

AUDIT REPORT

AUDIT OF SBA'S STATE TRADE EXPANSION PROGRAM





EXECUTIVE SUMMARY

AUDIT OF SBA'S STATE TRADE EXPANSION PROGRAM

Audit Report
No. 18-11

January 29,
2018

What OIG Reviewed

The Trade Facilitation and Trade Enforcement Act of 2015 (the Act) directed the Small Business Administration (SBA) to establish the State Trade Expansion Program (STEP) with the objective to make grants to states to carry out programs that assist eligible small business concerns in the state exploring significant new trade opportunities.

In accordance with the Act's requirements, this report presents the results of our audit. The objectives of the audit were (1) to determine the extent to which STEP recipients measured program activity performance and the results of those measurements and (2) to review the overall management and effectiveness of STEP.

To answer our objectives, we judgmentally selected five cooperative agreement awards totaling \$3.9 million based on dollar value and risk. We conducted site visits and obtained documentation from recipients in the states of California, North Carolina, Washington, and Mississippi. We also interviewed and obtained documentation from cooperative agreement officials for the state of Illinois. Additionally, we interviewed personnel and obtained documentation from SBA's Office of International Trade.

What OIG Found

SBA has made significant progress in improving the overall management and effectiveness of STEP since the audit of the pilot program in 2012; however, SBA needs to improve its performance measures and program oversight.

Although SBA designed a program specific performance progress report that assists program managers in monitoring recipients' progress and requires states to report measurable results, SBA did not effectively analyze the information to report on program success. SBA relied on unverified return on investment measurement when other performance measures may provide more comprehensive program results.

Additionally, SBA did not provide effective oversight of the recipients to ensure they achieved program goals; all five fiscal year 2016 recipients we reviewed were not on track to spend the full award amount.

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

OIG Recommendations

The Office of Inspector General recommended a total of six specific actions, all of which were addressed to SBA's Associate Administrator for International Trade. We believe that these recommended actions will improve the overall management and effectiveness of STEP.

Agency Response

SBA management's planned or implemented actions resolve all six recommendations. SBA plans to establish performance measurements using the recipients' reported data and include them in the annual report as a verifiable measure of program success. SBA also will implement a process to ensure recipients report accurate and complete information for participating eligible small business concerns that reconciles to the quarterly performance reports. Additionally, SBA plans to clearly define essential measurement criteria and require STEP applicants to include reimbursement and activity thresholds for participating eligible small business concerns in their proposals. Further, SBA plans to increase oversight of cooperative agreement recipients and establish and implement a risk-based approach to monitor recipients that are not meeting their quarterly milestone goals. Finally, SBA management implemented the corrective action for Recommendation 5 by updating its quarterly in-depth review checklist to emphasize monitoring the recipients' quarterly performance.



**U.S. SMALL BUSINESS ADMINISTRATION
OFFICE OF INSPECTOR GENERAL
WASHINGTON, D.C. 20416**

Final Report Transmittal
Report Number: 18-11

DATE: January 29, 2018

TO: Linda E. McMahon
Administrator

FROM: Hannibal "Mike" Ware 
Acting Inspector General

SUBJECT: *Audit of SBA's State Trade Expansion Program*

This report presents the results of our audit of the Small Business Administration's (SBA's) State Trade Expansion Program. We conducted this audit in accordance with generally accepted government auditing standards.

We considered management comments on a draft of this report when preparing the final report. The report contains six recommendations that SBA agreed to address. Based on SBA's corrective actions, we closed Recommendation 5.

We appreciate the courtesies and cooperation extended to us during this audit. If you have any questions, please contact me at (202) 205-6586 or Andrea Deadwyler, Assistant Inspector General for Audits, at (202) 205-6616.

cc: Allie Leslie, Deputy Administrator
Pradeep Belur, Chief of Staff
Peter Cazamias, Associate Administrator, Office of International Trade
Sean Crean, Executive Director of Administrative Services
Christopher M. Pilkerton, General Counsel
Martin Conrey, Attorney Advisor, Legislation and Appropriations
LaNae Twite, Director, Office of Internal Controls

Table of Contents

Introduction.....	1
Background.....	1
Prior Audit Work.....	2
Objectives.....	2
Finding 1: Recipients’ Performance Measurements Need Improvement.....	3
Return on Investment Measurement.....	3
Program Participation Measurements.....	3
Definitions of Key Program Measurements.....	4
ESBC Participation and Reimbursements Thresholds.....	4
Recommendations.....	5
Finding 2: Recipients Were Behind in Activity Spending.....	6
Quarterly Milestone Oversight.....	6
Quarterly Expenditure Tracking.....	6
Recommendations.....	7
Analysis of Agency Response.....	7
Summary of Actions Necessary to Close the Recommendations.....	7
Appendix I: Objectives, Scope, and Methodology.....	9
Objectives.....	9
Scope and Methodology.....	9
Use of Computer-Processed Data.....	10
Review of Internal Controls.....	10
Appendix II: Agency Comments.....	11

Introduction

Background

The Trade Facilitation and Trade Enforcement Act of 2015 (the Act) directed the Small Business Administration (SBA) to establish the State Trade Expansion Program (STEP). The Act required the Office of Inspector General (OIG) to conduct a review and submit a report to Congress no later than 18 months after the date on which the first cooperative agreement (agreement) was awarded under STEP.

The STEP objective was to make grants to states to increase the number of eligible small business concerns (ESBCs) in the state exploring significant new trade opportunities.¹ The Act prescribed the Associate Administrator of the Office of International Trade (OIT) award grants to states to carry out programs that assist ESBCs in the following export promotion activities:

- Participation in foreign trade missions;
- A subscription to services provided by the Department of Commerce;
- The payment of website fees;
- The design of marketing media;
- A trade show exhibition;
- Participation in training workshops;
- A reverse trade mission;
- Procurement of consultancy services (after consultation with the Department of Commerce to avoid duplication); or
- Any other initiative determined appropriate by the Associate Administrator for OIT.²

The Act defined the term “state” to include each of the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands. The Act required the Associate Administrator for OIT to establish STEP and gave the Associate Administrator for OIT the authority to award each state no more than one agreement per fiscal year (FY) on a competitive basis. Additionally, the Act states that the Associate Administrator for OIT may give priority to programs that include activities that have resulted in the highest return on investment and have adopted shared best practices included in SBA’s annual report. Furthermore, the Act required the Associate Administrator for OIT to publish an annual report on the agency’s website that discusses the effect of each agreement on the ESBCs in the state receiving the agreement; the total return on investment for each state; and a description of best practices by state that showed high return on investment and significant progress in helping more ESBCs.

For FY 2016, SBA awarded 44 cooperative agreements to STEP recipients. Cooperative agreements provide for substantial involvement between the Federal awarding agency and the non-Federal entity in carrying out the activity, which distinguishes cooperative agreements from other Federal assistance award instruments such as a grant.

¹ According to the Act, an eligible small business concern is organized or incorporated and operating in the United States; meets size standards in the Small Business Act § 3(a) or alternative size standards, has been in business for no less than 1 year; and has access to sufficient resources to bear the costs associated with trade.

² Public Law 114-125, Trade Facilitation and Trade Enforcement Act of 2015, §503 (February 2016).

STEP replaced SBA's State Trade and Export Promotion Grant Program, a pilot program established in 2011 by the Small Business Jobs Act of 2010.³ The objectives of the pilot program were similar to STEP: (1) to increase the number of ESBCs in the state that export and (2) to increase the value of the exports by ESBCs in the state.

Prior Audit Work

In 2012, we conducted an audit of the FY 2011 pilot program that identified weaknesses in SBA's management and oversight of the program.⁴ The report included nine recommendations to improve SBA's management of the pilot program, including a recommendation to hold recipients accountable for adhering to reporting requirements established in the notices of award and program announcements. Between May 2013 and September 2013, the OIT provided documentation to support implementation of all nine recommendations.

Additionally, during our audit of the pilot program, we reported that OIT inappropriately awarded a grant to the Commonwealth of the Northern Mariana Islands, despite being ineligible to receive the grant.⁵ Congress amended the Small Business Act to add the Commonwealth of the Northern Mariana Islands as an eligible state.⁶

Lastly, in May 2017, OIG issued a report on its evaluation of the pilot program for FYs 2011, 2012, 2014, and 2015 that found SBA was inconsistent with reporting grant award and expenditure data, and grant recipients had not used over 25 percent of their awarded funds.^{7,8} As a result of the review, OIG provided three recommendations to improve SBA's oversight of STEP. SBA's planned actions should resolve the recommendations and will be closed when SBA provides evidence of implementing the actions.

Objectives

Our objectives were (1) to determine the extent to which STEP recipients measured program activity performance and the results of those measurements and (2) to review the overall management and effectiveness of STEP.

³ Public Law 111-240, Small Business Jobs Act of 2010, §1207 (September 2010).

⁴ SBA OIG Report 12-21, *The SBA Needs to Improve Its Management of the State Trade and Export Promotion Grant Program*, (September 25, 2012).

⁵ SBA OIG Report 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).

⁶ Public Law 112-239, National Defense Authorization Act for FY 2013, §1699a (January 2, 2013).

⁷ SBA OIG Report 17-11, *Review of the SBA's State Trade and Export Promotion Grant Program* (May 4, 2017).

⁸ Congress did not appropriate any funding for STEP in FY 2013.

Finding 1: Recipients' Performance Measurements Need Improvement

While SBA made significant progress in improving the overall management and effectiveness of STEP, such as implementing a program specific performance progress report and requiring recipients to report activities completed and the measurable results on a quarterly basis, performance measurements need improvement. Specifically, SBA relied on unverified return on investment measurement as the sole measure for program success when other performance measures may provide more comprehensive program results. Additionally, SBA did not establish clear definitions for key performance measurements that resulted in recipients reporting inconsistent performance results. SBA also did not establish participation thresholds to prevent ESBCs from relying on Federal assistance. Without implementing these improvements, SBA is not realizing the full impact of the program on increasing the number of ESBCs exploring significant new trade opportunities.

Return on Investment Measurement

Although the Trade Facilitation and Trade Enforcement Act of 2015 (the Act) requires SBA to report the total return on investment (ROI) for each recipient in its annual report, there are other measures that may provide a broader demonstration of program success. SBA required recipients to report ROI by calculating the participating ESBCs' self-reported export sales generated from participating in a STEP activity divided by the amount of STEP Federal award funds expended. Recipients require ESBCs to report export sales in a post-activity survey in order to receive reimbursement for expenditures incurred to participate in the STEP activity. All five of the recipients we interviewed stated that they did not verify reported sales because they believed participating ESBCs have no incentive to report false sales. Additionally, one of the recipients was reluctant to verify sales because they believed it would be intrusive, costly, and counterproductive. In addition, recipients claimed the sales data was likely incomplete since sales often take ESBCs 12 to 18 months to finalize after participating in a STEP activity. As a result, the reported sales data used to calculate the ROI was self-reported, unverified, and potentially incomplete.

Additionally, the Act states the Associate Administrator for OIT may give priority to applicants who proposed activities that resulted in the highest ROI. Following this consideration, SBA included recipients' reported ROI figures as an evaluation factor to assess the applications. Recipients highlight the ROI as an important measure of success in their STEP application. Because ROI is not a verified measurement, SBA also should consider using other more reliable and verifiable measurements to compliment the required ROI for reporting overall program success.

Program Participation Measurements

Although SBA required that recipients report the number of ESBCs participating in STEP activities, SBA program managers used this data only to evaluate the individual recipient's performance on achieving their goals. SBA did not use this data to evaluate the overall success of the program. Since the objective of STEP is to increase the number of ESBCs exploring significant new trade opportunities, SBA should consider reporting the recipients' participation measurement. Measurements such as reporting the number of ESBCs receiving STEP assistance, the average amount of cooperative agreement funds expended by participating ESBCs, or focusing on the number of new ESBCs participating in STEP activities each year, could provide meaningful insight on how the recipients are using STEP funds to assist small businesses exploring significant new trade opportunities. Additionally, the ESBC participation measurements are verifiable; SBA requires recipients submit a client report that includes ESBC company profile information and the number of activities the ESBC participates in during the performance period. Because it was

collecting this data, SBA could quickly and efficiently analyze this data for reporting on participation measurements and use it as a measure of program success.

If SBA were to use the recipients' reported participation measurements to evaluate program effectiveness, it should place emphasis on ensuring the data is accurate and complete. However, SBA did not hold recipients accountable for reporting accurate and complete data for participating ESBCs. For all five of the agreements we reviewed, we found discrepancies between the numbers of businesses reported on the client report compared to the quarterly performance progress report. The client report listed the name and frequency of participation for each ESBC taking part in STEP activities for each state, while the performance progress report provided a count of the participating ESBCs for each activity. These two reports should reconcile to ensure the accuracy of the recipient's ESBC participation data.

Definitions of Key Program Measurements

We found inconsistencies among the recipients regarding how they defined key performance measures, specifically export sales, new-to-export ESBCs, and market expansion ESBCs. SBA did not provide definitions of the performance measures in the program announcement. In addition, SBA program managers did not provide additional guidance to ensure recipients had a clear understanding of SBA's definitions or that they were reporting the most accurate performance goal achievements each quarter. Although SBA provided training to all recipients at the onset of the performance period, the definitions provided for sales, and new-to-export and market expansion classifications were vague. For example, SBA defined new-to-export as having no export experience or only an "accidental" or "novice" exporter. However, recipients considered different definitions of what constituted a new-to-export participant. Specifically, one recipient stated that if an ESBC had only exported to a border country one time, then the ESBC should be classified as new-to-export. Another recipient considered an ESBC new-to-export if it had no exports in the past 5 years. Additionally, recipients provided a variety of definitions for what they considered a sale; one considered a handshake a sale. Because these definitions were not clearly defined, the recipients were inconsistent in program delivery, which could impact their ability to reach more ESBCs and the overall effectiveness of the STEP program.

ESBC Participation and Reimbursements Thresholds

SBA did not establish a reimbursement threshold for the amount of Federal assistance an ESBC could receive or the number of activities an ESBC could participate in. Because there is no program-wide guidance, recipients used different criteria for setting reimbursement and activity thresholds for participating ESBCs. For example, Mississippi allowed ESBCs to attend up to four activities with a reimbursement threshold of \$25,000, while both North Carolina and California had implemented a reimbursement threshold of \$5,500 for each ESBC (see Table 1).

Table 1. Assistance Thresholds by Recipient

State	Number of Activities	Dollar Threshold Per ESBC	Comments
North Carolina	3	\$5,500	\$3,500 for trade shows; \$2,000 for Gold Key Services
Illinois	3	\$18,000	\$15,000 for trade missions; \$3,000 for product compliance
Washington	2	\$5,000	Can be more than two as long as it does not exceed \$5,000
California	2	\$5,500	One trade show \$3,000 and one individual company export promotion \$2,500
Mississippi	4	\$25,000	Up to two independent trips and two STEP-sponsored trips

Source: OIG compiled from interviews with recipients.

Additionally, SBA had not set limitations on the total STEP Federal funding assistance for ESBCs participating in more than 1 program year, so an ESBC could continue to participate in STEP activities on a recurring, yearly basis. To prevent ESBC reliance on Federal assistance, Illinois had developed a policy to reduce reimbursements from up to 75 percent of qualified expenses to only 25 percent in the third year of participation in STEP.

Because SBA did not establish reimbursement or participation thresholds, program delivery was inconsistent and potentially inequitable. These inconsistencies may also impact the recipients' ability to meet the program objective of increasing the number of ESBCs exploring significant new trade opportunities. Since Congress authorized STEP through 2020, SBA should consider implementing criteria that set limitations to encourage recipients to recruit ESBCs new to STEP.

Recommendations

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

1. Establish performance measurements using the recipients' reported data, such as eligible small business concerns new to the State Trade Expansion Program, and include them in the annual report as a verifiable measure of program success.
2. Develop policies and implement a process to ensure recipients report accurate and complete information for participating eligible small business concerns that reconciles to the quarterly performance reports.
3. Clearly define essential measurement criteria, specifically sales, new-to-export, and market expansion, to ensure reporting consistency among the State Trade Expansion Program recipients and include these definitions in the program announcement.
4. Require State Trade Expansion Program applicants to include reimbursement and activity thresholds for participating eligible small business concerns in their proposals and review for reasonableness to ensure the program meets the objective of the Trade Facilitation and Trade Enforcement Act of 2015.

Finding 2: Recipients Were Behind in Activity Spending

Despite SBA program managers' efforts to monitor recipient performance milestones, SBA did not provide sufficient direction to motivate recipients to expend all their award funds. As of the third quarter, the five FY 2016 recipients we reviewed did not spend the STEP cooperative agreement funds at the rate they had planned. Since recipients were not on track with program spending, they are at risk for not meeting milestone goals regarding the number of small businesses receiving benefits. Consequently, the program was not maximizing its potential impact.

Quarterly Milestone Oversight

SBA did not provide sufficient guidance and monitoring of the STEP recipients activities, Programs operating under cooperative agreements, such as STEP, require a greater degree of government participation, oversight, and direction than programs operating under grants.⁹ SBA program managers stated they hold conference calls on a regular basis with their assigned recipients. However, recipients claimed that these conference calls were not conducted on a regular basis, but more on an as-needed basis. Additionally, recipients stated the conference call discussions typically focused on programmatic and administrative changes.

During STEP FY 2016, SBA conducted its first site visit of a recipient and made plans for additional site visits. Recipients stated they would welcome and directly benefit from this hands-on oversight. Effective oversight and monitoring are critical and necessary to meet both the recipients' goals and STEP's objective.

Quarterly Expenditure Tracking

The FY 2016 recipients were not on track for using agreement funds for the budgeted activities. All five FY 2016 recipients we reviewed were below their quarterly expenditure spending targets at the end of the third quarter (see Table 2).¹⁰

⁹ 2 CFR 200.24 (b).

¹⁰ We did not review fourth quarter expenditures, since reports are not due to SBA until December 30, 2017.

Table 2. The Percentage of Funds Recipients Reported Spent Through the Third Quarter

State	Total Award	Budgeted Cumulative Quarters 1,2,3*	Actual Cumulative Quarters 1,2,3	Difference Between Proposed and Actual
Illinois	\$850,000	90%	65%	-25%
North Carolina	\$850,000	78%	50%	-28%
Washington	\$850,000	95%	64%	-31%
California	\$844,214	75%	30%	-45%
Mississippi	\$509,760	70%	44%	-26%
Average Spent				-31%

Source: OIG prepared analysis based on technical proposal and reimbursement documentation.

* Unless otherwise noted in the recipient's budget, we assumed the administrative expenditures were evenly distributed among the quarters.

All five recipients reviewed showed, on average, 31 percent behind their proposed expenditures by the end of the third quarter. California showed the largest variance between their proposed and actual Federal STEP spending, due to a state legislature approval process that resulted in zero first quarter spending. Consequently, at the end of the third quarter, recipients had a significant amount of award funds still waiting to be expended and little time left in the program period to use them. This increases the potential for inappropriate use of funds or year-end deobligation of unused funds, thus impeding the objective of the STEP award.

Recommendations

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

5. Enhance the quarterly review process to include strategic planning to emphasize recipients' meeting performance goals.
6. Increase oversight of cooperative agreement recipients, and establish and implement a risk-based approach to monitor recipients that are not meeting their quarterly milestone goals.

Analysis of Agency Response

SBA management provided formal comments that are included in their entirety in Appendix II. Overall, SBA management's planned corrective actions address five recommendations, and it implemented corrective actions to close one recommendation. Despite agreeing to implement corrective actions for all of the recommendations, SBA management expressed concerns that deficiencies pertaining to program performance did not warrant recommendations, specifically Recommendations 2 and 4. The Agency stated that it did not violate rules, policies, or regulations and considered these recommendations to be best practices. While the deficiencies identified may not have involved compliance violations, they affected SBA's ability to accurately measure and maximize program success.

Summary of Actions Necessary to Close the Recommendations

This section provides the status of the recommendations and the actions necessary to close them.

1. **Resolved.** SBA management concurred with our recommendation and plans to establish performance measurements using the recipients' reported data, such as eligible small business concerns new to STEP, by May 1, 2018. This recommendation can be closed upon

management providing evidence that it established the performance measurements and includes them in the annual report as a verifiable measure of program success.

2. **Resolved.** SBA management concurred with our recommendation and plans to implement a process to ensure recipients report accurate and complete information for participating eligible small business concerns that reconciles to the quarterly performance reports by May 1, 2018. This recommendation can be closed when SBA provides evidence that the process has been developed and implemented.
3. **Resolved.** SBA management concurred with our recommendation and plans to define essential measurement criteria to ensure reporting consistency among STEP recipients by May 1, 2018. This recommendation can be closed when SBA provides evidence that it clearly defined essential measurement criteria and included these definitions in the program announcement.
4. **Resolved.** SBA management concurred with our recommendation and plans to require STEP applicants to include reimbursement and activity thresholds for participating eligible small business concerns in the proposals by May 1, 2018. This recommendation can be closed when SBA provides evidence that OIT required STEP applicants to include these thresholds in their proposals and program officials reviewed them for reasonableness.
5. **Closed.** SBA management concurred with our recommendation and updated its quarterly in-depth review checklist to emphasize monitoring the recipients' quarterly performance goals. OIT implemented this action on January 19, 2018, to address a similar recommendation made in a previous OIG report.¹¹ Consequently, we consider this recommendation as closed.
6. **Resolved.** SBA management concurred with our recommendation and plans to increase oversight of cooperative agreement recipients and establish and implement a risk-based approach to monitor recipients that are not meeting their quarterly milestone goals by May 1, 2018. This recommendation can be closed when SBA provides evidence that it developed and implemented the monitoring plan.

¹¹ SBA OIG Report 17-11, *Review of the SBA's State Trade and Export Promotion Grant Program* (May 4, 2017), Recommendation 3.

Appendix I: Objectives, Scope, and Methodology

Objectives

Our objectives were (1) to determine the extent to which STEP recipients measured program activity performance and the results of those measurements and (2) to review the overall management and effectiveness of STEP.

Scope and Methodology

Our scope of work covered the first three quarters of the STEP FY 2016 performance period, September 30, 2016, to June 30, 2017. This congressionally mandated audit required a report to the Senate Committee on Small Business and Entrepreneurship and the House Committee on Small Business no later than January 29, 2018. We did not review the recipients' fourth quarter performance results because recipients have until December 31, 2017, to submit the final report.

Of the 44 cooperative agreements awarded for FY 2016 totaling \$18.9 million, we judgmentally selected 5 cooperative agreements totaling \$3.9 million, based on dollar value and risk. To achieve our audit objectives, we conducted site visits and obtained documentation from recipients in the states of California, North Carolina, Washington, and Mississippi. We interviewed state officials and obtained documentation from Illinois (see Table 3).

Table 3. Judgmentally Selected FY 2016 STEP Cooperative Agreements

Recipient	Award Amount
Illinois	\$850,000
North Carolina	\$850,000
Washington	\$850,000
California	\$844,214
Mississippi	\$509,760
Total	\$3,903,974.00

Source: Generated by OIG based on data retrieved from the notices of award.

To achieve our audit objectives, we obtained the cooperative agreement proposal from each judgmentally selected recipient. Using this information, we identified the primary activities and the expected outputs and outcomes of these activities. We also obtained the quarterly reports for the first, second, and third quarters and compared the reported activities to the submitted proposal. These reports were reviewed for outputs, outcomes, measurements, final results, and other reported data. We obtained and reviewed all pertinent Federal program office, and SBA-specific regulations, policies, procedures, and guidance pertaining to STEP requirements, including but not limited to the program announcement and the Trade Facilitation and Trade Enforcement Act of 2015.

For each recipient selected, we met in person or by telephone with personnel responsible for managing the cooperative agreements to determine if they were sufficiently performing their duties, including submitting reports timely, managing day-to-day activities, and maintaining complete and accurate records as required by the program announcement. In addition, we identified the roles and responsibilities of SBA personnel from OIT and Office of Grants Management involved in STEP and held meetings to determine if these personnel were sufficiently

executing their oversight duties and responsibilities as outlined in the FY 2016 program announcement.

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.

Use of Computer-Processed Data

We relied on information obtained from the OIT electronic files, data received directly from OIT program managers and recipients, Office of Grants Management data retrieved from PRISM, and information obtained from the sba.gov website.¹² Further, we received supporting documentation directly from recipients and compared the supporting documentation with reported data on the quarterly performance progress reports. As a result, we believe the computer-processed information data obtained is reliable for the purposes of this audit.

Review of Internal Controls

The Office of Management and Budget Circular (OMB) A-123 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. According to OMB, agencies are responsible for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations.¹³ SBA's internal control systems SOP provides guidance on implementing and maintaining effective internal control systems, as required by OMB Circular A-123.¹⁴ We found significant internal control deficiency over SBA's monitoring of the program performance. Specifically, SBA relied on ESBCs sales data that recipients used to calculate the return on investment that were not verified. Additionally, SBA did not ensure it reported reliable measurements of program outcomes. Furthermore, SBA did not effectively monitor the recipients' performance to ensure they met goals and reported accurate and complete participation data. We made recommendations in this report to address these deficiencies.

¹² PRISM is of the grants management system used by the Office of Grants Management.

¹³ OMB Circular A-123, Management's Responsibility for Internal Control (July 15, 2016).

¹⁴ SOP 00 02, *Internal Control Systems* (January 1986).

SBA

DEPUTY ASSOCIATE ADMINISTRATOR,
OFFICE OF INTERNATIONAL TRADE'S

RESPONSE TO AUDIT REPORT



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

OFFICE OF
INTERNATIONAL
TRADE

Date: January 23, 2018

To: Riccardo Buglisi, Office of Inspector General

From: Eugene Cornelius, Deputy Associate Administrator for Office of International Trade

Re: Audit of SBA's State Trade Expansion Program, Project Number 17012

Thank you for the opportunity to respond to the Draft Report of the State Trade Expansion Program (STEP). The objectives of the audit were (1) to determine the extent to which STEP recipients measured program activity performance and the results of those measurements and (2) to review the overall management and effectiveness of STEP.

The Office of International Trade concurs with several Office of Inspector General recommendations.

Recommendation 1: Establish performance measurements using the recipients' reported data, such as eligible small business concerns new to the State Trade Expansion Program, and include them in the annual report as a verifiable measure of program success.

Explanation of Proposed Action: Concur. OIT will establish performance measurements using the recipients' reported data, such as eligible small business concerns new to the State Trade Expansion Program, and include them in the annual report as a verifiable measure of program success. However, the next annual report to Congress will likely not be submitted to the Hill until September 30, 2018.

Projected Completion Date: May 1, 2018

Recommendation 2. Develop policies and implement a process to ensure recipients report accurate and complete information for participating eligible small business concerns that reconciles to the quarterly performance reports.

Explanation of Proposed Action: Concur. This does not warrant a recommendation. It does not violate rules, policies or regulations. This should be considered a best practice. However, OIT will implement a process to ensure recipients report accurate and complete information for participating eligible small business concerns that reconciles to the quarterly performance reports.

Projected Completion Date: May 1, 2018

Recommendation 3. Clearly define essential measurement criteria, specifically sales, new-to-export, and market expansion, to ensure reporting consistency among the State Trade Expansion Program recipients and include these definitions in the program announcement.

Explanation of Proposed Action: Concur. OIT will clearly define essential measurement criteria, specifically sales, new-to-export, and market expansion, to ensure reporting consistency among the State Trade Expansion Program recipients and include these definitions in the program announcement. We anticipate issuing that program announcement within the next 90 days.

Projected Completion Date: May 1, 2018

Recommendation 4. Require State Trade Expansion Program applicants to include reimbursement and activity thresholds for participating eligible small business concerns in their proposals and review for reasonableness to ensure the program meets the objective of the Trade Facilitation and Trade Enforcement Act of 2015.

Explanation of Proposal Action: Concur. This does not warrant a recommendation. It does not violate rules, policies or regulations. This should be considered a best practice. However, OIT will require State Trade Expansion Program applicants to include reimbursement and activity thresholds for participating eligible small business concerns in their proposals and review for reasonableness to ensure the program meets the objective of the Trade Facilitation and Trade Enforcement Act of 2015.

Projected Completion Date: May 1, 2018

Recommendation 5. Enhance the quarterly review process to include strategic planning to emphasize recipients' meeting performance goals.

Explanation of Proposal Action: Concur. OIT concurs with this recommendation. However, we believe that our actions for Recommendation 3, Report 17-11, already meet this recommendation. Specifically, Question 10 in the new Quarterly In-depth Review (QIDR) states:

Question 10. Met Approved Milestones and Variance Explanation. Has the grant recipient met all targeted milestones in the PPR? For example, if the grantee agreed to take 5 ESBCs to China for a trade mission, a minimum of 5 ESBCs must have traveled to China during this quarter to achieve the milestone. If "No," the Program Manager will communicate and document with the awardee the steps that will be taken to meet the targeted milestones. You must provide an explanation of WHY an activity was not fully accomplished in the Variance Explanation column and collaborate with the assigned Program Manager on a revised work plan and budget estimate to make up the missed activity at a later date or propose and revise approved documents with another activity by the date specified in the Additional Feedback/Instructions section below.

And, Question 12 in the new QIDR states:

Approved Budget and Funds Utilization. Are your reported expenditures in agreement with the approved SF 424A Section D (Forecasted Cash Needs) by quarter? If “No,” you must give a written explanation in a cover letter to state WHY and HOW you will get your Federal and non-Federal funds in agreement with the approved budget and funds utilization, by the date specified in the Additional Feedback/Instructions section below.

Together, these questions ensure that each grantee will quarterly be reviewed with emphasis on recipients’ meeting performance goals.

We request that those actions also apply to this recommendation. Please see attached Recommendation 3, Report 17-11, as well as the attached QIDR.

Projected Completion Date: May 1, 2018

Recommendation 6. Increase oversight of cooperative agreement recipients, and establish and implement a risk-based approach to monitor recipients that are not meeting their quarterly milestone goals.

Explanation of Proposal Action: Concur. OIT will increase oversight of cooperative agreement recipients, and establish and implement a risk-based approach to monitor recipients that are not meeting their quarterly milestone goals.

Projected Completion Date: May 1, 2018