



**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL**

**ADVISORY MEMORANDUM
REPORT NO. 12-12**

DATE: March 30, 2012

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

SUBJECT: 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

Summary

This advisory memorandum presents an issue that we identified during our ongoing *Audit of the Small Business Administration's (SBA's) State Trade and Export Promotion (STEP) Grant Program*. We determined that the SBA's Office of International Trade (OIT) personnel inappropriately awarded a fiscal year (FY) 2011 STEP grant for \$1,022,781 to the Commonwealth of the Northern Mariana Islands, despite being ineligible to receive the grant. Due to the significance and timing of our finding related to the grant awarded to the Commonwealth of the Northern Mariana Islands, we are issuing this advisory memorandum to enable SBA's Office of International Trade (OIT) personnel to take immediate corrective action. We will issue a separate report on the overall management and effectiveness of the STEP program, grant recipients' performance measurements, and the results of those measurements.

The Small Business Jobs Act of 2010 requires the SBA Office of the Inspector General to evaluate the STEP program. Our audit objectives are to determine the extent to which STEP grant recipients are measuring the performance of activities being conducted and the results of those measurements. An additional objective is to review the overall management and effectiveness of the STEP grant program. To perform our evaluation, we judgmentally selected the six STEP grant recipients that received awards valued at more than \$1 million. The audit fieldwork to test these audit objectives is still in progress; however, we conducted the audit work related to the current issue during March 2012.

We conducted this audit 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

The Small Business Jobs Act of 2010¹ authorized the SBA to establish the STEP Grant Program as a three-year trade and export pilot program. The express purpose of the program is to award grants to States to execute export programs that assist eligible small business concerns. Eligible activities include payment for:

- participation in a foreign trade mission;
- a foreign market sales trip;
- a subscription to services provided by the Department of Commerce;
- 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 Associate Administrator.

The SBA's Office of International Trade directs and coordinates the STEP program. The Associate Administrator (AA) for the OIT is authorized to competitively award no more than one grant per State with a total value of \$30 million for each of the three fiscal years that the program is in operation.

The SBA Office of the Inspector General (OIG) is required by the Small Business Jobs Act of 2010 to provide a report summarizing its review to the Senate Committee on Small Business and Entrepreneurship and the House Committee on Small Business no later than September 30, 2012.

Results

In September 2011, the SBA OIT awarded 52 STEP grants totaling \$29,999,875. Grant number SBAHQ-11-IT-0047 was awarded to the Commonwealth of the Northern Mariana Islands, valued at \$1,022,781. However, the Commonwealth of the Northern Mariana Islands was not an eligible grant recipient, as outlined in the Small Business Jobs Act of 2010 and the FY 2011 STEP Grant Program Announcement. According to the Small Business Jobs Act of 2010, eligible applicants for the STEP grants include each of the several States, the District of Columbia, the Commonwealth of Puerto Rico, Guam, and American Samoa. In addition, the FY 2011 STEP Grant Program Announcement includes the same list of eligible applicants. Neither the statute nor the program announcement identified the Northern Mariana Islands as eligible for the STEP grant program. Despite being an ineligible applicant and recipient, OIT personnel inappropriately awarded a STEP grant to the Commonwealth of the Northern Mariana Islands. Because there was no documentation to support the Commonwealth of the Northern Mariana Islands' eligibility, program personnel could not determine why OIT awarded it a STEP grant.

At the time of the grant award, the SBA grant personnel obligated the full amount of the grant in the notice of award. While funds were obligated, they were not disbursed to the Commonwealth of the Northern Mariana Islands. According to STEP program personnel, funds for the STEP program may be disbursed as an advance to the State or they may be disbursed on a reimbursable basis. For example, if a State anticipated requiring \$200,000 during the first quarter of the fiscal year, the grant specialist

¹ Public Law 11-240, *Small Business Jobs Act of 2010*, September 27, 2010

could disburse that amount and allow the State to drawdown the funds as they are used for eligible expenses. In contrast, the SBA could also wait for the State to submit eligible expenses for reimbursement and the SBA would then disburse the funds as needed to cover the expenses. As of March 21, 2012, the SBA has not disbursed any funds to the Commonwealth of the Northern Mariana Islands.

We informed the SBA Office of International Trade of our determination that the Commonwealth of the Northern Mariana Islands was inappropriately awarded a STEP grant. Based on our briefing, SBA personnel reviewed the matter and agreed with our determination. According to SBA personnel, they will be taking action to terminate STEP grant number SBAHQ-11-IT-0047 awarded to the Commonwealth of the Northern Mariana Islands.

Conclusion

The Small Business Jobs Act of 2010 does not list the Commonwealth of the Northern Mariana Islands as an eligible grant recipient. Therefore, the statutory grant of authority for the STEP grant program does not permit the use of STEP grant funds for the Commonwealth of the Northern Mariana Islands. The SBA's Office of International Trade personnel inappropriately awarded the Commonwealth of the Northern Mariana Islands a grant valued at \$1,022,781, which resulted in eligible grant recipients receiving a lesser portion of the available \$30 million for the STEP program for FY 2011. We consider this \$1,022,781 to be questioned costs, due to SBA's failure to adhere to the Small Business Jobs Act of 2010.

Recommendations

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

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. 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.
3. Redistribute the funds to other qualified STEP program recipients or return the funds to the United States Department of the Treasury.
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.

Agency Comments and Office of Inspector General Response

On March 23, 2012, we provided a draft of this advisory memorandum to SBA's Office of International Trade (OIT) for comment. On March 29, 2012, the Associate Administration (AA) for OIT submitted formal comments, which are contained in their entirety in Appendix I. The AA concurred with our finding and recommendations. In addition, management provided two technical corrections to the draft

advisory memorandum, both of which have been addressed in this final version. A summary of management's comments and our response follows.

Recommendation 1 – Instruct grant officers to immediately terminate STEP grant number SBAHQ-11-IT-0047, awarded to the Commonwealth of the Northern Mariana Islands.

Management Comments

Management stated that STEP grant number SBAHQ-11-IT-0047, awarded to the Commonwealth of the Northern Mariana Islands has been cancelled. The Office of Grants Management has deobligated the funds associated with the grant.

OIG Response

We consider management comments to be responsive to our recommendation.

Recommendation 2 – Withhold fund disbursements of grant number SBAHQ-11-IT-0047 to the Commonwealth of the Northern Mariana Islands. 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.

Management Comments

Management stated that no funds were disbursed under STEP grant number SBAHQ-11-IT-0047. Therefore, there are no funds to recover. In addition, the grant has been cancelled and no future funds can be disbursed.

OIG Response

We consider management comments to be responsive to our recommendation.

Recommendation 3 – Redistribute the funds to other qualified STEP program recipients or return the funds to the United States Department of the Treasury.

Management Comments

Management stated that all deobligated funds resulting from the cancellation of STEP grant number SBAHQ-11-IT-0047 will be distributed or disposed of in accordance with applicable legal authority, including account closure statutes.

OIG Response

We consider management comments to be responsive to our recommendation.

Recommendation 4 – Take precautions to ensure that 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.

Management Comments

Management stated that the Program Announcement for FY 2012 STEP grants clearly identifies the eligible recipients as set forth in the authorizing statute. In addition, the FY 2012 STEP grant applications will be carefully reviewed for eligibility prior to grant award.

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 advisory memorandum. 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.

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

Appendix I. Management Comments



U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C.

TO: John K. Needham
Assistant Inspector General for Auditing

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

DATE: March 29, 2012

SUBJECT: Response to OIG Draft Advisory Memorandum: The SBA's Office of International Trade Inappropriately Awarded a One Million Dollar State Trade and Export Promotion Program Grant to an Ineligible Recipient (Project No. 12007) (March 23, 2012)

We have reviewed the OIG Draft Advisory Memorandum ("Draft Memorandum") and SBA concurs with your conclusion that the State Trade and Export Promotion (STEP) grant in question was awarded to an ineligible recipient. Our responses to the recommendations contained in the Draft Memorandum are as follows:

I. Recommendations and Agency Responses

Recommendation #1: "Instruct grant officers to immediately terminate STEP grant number SBAHQ-11-IT-0047 awarded to the Northern Mariana Islands."

OIT Response: STEP grant number SBAHQ-11-IT-0047 to the Commonwealth of the Northern Mariana Islands has been cancelled as of its issuance date. The Office of Grants Management has deobligated the STEP grant funds associated with the grant.

Recommendation #2: "Withhold fund disbursements of grant number SBAHQ-11-IT-0047 to the Northern Mariana Islands. In the case that funds are disbursed between the issuance of the draft version and final version of this Advisory Memorandum, recover all funds that were disbursed."

OIT Response: No funds were disbursed under STEP grant number SBAHQ-11-IT-0047. Therefore, there are no funds to recover. In addition, as the grant is cancelled, there can be no future fund disbursements on the grant.

Recommendation #3: “Redistribute the funds to other qualified STEP program recipients or return the funds to the United States Department of the Treasury.”

OIT Response: All deobligated funds resulting from the cancellation of STEP grant number SBAHQ-11-IT-0047 will be distributed or disposed of in accordance with applicable legal authority, including the account closure statutes. 31 USC 1551-1558.

Recommendation #4: “Take precautions to ensure 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 Northern Mariana Islands eligible.”

OIT Response: The Notice of Funds Availability (Program Announcement) for the Fiscal Year 2012 STEP grants clearly identifies the eligible recipients as set forth in the authorizing statute. In addition, the FY 2012 STEP grant applications will be carefully reviewed for eligibility before making any FY 2012 STEP grant awards.

II. Draft Memorandum – Technical Corrections

The following comments address recommended corrections to the Draft Memorandum:

Pages 1, 2, and 3, various places. Substitute “Commonwealth of the Northern Mariana Islands” for “Northern Mariana Islands.” This indicates the legal name of the territory.

Page 2, First paragraph under Results heading, second sentence: Substitute “\$1,022,781” for “\$1,002,781.” This conforms to the correct dollar amount in the notice of award.

cc: Antonio Doss
Director, Office of Grants Management