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CHALLENGES IN SBA'S STATE TRADE EXPANSION PROGRAM

HEARING

BEFORE THE

SUBCOMMITTEE ON RURAL DEVELOPMENT, AGRICULTURE, TRADE, AND ENTREPRENEURSHIP

OF THE

COMMITTEE ON SMALL BUSINESS
UNITED STATES
HOUSE OF REPRESENTATIVES

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CONTENTS

OPENING STATEMENTS

	Page
Hon. Abby Finkenauer	1
Hon. John Joyce	3

WITNESSES

Ms. Kim Gianopoulos, Director of International Affairs and Trade, Government Accountability Office, Washington, DC	4
Mr. Hannibal "Mike" Ware, Inspector General, United States Small Business Administration, Washington, DC	6

APPENDIX

Prepared Statements:	
Hon. Jim Hagedorn, Minnesota	15
Ms. Kim Gianopoulos, Director of International Affairs and Trade, Government Accountability Office, Washington, DC	16
Mr. Hannibal "Mike" Ware, Inspector General, United States Small Business Administration, Washington, DC	29
Questions and Answers for the Record:	
Questions from Hon. Nydia Velázquez to Mr. Hannibal "Mike" Ware and Responses from Mr. Hannibal "Mike" Ware	37
Additional Material for the Record:	
None.	

CHALLENGES IN SBA'S STATE TRADE EXPANSION PROGRAM

TUESDAY, MARCH 12, 2019

HOUSE OF REPRESENTATIVES,
COMMITTEE ON SMALL BUSINESS,
SUBCOMMITTEE ON RURAL DEVELOPMENT, AGRICULTURE,
TRADE, AND ENTREPRENEURSHIP,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:11 a.m., in Room 2360, Rayburn House Office Building. Hon. Abby Finkenauer [chairwoman of the Subcommittee] presiding.

Present: Representatives Finkenauer, Chabot, Hagedorn, and Joyce.

Chairwoman FINKENAUER. Good morning. The Subcommittee will come to order.

It is a pleasure to have our witnesses testifying before our Subcommittee this morning. I commend you for your commitment to public service. I also want to take a minute to thank Ranking Member Dr. John Joyce of Pennsylvania. He introduced himself to me very early on and expressed how important trade and rural development was to his district. I am glad we share that as a common priority, and I look forward to working with him in a bipartisan fashion on this Subcommittee.

As someone who grew up in a small town in Iowa—as I like to say, in a town with more cows than people—I am thrilled to be leading this Subcommittee focused on rural development. We have an opportunity to give folks in districts like mine and Ranking Member Joyce's a seat at the table for important conversations like the one we are having today on helping farmers and small businesses export their products.

It is no secret that for rural entrepreneurs and family farmers in states like Iowa, the ability to do business overseas is key to economic success here at home. Trade should help us export goods but also protect our workers and our communities.

Despite the economic rewards that come with exporting products overseas, only 1 percent of our nation's 30 million small businesses are able to do so.

With 95 percent of the world's consumers living outside of the United States, small businesses are missing out on opportunities to better support their families and communities, create jobs, and expand our economy.

Today, we have a chance to hear from some of our nation's leading experts on a federal program that aims to help small businesses enter new markets around the globe. This initiative, the

State Trade and Expansion Program (STEP), was initially created in 2010 as a 3-year pilot program. Five years later, Congress enacted the Trade Facilitation and Trade Enforcement Act to make the STEP program permanent and authorize $30 million in funding through fiscal year 2020.

STEP provides matching funds to states and territories to help small businesses enter new markets, access export financing, and go on trade missions.

Since its inception, the Small Business Administration has awarded approximately $139 million in funding to almost every state in the country.

In the 2018 annual report, SBA reported that the agency awarded 44 grants totaling $18.9 million in fiscal year 2016. The rate of return was 31 to 1 for every dollar invested, states reported $31 in sales.

STEP has the potential to unlock opportunities in the global marketplace for small businesses in a town like Maquoketa in my district, whose owners may want to sell products overseas but could lack the staff capacity or even an idea of where to start.

Having said that, the reports and audits conducted by our nation's watchdogs raise some concerns over the implementation of the STEP program and show areas for improvement as we look at the need for reauthorization in 2020. Work by the Government Accountability Office found that SBA lacks a strong process to ensure states are complying with the program's requirements. GAO also found states face serious and ongoing challenges in trying to utilize the funds with some even giving the funds back. Problems range from short application windows and difficult reporting requirements to a lack of timely communication from SBA.

The Inspector General's audits uncovered similar problems and determined more work needs to be done to improve the program's performance measures and oversight. Moreover, the report showed that SBA is at risk of not fully realizing the potential of the program.

My office had a chance last week to hear from the Iowa Economic Development Authority about problems in utilizing the funds. In one instance, Iowa was awarded a STEP grant on September 21st with a start date of September 29th, just 8 days later.

In another instance, SBA announced a grant opportunity on April 2nd only to post a second announcement with new and more accurate information on April 18th. SBA did not respond to Iowa's questions about the application until April 27th, but the deadline for applying for the STEP grant was May 16th. That is a pretty tight turnaround.

While this is frustrating, STEP is a needed initiative, and I look forward to hearing other states' ideas for improving it and hopefully getting some of our states on record in the future about how we can make STEP work better.

In Congress, we ought to be making it easier for farmers and small businesses to succeed in the international marketplace— not harder—while also protecting our workers. STEP has the potential to help Iowa's entrepreneurs and entrepreneurs around the country tap into new markets.

If utilized properly, this program stands to provide small businesses with the tools they desperately need to expand, create jobs, and boost wages throughout America, especially in rural areas that quite frankly have been ignored for too long.

Let me close by saying how grateful I am to have the opportunity to Chair this Subcommittee. I look forward to working with my colleagues on both sides of the aisle to harness the feedback we receive today to make much needed improvements to the STEP program for all of our communities, small businesses, and hard-working families.

I want to thank our witnesses for being here for what I hope will be a productive discussion.

I would like to now yield to the Ranking Member, Dr. Joyce, for his opening statement.

Mr. JOYCE. Thank you, Madam Chairwoman Finkenauer.

Small businesses eying international markets face daunting obstacles, such as insufficient manpower, lack of external resources, inadequate access to financing, and clearly, bureaucratic red tape. The Small Business Administration (SBA) is one of the six agencies that offer export promotion programs specifically for small businesses.

The SBA Office of International Trade, often referred to as OIT, is responsible for a variety of programs that provide training, counseling, and export financing for small businesses. We are here today to review just one unique program within an exceptionally complex network of trade promotion programs.

The statutes governing the State Trade Expansion Program, known as STEP, are very specific to ensure each dollar hits its target. Since its creation as a pilot program in 2010, SBA OIT has struggled to comply with STEP's strict legal requirements. One of Congress's most vital roles is not only to exercise fiscal responsibility when spending taxpayer dollars but also to ensure that the taxpayer dollars we allocate are being spent wisely and reaching their maximum impact.

I appreciate the cooperation between all agencies and their commitment to seeing that SBA fulfills its goals relating to this program and maximizes every dollar received to help small businesses reach their potential in the international market.

This hearing resumes the Committee's oversight of OIT and the STEP program. Our witnesses represent the Government Accountability Office (GAO) and SBA's Office of Inspector General (OIG). They are our eyes and our ears. They are here to present the issues plaguing the STEP program. I am encouraged by the dedication shown by all parties to expanding the opportunities for small businesses and farmers, and I look forward to working with you to achieve our common goal of reducing barriers to small businesses participating in global trade.

Thank you again to our distinguished witnesses and I yield back.

Chairwoman FINKENAUER. Thank you, Dr. Joyce. The gentleman yields back.

If any Subcommittee members have an opening statement prepared, we ask that you submit it for the record.

Now I would like to just take a minute to explain the timing rules. Each witness will have 5 minutes to testify and each member

will have 5 minutes for questioning. There is a lighting system to assist you. The green light will be on when you begin and the yellow light will come on when you have one minute remaining. The red light will come on when you are out of time, and we ask that you stay within the timeframe to the best of your ability.

I would now like to introduce the witnesses.

Our first witness is Ms. Kimberly Gianopoulos. Ms. Gianopoulos serves as the director for international trade issues in the International Affairs and Trade Team at the Government Accountability Office (GAO). She has a distinguished career and has provided leadership in a number of efforts to improve government programs, including contributions to GAO's high-risk series. Ms. Gianopoulos has also received a number of awards, including a Meritorious Service Award, a Client Service Award, an Assistant Comptroller General's Award, and several Results through Teamwork Awards. Welcome, Ms. Gianopoulos.

Our second witness is the Honorable Hannibal "Mike" Ware, the inspector general of the Small Business Administration. Mr. Ware was sworn in as the inspector general of the Small Business Administration in May 2018. He is responsible for independent oversight of SBA's programs and operations, which encompass more than $100 billion in guaranteed loans and nearly $100 billion in federal contracting dollars. Mr. Ware has 28 years of experience within the OIG community and has received numerous awards throughout his career, including several awards from the Council of Inspectors General on Integrity and Efficiency in recognition of his significant work in the inspector general community. Welcome, Mr. Ware.

Ms. Gianopoulos, you are recognized for 5 minutes.

STATEMENTS OF KIM GIANOPOULOS, DIRECTOR OF INTERNATIONAL AFFAIRS AND TRADE, GOVERNMENT ACCOUNTABILITY OFFICE; HANNIBAL "MIKE" WARE, INSPECTOR GENERAL, UNITED STATES SMALL BUSINESS ADMINISTRATION

STATEMENT OF KIM GIANOPOULOS

Ms. GIANOPOULOS. Thank you.

Chairwoman Finkenauer, Ranking Member Joyce, and members of the Subcommittee, thank you for the opportunity to be here today to discuss our recent work on SBA's State Trade Expansion Program.

As you know, Congress established STEP to help small businesses export. Many states report that STEP is important to their export promotion operations. However, concerns have been raised related to the management of the program, including SBA's processes for administering and monitoring grants, and the effectiveness of the program in reaching its goals.

My testimony today is based on our report, which is being released at this hearing. Today, I will discuss two items: one, the extent to which SBA's STEP grants management process provides reasonable assurance of compliance with selected requirements of applicable law, and two, the extent to which SBA has responded to states' challenges in using grant funds.

First, we found that SBA does not provide reasonable assurance that STEP grant recipients meet two of the three Trade Facilitation and Trade Enforcement Act requirements that we reviewed before the grant is closed out.

The first requirement states that SBA must limit the amount given to the 10 states with the largest numbers of eligible small businesses. SBA demonstrated reasonable assurance that this first requirement was being met.

The second requirement is that states must provide either a 25 or 35 percent total match to the Federal grant amount. We identified four instances where according to SBA's documentation, states did not report sufficient total matches. Nevertheless, SBA closed these grants.

The third requirement is that a state's match cannot be less than 50 percent cash. SBA collects information about the matching funds, including the proportion provided in cash. However, it does not monitor states' compliance with this requirement. Additionally, SBA considers the salaries of state trade office staff who work on administering the grant to be a form of cash and most states use staff salaries as their total match, including the required cash portion.

SBA does not ensure that states that do this are not also using grant funds from STEP to pay for portions of these salaries. As a result, SBA cannot consistently determine whether states are meeting the cash match requirement.

In our report, we recommend that SBA establish a process to ensure documentation of states' compliance with the total match requirement and develop a process to determine states' compliance with the cash match requirement. SBA agreed with these recommendations.

Our second finding is related to the overall use of grant funds and the challenges that states report in using their allocations. We found that nearly 20 percent of grant funds go unused each year despite SBA officials stating that they seek 100 percent use of these funds. For example, in 2016, across 41 of the 43 recipient states, combined grant use was about 82 percent, leaving nearly $3.2 million unused. This includes one state that left nearly 95 percent of its funds unused that year.

SBA made some changes to the program that could improve states' abilities to use all their grant funds, such as extending the fund's usage period to 2 years; allowing certain flexibilities, including travel; and reducing the length of the technical proposal.

The 12 states we interviewed cited numerous challenges, including timing of the application and award processes, administrative burden, and communication between the states and SBA. We heard about variable and short application timeframes, inflexible application requirements, a difficult process for repurposing funds, burdensome and changing reporting requirements, and delayed and inconsistent communication of requirements from SBA. SBA does not assess and address the risk posed by some states' low use of funds. Also, SBA officials told us that while they informally collect feedback from states, there is no process to collect states' perspectives on challenges with the program. We recommended that SBA assess this risk to achieving program goals posed by some states' low

grant fund use rates. We also recommended that SBA enhance collection and sharing of best practices among states. SBA agreed with these recommendations.

Thank you again for the opportunity to testify. I am happy to answer any questions you may have.

Chairwoman FINKENAUER. Thank you, Ms. Gianopoulos.

Mr. Ware, you are now recognized for 5 minutes.

STATEMENT OF HANNIBAL "MIKE" WARE

Mr. WARE. Thank you, Chairwoman Finkenauer, Ranking Member Joyce, and distinguished members of the Subcommittee. Thank you for the opportunity to be here today and for your continued support of the Office of Inspector General. I am proud to represent the dedicated men and women of my office and speak to you about their important work.

We have published three reports and written one management advisory regarding what is now known as the State Trade Expansion Program, or STEP. Across these three reports, we made 22 recommendations, all of which are now considered closed.

While the STEP program has benefitted from congressional scrutiny, OIG oversight, and most recently oversight by my colleagues at GAO, my office has identified systemic risks to SBA's grant management practices that are important in context of today's discussion.

Our first STEP review was conducted pursuant to the Small Business Jobs Act of 2010, which authorized SBA to establish a STEP grant program as a 3-year pilot to increase the number of eligible small business concerns in states that export and to increase the export value of those eligible small businesses that already export. In 2015, Congress authorized STEP as a full-fledged program through the Trade Facilitation and Trade Enforcement Act of 2015. Our two most recent reports were mandated by the 2015 act.

We conducted our 2012 audit of the pilot program to determine the extent to which the grant recipients were measuring program performance. To achieve our objectives, we reviewed the Small Business Jobs Act of 2010 and the Fiscal Year 2011 STEP program announcement. We judgmentally selected all STEP grants exceeding $1 million to review. Six grant recipients met this threshold. We conducted site visits to California, Pennsylvania, Washington, Michigan, and Illinois. We found that STEP grant recipients did not implement adequate metrics to measure program performance and issued nine recommendations for corrective action. In addition, SBA granted more than $1 million to an ineligible applicant, the Commonwealth of the Northern Mariana Islands, which was the subject of our advisory report. In response, Congress included an expanded definition of state in the 2015 act which resolved the issue in the advisory.

Our second STEP review was performed to determine how STEP funds were used. We requested grant award and expenditure totals from SBA, queried STEP data from usaspending.gov, and selected 15 grant awards totaling $15.2 million. We found that SBA could not provide consistent STEP award and expenditure data and did not update usaspending.gov. We did, however, find that SBA imple-

mented new reporting requirements for the fiscal year 2014 STEP program that significantly improved controls over the quality of the grant recipients' performance and financial reports. We issued three recommendations based on our review findings.

Our final report we issued was also issued pursuant to the 2015 act authorizing STEP. The objectives of the audit were to determine the extent to which STEP recipients measure program activity performance and the results of those measurements. It is noteworthy that Congress included certain performance measures within the 2015 authorization as a follow-on to our findings that SBA lacked adequate metrics in the pilot stage.

We selected five cooperative agreement awards totaling $3.9 million, conducted site visits and obtained documentation from recipients in California, North Carolina, Washington, and Mississippi. We also interviewed and obtained documentation from cooperative agreement officials for Illinois.

We found SBA has made significant progress in improving the overall management and effectiveness of STEP since our audit of the pilot program in 2012; however, SBA could utilize existing data to further improve its performance measures and program oversight. We issued six recommendations based on our review findings.

It is safe to say the STEP program has evolved since its inception and has benefitted from oversight review from my office, GAO, and congressional scrutiny. Nonetheless, our reviews of SBA's grant programs continue to identify systemic issues with SBA's accuracy of grant data for both financial and performance reporting, ineffective oversight, and inadequate standard operating procedures.

In our most recently published, most serious management and performance challenges facing SBA in fiscal year 2019, we identified grant management as an agency challenge for the first time. SBA officials acknowledge that there are systemic issues with its grant management processes and have documented plans to address them. That said, we will continue to perform reviews and make recommendations for corrective action to promote efficiencies and effectiveness within SBA's grant programs.

Thank you for the opportunity to speak to you today. I look forward to your questions.

Chairwoman FINKENAUER. Thank you, Mr. Ware.

You guys are very good on time. Oh, my goodness.

Mr. WARE. Exactly on the 5 minute mark.

Chairwoman FINKENAUER. Exactly. Thank you all. We really appreciate everything you have shared with us.

I will begin the questioning by recognizing myself for 5 minutes.

The first question is for Ms. Gianopoulos. Trade is obviously a priority for me and for the state of Iowa, which is why I am so pleased that our first hearing is on how small business trade assistance programs can work better for farmers and small businesses but also our states. Iowa is the number one export state for corn and pork, and number two for soybeans. Iowa is also number two in the country overall for commodities behind California. I am sure the administration shares the goal of improving small busi-

ness trade assistance programs, as well, so I hope this is a bipartisan issue.

For GAO's report, you interviewed 12 states that left at least 25 percent of their grant funds unused. Why do some states spend all their money while others are struggling to do so?

Ms. GIANOPOULOS. When we spoke with the states, they gave us a variety of responses as far as the barriers and challenges that they experienced in trying to use some of the grant monies that they received from SBA. I touched on them a little bit in my oral testimony but they included everything from the, as you mentioned earlier in your opening statement, Chairwoman, the application deadline. It is not always the same day or the same week every year so some folks who have very small state trade offices cannot plan in advance when to dedicate their time to this application process.

As you also noted, sometimes things change. The reporting requirements change. In other cases, the states have difficulty in repurposing funds. For example, we heard one story where a state was unable to attend a trade conference overseas because things had changed or certain companies had dropped out and they had a very difficult time getting those funds repurposed through SBA. So in some cases it is the timing that works against the states and in other cases it has to do with the management of the program itself.

Chairwoman FINKENAUER. Got it. Thank you.

My next question is for Mr. Ware. You also found that grant recipients did not expend all the funds awarded. In response to your findings, SBA enhanced its oversight procedures so that the program managers are monitoring states to ensure they are meeting their quarterly goals. What could SBA do to make it easier for recipients to use funds? Has the appropriations process impacted states' abilities to utilize the funds?

Mr. WARE. I believe that the appropriations process has impacted the states' ability. I mean, the states are on record as my colleague stated of discussing the difficulties they have with the short timeframe, and it is compounded, of course, when the short timeframe is made even shorter. Relative to spending, I think one of the things that SBA did was after our last audit, they increased the period of performance time which should take some of the pressure off the states in terms of spending. But I caution that that does come with its own set of challenges that I could get into but I am sure that answers your question, or I hope it does.

Chairwoman FINKENAUER. Great. Thank you.

I thank both of you for being here. This is enlightening and there is clearly a lot that we need to be doing better. STEP is a great program and we need to make sure that it is implemented in a way that our states and our small businesses can get what they need to be able to grow. I really appreciate your time and look forward to ongoing discussions.

With that, I am going to yield back my time. The Ranking Member, Dr. Joyce, is now recognized for 5 minutes.

Mr. JOYCE. Thank you, Madam Chairwoman.

My first question is for Mr. Ware. The SBA's OIG identified what truly were systemic issues with the SBA's financial and perform-

ance oversight. These grant programs and the elevation of this by this review show that these issues into 2019 had management and performance challenges in the report. How do STEP's management issues compare to other SBA grant programs?

Mr. WARE. Thank you. It goes hand in hand. The same type of problems we find in STEP, we find in the other programs. It is basically two things. So it is inaccurate data and it is not enough oversight or inadequate oversight. And when I say they go together it is that those problems are what we find systematically across just about every grant program that we look at, which was the reason why we elevated it to a top management challenge and notified the agency.

Mr. JOYCE. Has the SBA Office of Grants Management made any changes based on the recommendations in the report, and how long will it take for this reform to take place?

Mr. WARE. They have made changes. And I will give you some of the ways they did. They did the earlier detection in terms of a risk management process by which they visit states based on risk that are not spending on time based on the quarterly reviews of the performance data now. And they also came up with an agency-wide data quality plan that they are supposed to implement across the board on all their grant programs. They provided us with sufficient documentation to prove that they have put those things in place. We have not done the work yet to determine the impact of those changes.

Mr. JOYCE. How can Congress monitor SBA implementation progress?

Mr. WARE. One way Congress can monitor the implementation progress is by the work that both GAO and the Office of Inspector General does in terms of that.

Mr. JOYCE. And finally, how will grant management reforms impact the STEP program?

Mr. WARE. It should impact it significantly, mainly because we want a transparent, well-functioning program that has the right level of oversight on it and that is providing the type of performance measures data that Congress can use to provide the type of oversight. And I think that based on our work, they have come a long way in terms of that. Like, for example, in the past they only did the rate of return on investment as the true measurement. They have since stepped that up based on our recommendations to provide measures more in line with what the authorizing language asks for.

Mr. JOYCE. And will the better management help states use these funds, fully implement the access to these funds?

Mr. WARE. I believe so, especially in regard to the early detection of states who are struggling to use their funds.

Mr. JOYCE. Thank you very much.

My next questions are for Ms. Gianopoulos. Your report found that the SBA does not have sufficient processes to ensure that states meet the total and cash match requirements mandated by the statute. Can you explain total and cash match requirements and why they are mandated?

Ms. GIANOPOULOS. Sure. So the total matching requirement that a state has to meet is 25 percent of the total amount that they

are going to receive. So, for example, if a state was going to spend $100 on export promotion, $75 of that could come from the STEP program and $25 would come from the state itself. And of that $25, $12.50 would have to be in cash and the other $12.50 could be either in cash or by some other way, either an indirect or an in-kind contribution, that sort of thing. So that is what TFTEA, the Trade Facilitation and Trade Enforcement Act requires when it updated the program and made it a permanent program. So what we found were there were some difficulties that SBA had in not only confirming that the match had been met, but also that the cash match was being met with actual cash. As I explained in my statement, there were some issues having to do with staff salaries being used as part of that or all of the cash match, and it was unclear to us whether that was actually following the guidance that was put forward in order to meet the requirements of TFTEA.

Mr. JOYCE. Now, you mentioned indirect costs and in-kind contributions. Can you tell me more about that? Can you directly address what representation of that would be?

Ms. GIANOPOULOS. Sure. So, indirect costs and in-kind contributions are the noncash options that a state can use to help provide its portion of the program. So they could offer a conference space for a meeting. They could use the utility of their travel offices to arrange overseas travel for some of these conferences. It is the different types of services that the state can provide that would not be something you would see on a balance sheet but could be valued in various ways by the states to meet their requirement.

Mr. JOYCE. And how do you monitor the——

Chairwoman FINKENAUER. Thank you. The gentleman's time has expired but we will allow for more questions after this as well.

Mr. JOYCE. I yield back. Thank you.

Chairwoman FINKENAUER. Yes, thank you.

The gentleman, Mr. Hagedorn, from Minnesota, is now recognized for 5 minutes.

Mr. HAGEDORN. I thank the Chair and the Ranking Member and the witnesses. Appreciate all the work done by staff, including my own. Thanks for putting this together.

It is a timely hearing. This is National Agriculture Week, so anything we can do to help our farmers and agribusinesses, especially expand in area of trade, is very important. And as somebody who also sits on the Agriculture Committee, I have a vested interest in this in a number of ways.

Our farmers and agribusinesses, not just in Southern Minnesota where I represent that district, but across the country, many of them have been in recession one way or another for the better part of 5 years. We have had low commodity prices, high input costs, and all this predates anything with the trade issue.

And so what we try to do, at least my goals with agriculture and being here, three things for our farmers: Make sure that we can do everything possible to reform the Federal Government so we have good government policies in the areas of regulation, health care, taxes, energy, you know, work requirements for welfare, whatever, to make sure that we drive down the cost of farming as much as possible, and make sure that we have the workforce there for our farmers. Secondarily, we want to sustain our farmers when

times are tough, and we do that with implementation of the 5-year Farm Bill, E-15 year-round, things of that nature. And third, and this is the critical part where we have an opportunity at the Federal Government, the Federal role, expand our exports. Drop down those barriers. Make sure that we have new markets around the world.

In southern Minnesota, we have about 20,000 farms. It is a highly rural area. It happens to also have the urban spot of Rochester where we have the preeminent institution of medicine in all the world, the Mayo Clinic, but mostly farms. A lot of good crop and livestock producers. The second largest hog production congressional district in the whole country. And so each one of those farms, each one of those farmers is producing enough to feed about 165 people. And we see that that reach is not just across the country but the whole world.

And so when we get into what is going on with these programs and how they can be better utilized, do you think we should track closer as to how much of this money it spent on direct work trying to promote farmers and agribusinesses and our commodities? And secondarily, and I will ask both of you, do you work closely with USDA to try to implement these things? Are there measures that we should take to make sure that we are not duplicating costs but we are using our monies as efficiently and effectively as possible?

Mr. WARE. I believe your first question was should we track what goes to the farms differently?

Mr. HAGEDORN. Well, just how do you track the money? For instance, in Minnesota, we spent, I think it was like $150,000, something like that. Do we track exactly what we are trying to do with those monies or do you get to that level in your reports?

Mr. WARE. In my reports, we stay programmatic in line with the mandate for us. We did not go into exactly what the states were using the money for.

Mr. HAGEDORN. Should we do more in that area of tracking the money? What would that require? How would we get that done?

Mr. WARE. Well, it is a different scope for us if we were to do that. The act says that we are supposed to look at XYZ. In order for us to do something like that it would just be a different focus, a different scope. And if the member wanted to request of my office that we did something like that, we are definitely open to it.

Mr. HAGEDORN. Okay.

Ms. GIANOPOULOS. So when we started our work, as you know, we looked at the 12 states that used less than 75 percent of their allocation in 2015. And I am just looking now at my statistics. Your home state Minnesota was actually the one that used only 23.3 percent of its 2015 STEP allocation. We did pursue possibly looking into the kinds of things that each STEP grant was used for, but because the IG identified the issues with the reliability of the data that SBA had, we were unable to do that. Now, anecdotally, when we spoke with the 12 different states, we did hear a number of different industries that were benefitting from the STEP program, such as heavy manufacturing, medical equipment, food and beverage, consumer appliances, that sort of thing, but that is purely anecdotal and cannot be generalized. So we do not have specific information but I did want to share that with you

that your state was one of the ones that we spoke with about the low use rate.

Mr. HAGEDORN. Well, that is very useful, and we will follow up on that. I appreciate your testimony. I yield back.

Chairwoman FINKENAUER. Thank you. Now we will go into a second round of questions. There is a lot to talk about here today. I will begin by recognizing myself for another 5 minutes. My first question, again, will be for Ms. Gianopoulos.

According to your report, SBA told you that it does not formally facilitate the sharing of best practices between states. You recommend that SBA enhance its identification and sharing of best practices. How might this improve the program? And do you have any thoughts on how this can be achieved?

Ms. GIANOPOULOS. Well, we did not specifically tell SBA how it should be achieved because we wanted them to work within the parameters and the resources that they had available to them. But there are a number of ways, and we have noted in other reports some suggestions of how not only states but also agencies can share best practices and information. What the SBA officials told us is that they perhaps informally—anecdotally—speak with a particular state regarding the difficulty it might be having in using its grant funds but there is no systematic way. And when we spoke with the 12 states they told us there is no systematic way that they can learn from each other—other than through outside organizations such as State International Development Office (SIDO) and that sort of thing—to learn from each other what it is that is working and not working for a particular state. And we realize that every state's situation is a little bit different, but because the 12 states we talked to were so variable, they were small states, large states, urban and rural, all different in and of themselves, there should be some way that SBA could facilitate that sharing of information in order to better use the money and better achieve the program goals.

Chairwoman FINKENAUER. Absolutely. Thank you.

Mr. Ware, metrics are obviously a very valuable tool in measuring the success of a program, but they also let us know where to make improvements. How can we better measure the success of the program in terms of increasing exports and the number of small businesses that export?

Mr. WARE. Right. That is a good question. And I think it is a question that we asked based on our recommendations for SBA to do. And we believe that they have now done that in terms of addressing what the mandate was, which was to increase the small businesses that do exports. As I think I said earlier, they were focused so much on the return on investment that was being reported, and as a matter of fact, that is what was mandated to be reported. What the body could possibly do is in the new version is to make some of those measurements, the ones that they are now doing as a result of our recommendations, perhaps make those mandatory as well. And on top of that there is a lot of room out there for outcome-based recommendations and there are other, like someone said, six other places that are doing this. So there should be best practices, like we were just discussing, out there on how

best to measure this program if you are really focused on determining the true impact of the program in the states.

Chairwoman FINKENAUER. Great. Thank you.

I will yield back the rest of my time.

And I would like to again recognize the Ranking Member, Dr. Joyce, for 5 minutes.

Mr. JOYCE. Thank you, Madam Chairwoman.

This is for Mr. Ware. We heard earlier that the Commonwealth of the Northern Mariana Islands was awarded a STEP grant and they were actually an ineligible recipient at that time. Testimony says that OIT personnel did not have the experience or training required to manage and administer such a complex grant program. What has SBA OIT done to ensure its staff now fully understands STEP's statutory requirements?

Mr. WARE. At the time that happened, it was still in the pilot. So it was very much in the beginning. As a result of our recommendations, they did implement a training program and trained all the grant managers across the board. Now, that being said, keep in mind that it is not like contracting officers where they have a requirement to do annual training or anything like that. They did training at that time and they have implemented steps to make sure that they provide the training going forward. And that is something that they are doing across the board for all the grant programs right now.

Mr. JOYCE. So along that same line, how are the states made aware and held accountable for the STEP's legal requirements? Is that training extended to individual states?

Mr. WARE. We did not look at the training to the individual states. However, the grant managers from a systematic standpoint of SBA's oversight of the program, that was covered in the training.

Mr. JOYCE. This question is for Ms. Gianopoulos.

Several states claim that STEP reporting requirements were much more detailed and burdensome than grants from the Department of Commerce and other agencies. Can you provide me with more details on this, please?

Ms. GIANOPOULOS. Well, what we heard from the 12 states that we interviewed is that some of the difficulties in using all of their funds had to do with the level of detail with which they had to report back the use of those funds or to ask for reimbursement. So, for example, one of the states told us that when a group of trade folks were traveling say to a conference, in order to request reimbursement of that money, if they were all in a cab together they had to divide the cost of the cab and claim it individually by person, which made for—and that was only one example—a great deal of administrative burden for them and made it very difficult. And in some cases they were even having second thoughts about applying for the grant the next year because of the amount of burden it was on them—to request that money back. And in some cases that money is such a small amount, even though it is important to them, they had to do a cost-benefit analysis as to whether it was worth their time in order to get that money back as part of the STEP grant.

Mr. JOYCE. Do find that then states apply for less burdensome application processes? Are they reaching out in other directions when facing such obstacles?

Ms. GIANOPOULOS. We did not really get into a lot of detail with where they put their efforts, but because the size of the state trade offices varies so widely, the very small state trade offices have to make choices as to where they are going to put their time. And as I mentioned earlier, because this program does not follow a set standard routine every year, it is not available on the same day every year, it is not the same amount of time every year, they have to make those types of choices state by state by state as to what they are going to apply for and how they are going to use their resources.

Mr. JOYCE. Would you presume that they do reach out to less burdensome application processes?

Ms. GIANOPOULOS. I have not talked with them about that, but if I were making a decision as far as what I was going to do with my resources and my time, I would want the most bang for my buck.

Mr. JOYCE. That makes sense.

Thank you both for your concise answers. I yield back my time.

Chairwoman FINKENAUER. Thank you. Thank you very much to both of you for being here today, for your public service, and for taking out so much time out of your schedule. It really means a lot, and this was a very informative day. Ms. Gianopoulos and Mr. Ware, we are very grateful.

As we have heard today, STEP offers many promising opportunities for entrepreneurs and farmers in Iowa and across the country to succeed. Over the past decade, STEP has grown from a 3-year pilot program to a permanent, successful program in SBA that with some improvements will be a critical piece of a trade assistance portfolio. I appreciate your work in identifying some of the systemic issues that we need to resolve. It has led to significant improvements in the implementation of the law. More work, obviously, needs to be done. In my role as the Chairwoman of the Subcommittee on Rural Development, Agriculture, Trade, and Entrepreneurship, I look forward to working with my colleagues on both sides of the aisle to make much-needed improvements in STEP. I am committed to making life easier for small business owners in Iowa and across rural America so that they can grow their small businesses and better support their families and our rural communities.

I would ask unanimous consent that members have 5 legislative days to submit statements and supporting materials for the record.

Without objection, so ordered.

If there is no further business to come before the Committee, we are adjourned. Thank you.

[Whereupon, at 11:58 a.m., the subcommittee was adjourned.]

APPENDIX

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March 11, 2019

Small Business Subcommittee on Rural Development, Agriculture Trade and Entrepreneurship Hearing

Opening Remarks

"Challenges in SBA's State Trade Expansion Program"

I would like to thank our witnesses for addressing our Subcommittee today. As a member of both the Agriculture Committee and the Small Business Committee the topics addressed today are of great importance to my constituents.

The agricultural economy has been facing headwinds from low commodity prices, excessive government regulations and the continuing battle over unfair trade practices. Thus, every opportunity to expand agricultural markets through increased exports needs to be taken advantage of.

I will listen with interest to the witnesses outline the steps which have been taken by the SBA to address the issues the GAO identified in the STEP as well as actions recommended to address existing challenges. I am also interested in learning more about the coordination SBA has with the USDA's Foreign Agriculture Service.

In these days of economic challenges in America's farm economies, it is imperative we promote and encourage agricultural exports in an efficient and efficacious manner. I encourage the SBA to continue its efforts to streamline its services and programs in order to accomplish those goals.

I yield back.

Jim Hagedorn
Member of Congress

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United States Government Accountability Office

Testimony before the Subcommittee on Rural Development, Agriculture, Trade and Entrepreneurship, House of Representatives

For Release on Delivery
Expected at 10:00 a.m. ET
Tuesday, March 12, 2019

SMALL BUSINESS ADMINISTRATION

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

Statement of Kimberly Gianopoulos, Director
International Affairs and Trade

GAO-19-444T

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

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

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

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

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

[2]2 C.F.R. § 200.

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

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

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

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

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

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

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

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

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

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

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

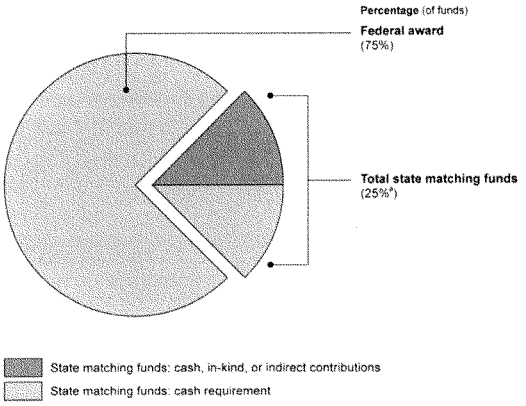
[6]STEP's authorizing statute requires that those states that SBA designates as having a "high trade volume" match at the higher rate of 35 percent of the total federal-state amount. To identify high trade volume states, SBA uses Census data on export volume by state, and each year identifies the top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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Some States Cited Challenges with the Program

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

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

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

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

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

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

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

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

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

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

[14]See 2 C.F.R. § 200.301.

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

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

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

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

GAO Contact and Staff Acknowledgments

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

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HANNIBAL "MIKE" WARE
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BEFORE THE

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

MARCH 12, 2019

INTRODUCTION

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

OIG's ROLE

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

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

OIG'S WORK ON STEP

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

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

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

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

What OIG Found

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

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

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

OIG Recommendations

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

Summary of Actions Taken by SBA to Close the Recommendations

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

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

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

OIG Recommendations

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

Summary of Actions Taken by SBA to Close the Recommendations

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

Congressional Response

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

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

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

What OIG Found

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

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

OIG Recommendations

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

Summary of Actions Taken by SBA to Close the Recommendations

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

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

Report 18-11: Audit of State Trade Expansion Program

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

What OIG Found

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

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

OIG Recommendations

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

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

Summary of Actions Taken by SBA to Close the Recommendations

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

GRANTS MANAGEMENT CHALLENGES

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

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

CONCLUSION

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

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

Questions for the Record
"Challenges in SBA's State Trade Expansion Program"
Mr. Hannibal "Mike" Ware, Inspector General Small Business Administration

- **Your investigations found that states are not utilizing all their funds. In FY2015, more than $1 million was left on the table. Were you able to determine why states were having trouble utilizing the full amount of the award?**

  During our review of the pilot program (State Trade and Export Program), for the fiscal years (FYs) 2011, 2012, 2014, and 2015, we found that SBA could not provide us with consistent grant expenditure data. Therefore, we could not determine the total amount of award funds that remained unspent at the end of the period of performance for each of the 4 program years we reviewed. The $1.1 million of STEP funds we reported as unspent by the end of the performance period were attributed to the eight states we judgmentally reviewed that received awards in FY 2014 or FY 2015. According to program officials, they tracked the recipients' use of funds quarterly and provided feedback when recipients did not achieve their expenditure milestones. However, these efforts were not sufficient to ensure the recipients used the full amount of the award. The objective of our review was specifically to determine how the funds for the STEP grant program were used. As a result, the scope of our work did not evaluate why recipients did not use the full amount of the award.

  Our review of the first three quarters of the STEP FY 2016 performance period, September 30, 2016, to June 30, 2017 (authorized by the Trade Facilitation and Trade Enforcement Act of 2015) found all five states that we judgmentally selected to review were not on track for using the full award funds. Although program officials continued to track the states' progress on achieving their quarterly milestones and provided feedback to them, the five states we reviewed were behind on meeting their quarterly spending targets. California showed the largest variance between their proposed and actual STEP spending, due to a state legislature approval process that resulted in zero first quarter spending.

  Though grant recipients for all five states told us that the program office's award decision timelines impacted their ability to spend funds in the first quarter, we found this to not be the case for the FY 2016 awards we reviewed. Our review of the 4-year pilot program, revealed that program official notified recipients of their STEP awards in September, within days of the September 30 performance period start. However, for the FY 2016 performance period, program officials notified the recipients of their STEP awards in late August, with 5 weeks to prepare before the September 30 performance period start. Even though the states had additional time to prepare and to implement their planned activities, all five of the states were behind their spending targets as of the third quarter.

As a result of our reviews, program officials implemented three improvements to address the low funds utilization rates. Program officials: (1) updated the quarterly in-depth review checklist to ensure program managers assess grant recipient's performance in meeting their targeted milestones; (2) implemented a risk-based site visit program for greater oversight of the cooperative agreement recipients and issued a Directors Memorandum to program managers that identified criteria to assess whether a recipient should be considered high-risk; and (3) changed the award period of performance from 1-year to 2-years to give recipients a longer period to use the award funds.

With extended period of performances and the improved monitoring efforts, program officials are better positioned to ensure recipients use the full amount of their award funds.

- **How does the underutilization of funds impact the overall effectiveness of the program?**

  STEP recipients that did not use their full awards may have lost opportunities to increase the number of small businesses exporting or increasing small business export sales, thus not maximizing the potential of the program. STEP award amounts are based on the funding requirements proposed by the states relative to planned activities. If states do not meet their milestone goals and as a result, do not spend all of their award funds, the eligible small business concerns that the state had planned to support through these activities may not receive the intended benefits of the program.

- **Your report found that SBA reported inaccurate and incomplete award data on USASpending.gov. How significant is this reporting and are you satisfied that SBA has taken steps to ensure that the data is submits is timely, complete, and accurate?**

  The Federal Funding Accountability and Transparency Act of 2006, amended in 2008, required federal agencies to report all contract and grant awards in USAspending.gov to give the American public access to information on how the federal government spends its tax dollars.[1] USAspending.gov is the official source for spending data for the federal government. It is imperative that agencies report timely, accurate, and complete data on USAspending.gov for transparency and accountability on all spending decisions.

  We recommended that SBA develop and implement a process to ensure that SBA submits timely, complete, and accurate reporting. SBA provided documentation demonstrating that it transferred responsibility for USASpending.gov reporting from the Office of the Chief Information Officer to the Office of the Chief Financial Officer and established a new Chief Data Officer position to oversee all data submissions. The Chief Data Officer supervises a reconciliation process that correlates with obligations that SBA reported in the SF 133 Report on Budget Execution and Budgetary Resources

[1] Public Law 109-282, The Federal Funding Accountability and Transparency Act of 2006 (September 2006) and amended in 2008 by Public Law 110-252 Section 6201.

to the reporting of grants to ensure accurate and complete reporting in USASpending.gov.

Further, the Chief Financial Officer implemented a data quality plan on August 29, 2018, and distributed it to the executive in charge of grant oversight. The plan includes definitions of standardized data elements and maps each data element to the source documents. The Chief Financial Officer also directed the executive in charge of grant oversight to establish and document its quality assurance and ongoing monitoring processes over the grants data entered into source systems.

SBA's implemented reconciliation process and the data quality improvements should ensure that SBA submits timely, accurate, and complete information to USASpending.gov to support better decision making and transparency and accountability on how the government uses taxpayers' funds.

- **We have learned from GAO's report that states face ongoing challenges in trying to utilize the funds. States have reported that the reporting requirements are tedious and burdensome. In your view, are STEP's reporting requirements more onerous than other grant programs?**

  While STEP requires additional reporting requirements than other SBA grant programs we have reviewed, the nuances in STEP may justify the additional reporting. This is mostly due to requirements for states to report costs incurred by the activities they proposed to complete during the grant performance period. These activities are tracked and categorized by the nine activities allowed under the authorizing law. The program office uses this information to monitor the states' progress in accomplishing their planned activities and reaching their proposed goals. Further, states are required to report the eligible small business concerns that participated in the activities and the total cost of the assistance they provided each eligible small business concern. Program officials use this information to verify that states are maximizing the reach of the program by engaging new eligible small business concerns and to assess that states use the STEP funds to support a variety of businesses instead of a limited or specific group of eligible small business concerns. These two reporting requirements are in addition to the standard financial reporting requirements where states report budgeted expenditures by cost category—personnel, fringe benefits, travel, supplies, contractual, etc. – that the program office uses to monitor costs in accordance with the uniformed grant guidance.

- **States have raised concerns that SBA's guidance is often inconsistent and inaccurate. What can Congress and SBA do to ensure that states have a clear understanding of definitions for sales, new-to-export, etc....**

  As a result of the recommendation made in report 18-11 to improve consistency among the STEP recipients reporting, program officials included definitions for sales, eligible small business concerns pursuing market expansion, and eligible small business concerns new-to-export in the FY 2018 Funding Opportunity Announcement. We verified that the program office's definitions were clear and determined that the

established criteria should enhance consistency among the states as they report on these measurements.

- **Your report found that because there is no program-wide guidance, states use different criteria for reimbursing small businesses for trade missions and shows. Could you elaborate on the actions taken by SBA to include reimbursement and activity thresholds for small businesses? Should these thresholds be consistent program-wide?**

  Based on the recommendation we made in report 18-11, program officials required that STEP applicants establish reasonable thresholds for eligible small business concern reimbursement and participation for the STEP FY 2018 performance period. Program officials told us they planned to assess the reasonableness of the threshold amounts to ensure it meets STEP objectives to increase (1) the number of U.S. small businesses that export; (2) the dollar value of exports; and (3) new export opportunities.

  Since each states' export promotion program varies greatly due to the types of industries and small business populations, program-wide thresholds might create undue pressure on states with smaller populations of eligible small business concerns.

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