STEP grant. As a result of our report, SBA personnel terminated grant number SBAHQ-11-IT-0047 on March 27, 2012.

Appendix II: FY 2011 State Trade and Export Promotion (STEP) Grants Awarded

Grant Recipient	Federal STEP Funds Awarded	Recipient Eligibility
California	$2,540,924	Eligible
Pennsylvania	$1,710,904	Eligible
Washington	$1,591,919	Eligible
Michigan	$1,466,978	Eligible
Illinois	$1,265,477	Eligible
Commonwealth of the Northern Mariana Islands	$1,022,781	Ineligible
Ohio	$983,399	Eligible
Missouri	$977,742	Eligible
Georgia	$973,429	Eligible
New York	$898,646	Eligible
Louisiana	$850,000	Eligible
Oklahoma	$825,733	Eligible
Florida	$780,786	Eligible
Mississippi	$752,914	Eligible
Arizona	$656,000	Eligible
Massachusetts	$614,025	Eligible
North Carolina	$603,442	Eligible
Utah	$584,982	Eligible
Maryland	$584,897	Eligible
Arkansas	$576,404	Eligible
District of Columbia	$548,116	Eligible
Connecticut	$546,822	Eligible
Kansas	$505,326	Eligible
Rhode Island	$496,066	Eligible
US Virgin Islands	$489,646	Eligible
Hawaii	$485,719	Eligible
Minnesota	$454,130	Eligible
Virginia	$432,099	Eligible
Kentucky	$427,843	Eligible
Oregon	$375,000	Eligible
Tennessee	$375,000	Eligible
Iowa	$370,258	Eligible
Vermont	$363,768	Eligible
Alaska	$330,000	Eligible
Colorado	$312,182	Eligible
Nebraska	$310,860	Eligible
Montana	$307,849	Eligible
New Hampshire	$299,493	Eligible
Idaho	$292,000	Eligible
Delaware	$246,917	Eligible
Commonwealth of Puerto Rico	$240,630	Eligible
Nevada	$239,318	Eligible
South Carolina	$202,669	Eligible
Wisconsin	$162,176	Eligible
Texas	$161,711	Eligible
Maine	$146,000	Eligible
Alabama	$140,600	Eligible
Guam	$135,927	Eligible
South Dakota	$116,393	Eligible
Indiana	$100,289	Eligible
New Mexico	$81,000	Eligible
Wyoming	$42,686	Eligible

Appendix III: Agency Comments

U.S. SMALL BUSINESS ADMINISTRATION

WASHINGTON, D.C.

OFFICE OF INTERNATIONAL TRADE

TO: John K. Needham, OIG

FROM: Dario Gomez, AA/OIT

DATE: September 11, 2012

SUBJECT: OIT Performance Audit Report on STEP Grant Program

This memorandum responds to the August 14, 2012, Performance Audit Report titled "The SBA Needs to Improve Its Management of the State Trade and Export Promotion Grant Program" (STEP). The report asks for written or oral comments within 30 days from August 14. This memo responds to that request.

The Office of International Trade's (OIT) objective for the STEP pilot Grant Program is to increase the number of small businesses that are exporting and to increase the value of exports for those small businesses that are currently exporting. We fully recognize that eligible organizations may apply to SBA for awards of financial assistance to carry out exporting programs that assist "eligible small business concerns." And, we take very seriously the fact that we have full responsibility for programmatic execution of the program.

We further acknowledge the full, courteous, and cooperative relationship between our office and the Office of Inspector General (OIG) during the audit process. We believe this relationship has led to meaningful and insightful recommendations that will improve program administration, increase grant recipients' financial accountability, and ultimately increase the number of small businesses that export and increase the value of exports for businesses that are currently exporting.

This is a list of the nine recommendations, followed by OIT's response.

OIG Recommendation	OIT Response
1. Meet with Congress to determine STEP program expectations	Over the past year, OIT staff has met with House and Senate staff both in person and via teleconference to discuss STEP program

for FY 2012	expectations for FY 2012. During these meetings, Hill staff has provided feedback on the STEP program, its legislative history, and performance expectations. Additionally, OIT staff has solicited ideas on specific performance metrics the STEP program should be measuring. These dialogues with Hill staff on STEP program expectations have informed the implementation of the program.
2. Ensure that STEP grant recipients' FY 2012 performance measures align with Congress' expectations.	OIT staff intends to modify the reporting requirements, as necessary, during the 1st quarter of FY 2013 to align the performance measures with Congress' expectations.
3. Require STEP grant recipients to establish and provide the SBA with quarterly milestones that will measure effectiveness and efficiency on a quarterly basis.	When OIT staff became award of OIG's concerns, OIT modified the reporting process to reflect accomplishments against milestones and will aggressively enforce it in the coming year.
4. In cases where STEP grant recipients do not meet established milestones, require grant recipients to provide the SBA with revised work plans and budget estimates to meet proposed performance goals.	In cases where STEP grant recipients do not meet established milestones, OIT staff plans to require grant recipients to provide the SBA with revised work plans to meet new performance goals. In the future, we will also require grant recipients to provide new budget estimates, as necessary.
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.	OIT staff plans to research the grant regulations at 13 CFR 143 and 2 CFR 225 to comply with the regulations.
6. Document and maintain all analyses, evaluations, and rationale used to	OIT staff has already documented all analyses, evaluations and rationale used to award STEP grants for FY 2011 and 2012. However, OIT plans

award STEP grants.	to make these documents more readily available.
7. Provide Grant Officers Technical Representative (GOTR) training to OIT personnel acting in that capacity.	OIT has already provided training to several OIT staff. However, OIT plans to provide GOTR training to all OIT staff who are 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.	OIT staff concurs, and beginning with the 1st quarter of 2013, OIT staff plan to establish and implement a policy requiring GOTRs to conduct in-depth reviews of STEP grant recipients' quarterly submissions and provide feedback to grant recipients.
9. Consult with the Office of Grants Management (OGM) to modify STEP grant terms and conditions to align with SBA's management of the program.	OIT staff concurs. OIT staff has worked and coordinated with the OGM staff on management problems. Also, OIT and OGM have established a weekly problem resolution meeting to ensure SBA's management of the program is aligned with STEP grant terms and conditions.

In summary, our office greatly appreciates the opportunity to work with the Office of the Inspector General to improve program management so that we can increase the number of small businesses that export and to increase the exports of those small businesses that already export.

If you have any questions, please do not hesitate to contact Arthur Collins of my staff at 205-6285.

OFFICE OF
INTERNATIONAL
TRADE

U.S. SMALL BUSINESS ADMINISTRATION

TO: John K. Needham
Assistant Inspector General for Auditing

FROM: Dario J. Gomez
Associate Administrator, Office of International Trade

DATE: September 14, 2012

SUBJECT: Supplemental Response to the OIT Performance Audit Report on STEP Grant Program

This memorandum is intended to supplement the Office of International Trade's (OIT) September 11, 2012, response to the August 14, 2012, Performance Audit Report titled "The SBA Needs to Improve Its Management of the State Trade and Export Promotion Grant Program" (STEP).

This supplemental response addresses the Office of Inspector General's (OIG) first recommendation as listed below:

1. Meet with Congress to determine STEP program expectations for FY 2012.

On September 11, 2012, OIT responded to this recommendation with the following statement:

> Over the past year, OIT staff has met with House and Senate staff both in person and via teleconference to discuss STEP program expectations for FY 2012. During these meetings, Hill staff has provided feedback on the STEP program, its legislative history, and performance expectations. Additionally, OIT staff has solicited ideas on specific performance metrics the STEP program should be measuring. These dialogues with Hill staff on STEP program expectations have informed the implementation of the program.

OIT now supplements this response with the following information. Beginning in September 2011, SBA has made numerous efforts to communicate with Hill staffers regarding the FY 2012 STEP program. On September 30, 2011, I met with the House Small Business Committee regarding the STEP program. On October 27, 2011, I met with a Senate Small Business Committee staffer where we discussed the STEP program in depth. During this meeting the Policy Director for the Senate Small Business Committee discussed the STEP program's legislative history. On November 30, 2011, I met with a member of the Senate Small Business Committee's staff where we again discussed the STEP program in depth and the Senate staffer suggested a Congressional panel be present at the STEP Best Practices conference to be held in February 2012. In addition to the frequent meetings and conversations with congressional staff during the fall of 2011 regarding the FY 2012 STEP program, SBA hosted a congressional panel on STEP at the STEP Best Practices conference in February 2012. Staff members from both the House and Senate Small Business Committees participated on a panel at that conference. On July 20, 2012, I met with Senate and House Small Business Committee staffers to again discuss the STEP program. On August 28, 2012, I participated in a conference call with a Senate Small Business Committee staffer regarding the STEP program. The record of communication between SBA and the Hill staff demonstrates SBA's commitment to maintaining a dialogue between the Agency and the Small Business Committees regarding the STEP program.

Based on your recommendations, I will continue to have an open dialogue with Congress to determine STEP program expectations for FY 2012. If you have any questions, please do not hesitate to contact Arthur Collins of my staff at (202) 205-6285.