



Report to the Ranking Member,
Committee on Small Business, House of
Representatives

March 2019

SMALL BUSINESS ADMINISTRATION

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

GAO Highlights

Highlights of [GAO-19-276](#), a report to the Ranking Member, Committee on Small Business, House of Representatives

Why GAO Did This Study

Congress established STEP in 2010 to increase small business exports. Through STEP, SBA has awarded about \$139 million in grants to state trade offices, which in turn facilitate small business export activities, including participation in trade missions and attendance at trade shows. Congress reauthorized STEP in 2016. GAO was asked to review SBA's management of the program.

This 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. GAO reviewed the program's authorizing legislation and federal and agency guidance on grants management, analyzed SBA program data, and interviewed SBA officials. GAO also conducted semi-structured interviews with a non-generalizable sample of 12 of the 40 states that received STEP grants in fiscal year 2015, the most recent year for which complete data were available. GAO selected these states on the basis of their low grant fund use rates.

What GAO Recommends

GAO is recommending that SBA develop processes to ensure compliance with legal grant matching fund requirements, take steps to assess risks to program goals from low grant fund use rates, and enhance the sharing of best practices among states receiving the grant. SBA concurred with all of the recommendations.

View [GAO-19-276](#). For more information, contact Kimberly Gianopoulos at (202) 512-8612 or gianopoulosk@gao.gov

March 2019

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

What GAO Found

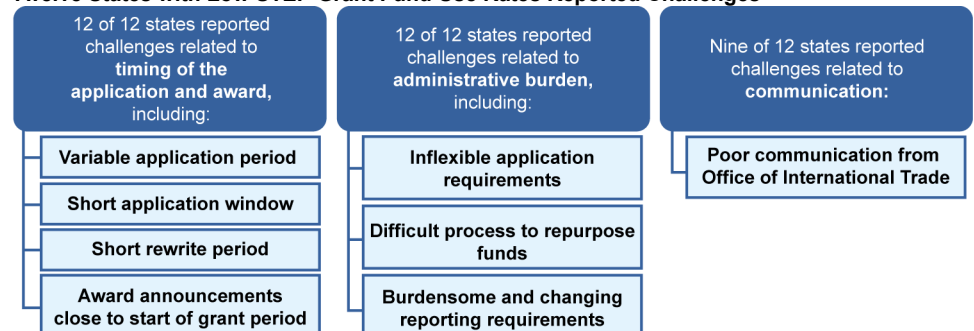
The Small Business Administration's (SBA) management of the State Trade Expansion Program (STEP) does not provide reasonable assurance of compliance with some legal requirements. Specifically, the Trade Facilitation and Trade Enforcement Act of 2015 (TFTEA) requirements for STEP include:

- **Proportional distribution requirement.** SBA's Office of International Trade (OIT) must distribute grant funds so that the total amount awarded to the 10 states with the highest percentage of eligible small businesses does not exceed 40 percent of the program's appropriation that year.
- **Total match requirement.** States must provide a 25 or 35 percent non-federal match to the federal grant amount.
- **Cash match requirement.** A state's match cannot be less than 50 percent cash.

GAO found that, while OIT has a process to meet the distribution requirement, it does not have a process for documenting that states have met the total match requirement before grant closeout, and does not have a process to determine whether states are meeting the cash match requirement. Without such processes, SBA cannot be reasonably assured that states are contributing per the law's requirements.

GAO found that, while OIT has made changes to STEP in response to states' feedback, officials from states with low grant use described ongoing challenges with the program that affect their ability to fully use funds. These challenges include compressed application and award timelines, administrative burden, and poor communication. SBA has not adequately assessed risks to the program, including the risk to achieving program goals posed by some states' low grant fund use rates. Without such an assessment, OIT's ability to support U.S. exporters may be diminished. Further, SBA has not effectively facilitated sharing best practices among states. By doing this, SBA could help states make full use of funds to achieve the program's goals.

Twelve States with Low STEP Grant Fund Use Rates Reported Challenges



Source: GAO analysis of interviews with selected state trade offices. | GAO-19-276

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Abbreviations

OGM	Office of Grants Management
OIG	Office of Inspector General
OIT	Office of International Trade
OMB	Office of Management and Budget
SBA	Small Business Administration
SIDO	State International Development Organizations
STEP	State Trade Expansion Program
TFTEA	Trade Facilitation and Trade Enforcement Act of 2015

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March 12, 2019

The Honorable Steve Chabot
Ranking Member
Committee on Small Business
House of Representatives

Dear Mr. Chabot:

Given the importance of small businesses and exports in supporting U.S. economic growth, Congress, in 2010, established a 3-year pilot grant program called the State Trade and Export Promotion Grant Program (STEP),¹ within the Small Business Administration (SBA).² Congress reauthorized the program in 2016 to end the pilot phase and continue funding for state programs that facilitate export opportunities for small businesses. STEP is currently authorized through fiscal year 2020. In the years since STEP was first authorized, SBA has awarded hundreds of STEP grants, and these grants have provided about \$139 million of support to almost every U.S. state as well as several territories. According to surveys conducted by State International Development Organizations (SIDO), a national group that supports state trade offices,³ states that have received support from the program report that their small businesses have been able to successfully conduct export activities as a result of this program. Many states report that STEP is important to their export promotion operations. However, the SBA Office of Inspector General (OIG) has raised concerns related to the management of the program, including the reliability of financial and performance information, the effectiveness of the program in reaching its goals, and SBA's processes for administering and monitoring grants.

You asked us to review SBA's management of the STEP program. This report examines the extent to which (1) SBA's STEP grants management

¹In 2016, Congress renamed this program the State Trade Expansion Program (STEP), and we refer to it as such in this report.

²Although STEP was legally established in 2010, the first awards were made in fiscal year 2011. In fiscal years 2014 and 2015, the program did not have a separate statutory authorization, but was instead authorized by appropriation.

³In this report, we use the terms "state government" and "state trade office" to refer to the state- or territory-level entities that conduct export promotion activities and receive and administer STEP awards.

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 data on award amounts for fiscal years 2015-2017, matching funds required, and matching funds provided. 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),⁴ and GAO's *Standards for Internal Control in the Federal Government*.⁵ In addition, we analyzed SBA documentation, including sample grant files, application forms, application scoring forms, grant reporting forms, 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 and officials from SBA's OIG to understand their work on the program.

To identify the states' challenges in 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 did not use 25 percent or more of their award in that year. We selected this threshold after analyzing the data from that year and determining that these states accounted for almost 70 percent of the unused STEP grant funds in fiscal year 2015. 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. To report the challenges that states identified in fully using the funds, we developed categories based on the responses obtained after two GAO coders independently coded the content of the 12 semi-structured interviews. The coders had an initial agreement rate between them of 90 percent, and differences were arbitrated and resolved by a

⁴2 C.F.R. § 200.

⁵GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014).

knowledgeable GAO reviewer. To identify steps SBA has taken to address the challenges these states reported, we reviewed agency documentation and interviewed OIT officials.

We conducted this performance audit from September 2017 to March 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The purpose of STEP is to help small businesses develop their export capacity. Congress initially established STEP in the Small Business Jobs Act of 2010,⁶ and later reauthorized the program through fiscal year 2020 and renamed it the State Trade Expansion Program in TFTEA. According to SBA officials, the goals of the program include increasing

- the number of small businesses exporting,
- the number of small businesses exploring significant new trade opportunities, and
- the value of exports for small businesses already engaged in international trade.

SBA implements STEP and has other key roles in efforts to promote U.S. exports, including providing training, counseling, and export financing for small businesses. Within SBA, OIT has responsibility for managing export promotion programs, including STEP. OGM has responsibility for administering grants across the agency according to SBA's standard operating procedure for grants management.⁷ This responsibility includes oversight of financial and compliance-related aspects of issuing awards, and recording and tracking relevant information in SBA's grants management system.

⁶In this statute, STEP was called the State Trade and Export Promotion Grant Program.

⁷In this report, we refer to OIT and OGM to discuss the program and grant management processes that each office leads, respectively. We refer to SBA to discuss processes that involve both of these offices.

According to OIT officials, each state that receives a STEP grant submits quarterly reports to OIT that provide information on the amount of the grant expended and progress made toward the performance targets. Program managers within OIT then review the quarterly reports and provide feedback to each state, including with respect to progress toward performance targets. OIT officials and states that we interviewed told us that if a state reports not meeting its performance targets in a particular quarter, OIT program managers then work with the state to establish an action plan to meet targets in future quarters. At the end of each grant performance period, OIT program managers work with OGM to finalize and close the state's grant file. This procedure includes saving information on final performance data, the total amount expended, and the use rate, which is determined by dividing the amount expended by the amount awarded.

Beginning in fiscal year 2011 and through fiscal year 2018, Congress has appropriated a total of \$139.4 million for STEP, and SBA has awarded about \$139.1 million, or almost 99.8 percent of the appropriated total. Table 1 shows the amounts appropriated and awarded, and the number of awards for each grant cycle from fiscal years 2011 to 2018.

Table 1: State Trade Expansion Program (STEP) Appropriations and Awards, by Fiscal Year

Program authorization	Fiscal year	Appropriated amount	Award amount	Number of awards ^c
Authorized by the Small Business Jobs Act of 2010 (P.L. 111-240)	2011	\$30 million	\$29 million ^a	51
	2012	\$30 million	\$30 million	52
	2013	\$0	\$0	0
Authorized by appropriation	2014	\$8 million	\$8 million	24
	2015	\$17.4 million	\$17.4 million	40
Reauthorized by the Trade Facilitation and Trade Enforcement Act of 2015 (P.L. 114-125)	2016	\$18 million	\$18.9 million ^b	43
	2017	\$18 million	\$18 million	44
	2018	\$18 million	\$18 million	47
Total		\$139.4 million	\$139.1 million	301

Source: GAO analysis of public laws and Small Business Administration (SBA) Office of International Trade (OIT) data for STEP. | GAO-19-276

^aIn the fiscal year 2011 program cycle, SBA awarded \$1,022,781 to the Commonwealth of the Northern Mariana Islands. However, this award was later rescinded because the law, as enacted in 2010, did not include the Commonwealth of the Northern Mariana Islands in the definition of "state" for the purposes of this grant. Because this award was rescinded, we did not include it in our count of the number of fiscal year 2011 awards.

^bIn fiscal year 2016, SBA awarded a total of \$18,694,264 in STEP grants. According to OIT officials, the additional funding beyond the appropriation was reprogrammed from SBA's Salaries and Expenses account.

^cA total of 55 entities were eligible to receive STEP awards until the Commonwealth of the Northern Mariana Islands was added as an eligible entity in January 2013, after which a total of 56 entities were eligible.

Every state government conducts some export promotion activities. State trade offices, which conduct these activities, can be housed in various state entities, including governors' offices, state departments of commerce, universities, world trade centers, and state departments of economic development. As we have previously reported, state trade offices often offer export promotion services similar to those offered by certain federal agencies; in addition to SBA, these include the Department of Commerce and the Export-Import Bank.⁸ State trade offices often have both domestic and international staff; domestic staff are typically state employees. According to data from the 2017 SIDO survey, state trade offices had a median size of six employees, with a minimum of one and a maximum of 18.

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, which usually occurs in the spring, indicates that the grant application is open and provides official information (e.g., objectives, deadlines, eligibility, and reporting requirements) about STEP. Once the announcement is posted, eligible states and territories may apply for a STEP grant during the application period.

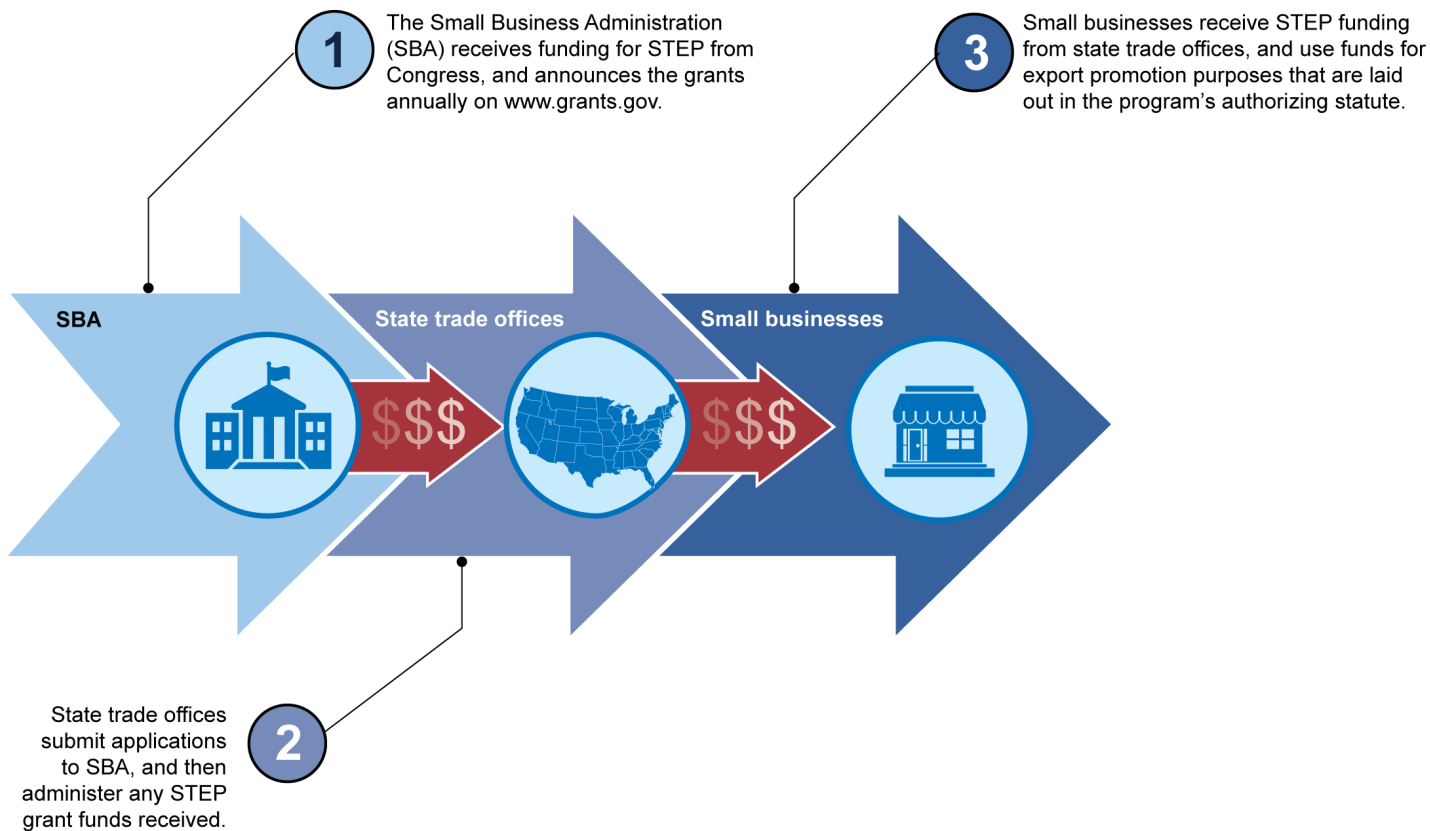
When a state trade office applies for a STEP grant, its application outlines any intended activities and establishes performance targets within each of the activities for the fiscal year or period of the grant. For example, the performance targets detailed in the application can include the state's estimate of the number of businesses that will apply for and receive funding to attend various international trade show exhibitions. 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

⁸GAO, *Export Promotion: Trade Agencies Should Enhance Collaboration with State and Local Partners*, [GAO-14-393](#) (Washington, D.C.: May 21, 2014), and *Export Promotion: Small Business Administration Needs to Improve Collaboration to Implement Its Expanded Role*, [GAO-13-217](#) (Washington, D.C.: Jan. 30, 2013).

grants.⁹ Independent technical experts and OIT program managers score states' applications, generally during late spring and summer. OIT then 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. The funds are intended to support the businesses' export activities. Figure 1 shows the process for awarding and distributing STEP grant funds.

Figure 1: Process for Awarding and Distributing State Trade Expansion Program (STEP) Grant Funds



Source: : GAO analysis of SBA documents. | GAO-19-276

⁹Hereafter, we use "states" to refer to any of these eligible applicants.

Once small businesses receive the STEP funding, they can use the money for a variety of export-related purposes. These purposes are outlined in TFTEA. Figure 2 shows the allowable uses of STEP grant funds.

Figure 2: Allowable Uses of State Trade Expansion Program (STEP) Grant Funds

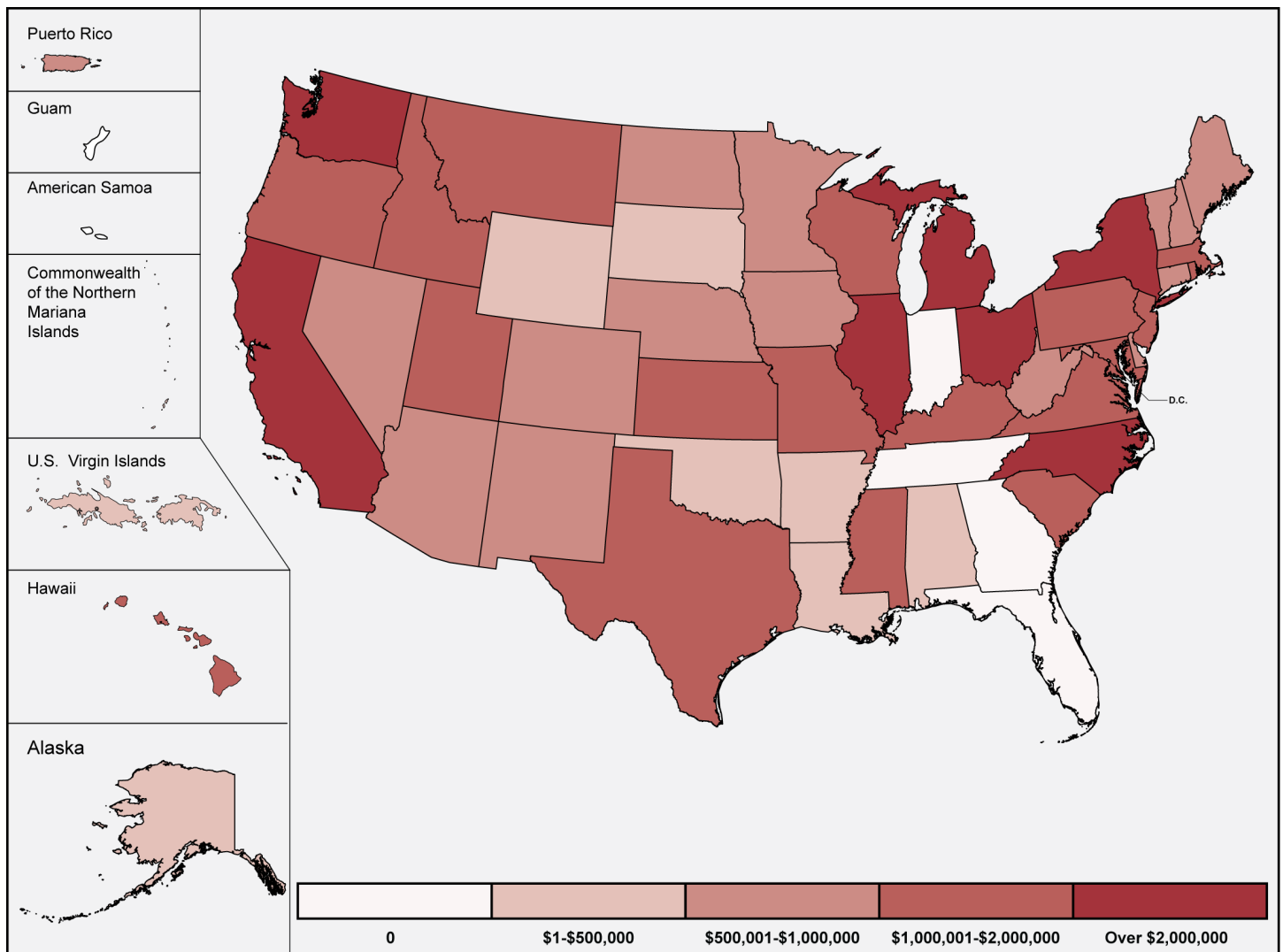


Source: GAO analysis of Public Law 114-125. | GAO-19-276

In fiscal years 2015-2017, SBA awarded a total of about \$54.1 million; 40 to 44 states received a STEP grant each year. Over this time period, the median grant amount was \$373,000, with a minimum of about \$115,000

and a maximum of \$900,000. Figure 3 shows the total award amounts by state for fiscal years 2015-2017.

Figure 3: Total State Trade Expansion Program (STEP) Award Amounts by State, Fiscal Years 2015-2017



Source: GAO analysis of Small Business Administration (SBA) data. | GAO-19-276

The SIDO survey, conducted annually, also asks member states about the STEP grant and how important it is to their export promotion activities. In recent years, most states responding to this question have indicated that the grant plays a key role in supporting such activities, even though the grant does not typically constitute a majority of the budget. In the

three surveys conducted between 2015 and 2017, more than 80 percent of responding states, on average, said that the grant was “extremely” or “very” important each year. In these same surveys, about 60 percent of responding states, on average, said that the grant constituted less than half of their budget.

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

SBA’s STEP grants management processes do not provide reasonable assurance that STEP grant recipients meet some TFTEA requirements before the grant is closed out. OIT does have a process in place to comply with the “proportion of amounts” clause of STEP’s authorizing statute, which caps at 40 percent the amount of grant funds distributed to the 10 states with the largest numbers of eligible small businesses. However, we found that OIT does not have processes sufficient to ensure that states met TFTEA’s total and cash match requirements.

TFTEA contains specific requirements for STEP that SBA is responsible for meeting. These requirements include the following:

- **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.¹⁰
- **Total match requirement.** States must provide a 25 percent or 35 percent non-federal total match to the federal grant amount.¹¹
- **Cash match requirement.** A state’s match cannot be less than 50 percent cash.¹²

¹⁰15 USC 649(l)(3)(C)(ii).

¹¹STEP’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.

¹²15 USC 649(l)(6). Not more than 50 percent of the non-federal amount may consist of indirect costs and in-kind contributions.

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

10 States the Small Business Administration (SBA) Identified with the Highest Numbers of Eligible Small Businesses, Fiscal Year 2017

1	California
2	Florida
3	Texas
4	New York
5	Illinois
6	New Jersey
7	Ohio
8	Pennsylvania
9	Michigan
10	Georgia

Source: GAO analysis of SBA data. | GAO-19-276

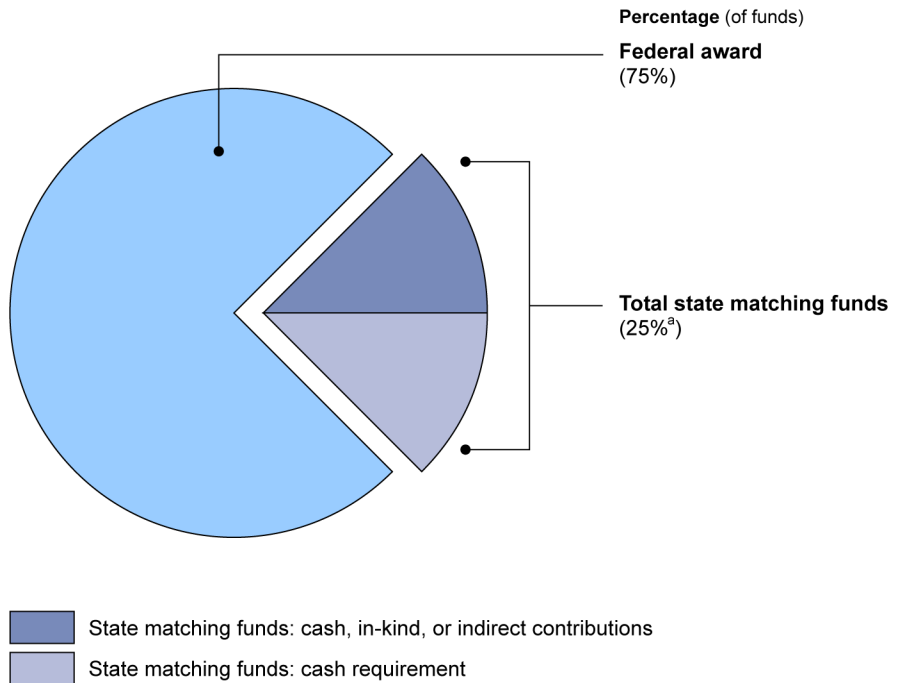
OIT has established a process for ensuring compliance with the TFTEA requirement outlined in the “proportion of amounts” section of the law. As discussed above, TFTEA requires that OIT determine the 10 states with the highest percentage of eligible small businesses using the most recent data from the Department of Commerce. OIT officials told us they review data from 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 in the data. For example, to assess the top 10 states for the fiscal year 2017 cycle, OIT used data from 2014. Based on these data, the 10 states that SBA identified for the fiscal year 2017 cycle received about 32 percent of the total amount appropriated—which was below the 40 percent threshold and therefore in compliance with the proportional distribution requirement. 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.

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

TFTEA requires that states receiving a STEP grant provide matching funds. The total match amount is typically 25 percent of the combined state-federal total amount; as noted above, in a limited number of cases, the state’s total match is 35 percent of this amount. Within either a 25 percent or 35 percent match amount, at least half of the total match must be provided in the form of cash. Matching share requirements are often intended to ensure local interest and involvement through financial participation, and may also serve to hold down federal costs.¹³ If SBA determines that a state is not providing sufficient matching funds, it can withhold future reimbursement for expenses incurred under the grant. Figure 4 illustrates the STEP funding proportions described above.

¹³GAO, *Principles of Federal Appropriation Law, Volume II*, [GAO-06-382SP](#) (Washington, D.C.: February 2006).

Figure 4: 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-19-276

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

^aThe 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.

OIT’s process for reviewing the quarterly reporting that states provide on STEP grants does not effectively document whether each state has met the total match requirement outlined in TFTEA. To determine whether each state is meeting the total match requirement, OIT program managers monitor state spending over the grant period through quarterly reporting that they require of the state grant recipients. At the end of each grant period, OIT officials told us they review the information collected through the quarterly reporting to determine whether the state met the total match requirement based on the amount of federal dollars expended. According to OIT data and officials, most states provide a greater match than is required; for example, according to OIT calculations, 75 percent of fiscal year 2015 states receiving the grant provided more matching funds than required. However, we identified four instances where, according to OIT’s documentation, one state reported

an insufficient total match in fiscal year 2015 and three states reported an insufficient total match 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 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. OIT officials stated in July 2018 that, as a result of our review, they planned to implement a new quarterly process to focus on match information specifically, which would ensure documentation of whether a state meets its total match requirement before the grant is closed at the end of each fiscal year program cycle. However, officials were unsure what this process would entail.

Standards for Internal Control in the Federal Government states that management should design control activities.¹⁴ By designing and executing appropriate control activities, management helps fulfill its responsibilities and address identified risks in the internal control system. This responsibility applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, management should

¹⁴[GAO-14-704G](#), Principle 10: Design Control Activities.

design control activities so that all transactions are completely and accurately recorded. Such control activities can be preventive for agencies, meaning that the activities prevent an agency from failing to achieve an objective or address a risk. 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.

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

OIT's processes do 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 the total match requirement 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 address risks to the program. As part of their reporting, states submit on a quarterly basis a detailed expenditure worksheet that contains information on the types of expended matching funds, including cash and other types of allowed contributions. 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. As such, SBA cannot consistently determine whether states are meeting the TFTEA cash match requirement, and risk closing out grants for which states have not met the cash match requirement.

OIT does not have a process to monitor whether states are misusing federal funds to offset the cash match requirement. The *Uniform Guidance* defines matching funds as the portion of project costs not paid by federal funds.¹⁵ Matching funds must be accepted when they are not included as contributions for any other federal award, meaning that

¹⁵2 C.F.R § 200.29.

federal funds cannot generally be used to meet the state match requirement.¹⁶ 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.¹⁷

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. In our discussions with officials from 12 states that received STEP grants in fiscal year 2015,¹⁸ 2 states reported using the grant to pay for portions of state staff salaries. Both of these states told us that they also reported staff salaries to OIT as their cash matching funds. Using part of the grant to pay for staff salaries in this way could have the effect of reducing the match below the thresholds mandated by TFTEA. 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 officials told us that they were not aware that STEP grantees had engaged in this practice, and therefore did not monitor for it. In order to determine whether this was happening, officials stated that they would need to inspect each state’s grant files on a case-by-case basis. In previous years, OIT has hired a contractor to select samples of and examine individual state grant files, and this contractor worked with states as needed to improve reporting. OIT officials told us that the last grant year reviewed in this way was fiscal year 2015, and they expect to be able to conduct some examinations for the closed fiscal year 2016 grants.

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

¹⁶ 2 C.F.R. § 200.306(b)(5). This provision of the *Uniform Guidance* contains an exception where a federal statute authorizing a program specifically provides that federal funds made available for such program can be applied to matching or cost sharing requirements of other federal programs.

¹⁷ 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.

¹⁸ As described elsewhere in this report, we selected these states because they spent less than 75 percent of their fiscal year 2015 STEP grant.

federal law. Further, according to *Standards for Internal Control in the Federal Government*, 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.¹⁹ 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.

SBA Made Changes to Enhance STEP in Response to States' Feedback, but Some States Reported Ongoing Challenges to Using Grant Funds

According to agency officials, OIT made some changes to the program in response to feedback from states, including addressing some types of challenges that states say affect their ability to use all their grant funds. However, officials of some states said that continuing challenges with the program impeded their ability to use all awarded grant funds within the permitted time period. While the challenges they described cover a variety of topics, most relate to compressed program timelines, administrative burden, or poor communication with and within OIT.

SBA Made Changes in Response to States' Feedback

OIT officials told us that they made some changes to STEP for the fiscal year 2017 program cycle in response to informal feedback from states, including changes to address concerns about use of funds and the administrative burden of the application. Of the 12 states that we interviewed, officials from 11 agreed that SBA's changes would improve the program. Changes included:

- **Extending funds usage period to 2 years.** OIT officials told us that, beginning with the fiscal year 2017 cycle, they converted the program from a 1-year award to a 2-year award. 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

¹⁹[GAO-14-704G](#), Principle 13: Use Quality Information.

achieve performance targets. Some state officials that we interviewed said that this change improves the program.

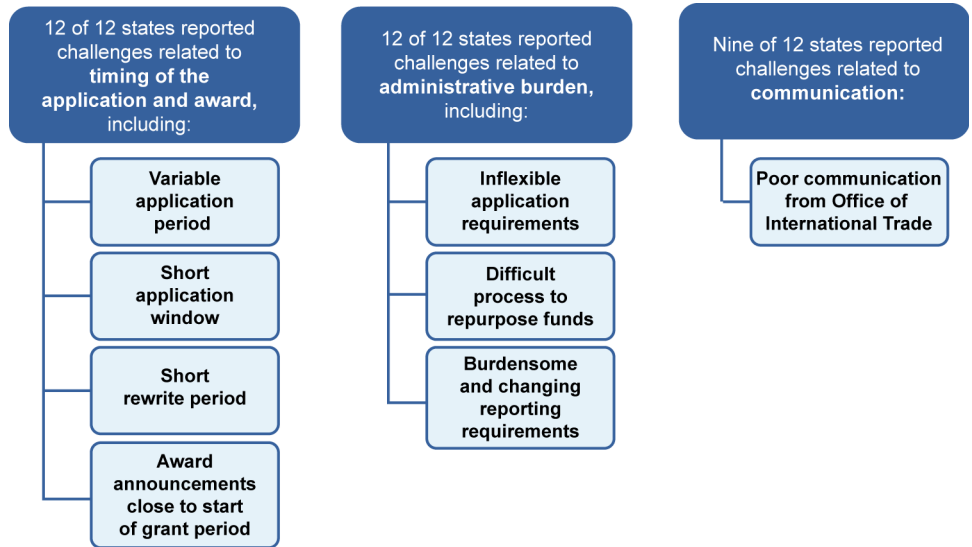
- **Eliminating travel preauthorization requirement.** OIT officials also told us that, during the fiscal year 2017 cycle, they eliminated a requirement that any travel funded by STEP grants be approved at least 30 days in advance of each trip. Instead, states now report all travel to OIT as part of STEP's quarterly reporting. According to some officials from the states that we interviewed, this change reduced the administrative burden on state trade office staff and allows greater flexibility to use grant funds when opportunities that require travel arise with limited notice.
- **Reducing page length of technical proposal.** For the fiscal year 2017 cycle, OIT reduced the length of the application's required technical proposal by nearly half, from 18 pages to 10 pages. According to some state officials that we interviewed, this change helped to streamline the program's application paperwork.

Some States Were Unable to Use All STEP Award Funds, Citing Challenges with the Program

State officials that we interviewed described a variety of ongoing concerns with STEP, including some challenges that reduced their ability to use all of their grant funds. We developed a nongeneralizable sample of the 12 states that did not use 25 percent or more of their grant funds in fiscal year 2015, and interviewed officials from those states in order to gain insight into their experiences with the program, including the challenges that they faced using the full award amount.²⁰ These 12 low-use states represent almost 70 percent of funds that remained unused during that cycle. As shown in figure 5, we grouped the most commonly reported challenges into the following categories: (1) timing of the application and award processes, (2) administrative burden, and (3) communication.

²⁰According to SBA, the fiscal year 2015 cycle was the most recent program cycle for which finalized data were available during the writing of this report.

Figure 5: Twelve States with Low State Trade Expansion Program (STEP) Grant Use Reported Challenges to Fund Use



Source: GAO analysis of interviews with selected state trade offices. | GAO-19-276

OIT’s recent changes to STEP could help increase future use rates; however, the effect is yet unknown because the changes were introduced for the fiscal year 2017 cycle. Further, nearly all of the concerns expressed by the 12 low-use states relate to aspects of the program outside the changes made by OIT. Our analysis of data from the program’s fiscal year 2015 and 2016 cycles found nearly 20 percent of grant funds unused each year, despite OIT officials stating that they seek 100 percent use of grant funds, as described below:

- **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.²¹
- **2016.** Across 41 of the 43 recipient states, combined grant use was 82 percent, leaving 18 percent, or nearly \$3.2 million, unused. This

²¹See appendix I for more info on the grant recipient states and the range of use rates.

included one state that left nearly 95 percent, or nearly \$184,000, of its funds unused that year.²²

In addition, although officials from several states told us that they have made changes to their STEP grant applications or activities to increase their ability to use grant funds, use problems have persisted.²³ Our interviews, conducted in March and April 2018, indicated that states continue to face obstacles using the full award amount.²⁴

Some States Said Challenges Related to Compressed Program Application and Award Time Frames Hinder Fund Use

Officials we interviewed from each of the 12 low-use states cited challenges related to the timeline of the application and award processes. These challenges were a variable application period, a short application window, a short application rewrite period, and award announcements occurring close to the start of the grant period.

Variable Application Period

The exact timing of the STEP application period varies from year to year, which officials from some states that we spoke with cited as a challenge to applying for the grant. In fiscal years 2015, 2016, and 2017, SBA opened the STEP application process at different points between February and May. Officials from five low-use states reported that they had difficulty planning staff resources for completing the application because of the variable time frames. For example, one state official told

²²At 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 South Dakota a 1-year extension for using funds because of the state's struggles with staff turnover and difficulty recruiting eligible small businesses to participate in STEP. SBA officials also said that OIT granted Texas a 1-year extension for using funds because of the impact of a natural disaster. OIT officials stated that this was a management decision. Award and expenditure data related to these two states has been omitted from our calculations for the fiscal year 2016 cycle.

²³Of the 12 states with low use rates in the fiscal year 2015 cycle, five increased their use rates to between 75 and 90 percent the following year, while five continued to have low use rates of between 44 and 73 percent. The remaining two states did not participate in STEP in the fiscal year 2016 cycle. In addition, two states that used more than 75 percent of their funds in the fiscal year 2015 cycle saw their use rates decline below 75 percent in the fiscal year 2016 cycle. Four states that did not participate in STEP in the previous year used less than 75 percent of their grant funds in the fiscal year 2016 cycle.

²⁴The SBA OIG previously reported that states often have difficulty spending the full amount of STEP grants received, resulting in low grant fund use rates in some states. See U.S. Small Business Administration, Office of Inspector General, *Audit of SBA's State Trade Expansion Program*, Audit Report No. 18-11 (Washington, D.C.: January 2018).

us that not knowing when the application period would open was one of his office's biggest planning challenges because spring is a busy time for trade activities and coincides with when his state hosts its largest annual trade event. At some point during this busy season, the application period typically opens. The state official said that, as a result of competing priorities for his office during this season, he might have only 2 weeks to complete the STEP application within the allotted time. He said that if the grant application periods were opened at the same time each year, he would be better able to plan for it.

Short Application Window

Officials from five low-use states told us that the window for completing the initial STEP application was insufficient because, for instance, of the amount of work the application requires and competing demands on their staff. For fiscal years 2015, 2016, and 2017, SBA announced application windows of between 30 and 42 days. For fiscal year 2016, SBA later extended the window to 50 days. Some state officials said that the variable and short application window creates challenges to writing quality applications. Without quality applications, it may be more difficult for states to develop good plans for using grant funds, which can facilitate the full use of funds.

We discussed states' concerns about when the grant applications opened, and how long they remained open, with SBA officials. These officials said that they were unable to open the application at the same time and for the same length of time each year because of factors beyond their control, such as the federal budgeting process and the involvement of other offices within SBA. In response to states' concerns regarding the length of time that the STEP application is open, we observed that under OMB's Uniform Guidance the federal awarding agency must generally make all funding opportunities available for application for at least 60 calendar days; however, the guidance does allow agency officials to make a determination to allow for as few as 30 days.²⁵

Short Rewrite Period

Officials from three of the 12 low-use states told us that the window for rewriting applications is insufficient to adequately consider and implement the changes needed, given that states must rewrite their technical proposals, including updating all supporting financial information as well as proposed performance targets within that time. Once states'

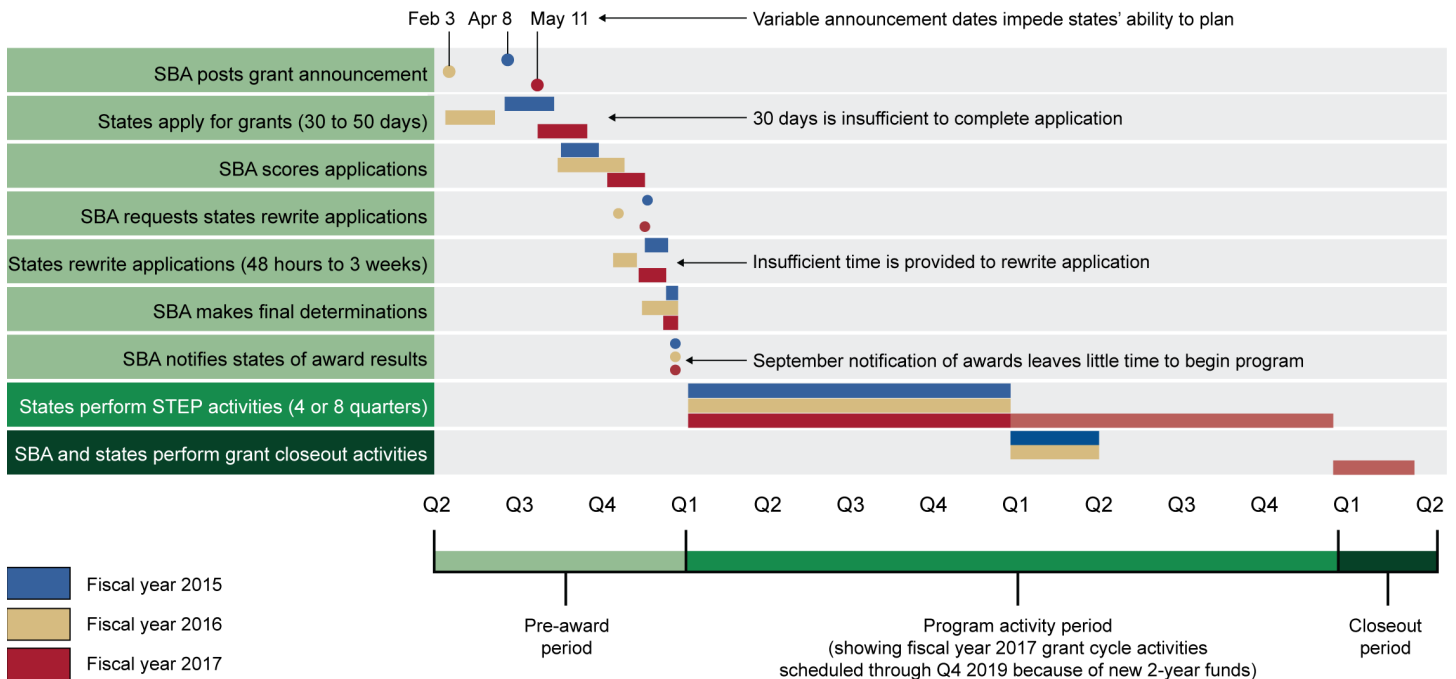
²⁵See 2 C.F.R. § 200.203(b). The funding opportunity may be made available for less than 30 calendar days if exigent circumstances require, as determined by the federal awarding agency head or delegate.

applications have been scored and recipients selected, OIT may require certain states to rewrite their applications to request smaller amounts of federal funds. SBA officials told us that in the fiscal year 2015, 2016, and 2017 cycles, states were given 21 days to rewrite their proposals, but that the rewrite period has been as short as 48 hours. OIT officials told us that they reduce states' grant requests each year because SBA receives applications for more grant funds than are available. Such rewrites require reducing or removing intended activities and establishing new performance targets within each of the remaining activities. State officials told us that the window for rewriting the grant impacts their ability to write their program proposals, which serve as the basis for states' performance metrics and measurement of outcomes.

Award Announcements Close to Start of Grant Period

SBA announces final STEP award amounts in September, just prior to the beginning of the fiscal year. Officials from nine of the 12 low-use states told us that because the award notifications occur so close to the beginning of the fiscal year, using funds during the first quarter is difficult. For instance, most of these officials said that they cannot plan activities until they know whether they will receive an award and, if so, the amount. Furthermore, officials from four states attributed their low grant use to this issue. For example, officials from one state told us that September award announcements do not allow them enough time to recruit companies to participate and use funds in the first quarter of the federal fiscal year, forcing them to compress their activities into the remaining quarters of the program cycle. One state official referred to the first quarter as a "lost" quarter. Officials from two states reported reducing or eliminating programmatic activities in the first quarter to avoid pressure caused by OIT's award timeline. OIT officials told us that they notify states of their awards before the start of each fiscal year and in compliance with federal government policy. Figure 6 compares the timelines for the application process, notification of awards, recipients' grant use period, and closeout activities for the fiscal year 2015, 2016, and 2017 program cycles, as well as associated challenges to grant use that states reported.

Figure 6: State Trade Expansion Program (STEP) Grant Application, Award, and Performance Timelines, and Associated Challenges That States Described



Legend: SBA = Small Business Administration

Source: GAO analysis of interviews with selected state trade offices and SBA information. | GAO-19-276

Some States Said Challenges Related to Burdensome Administrative Requirements Hinder Fund Use

Inflexible Application Requirements

Challenges related to administrative burden were cited by officials from all 12 of the states that we interviewed. These included challenges related to completing the application, the process for moving funds from one use to another (known as “repurposing”), and the required reporting on the grant.

Officials from eight low-use states told us that the STEP application requirements are unrealistic or burdensome because, for instance, the level of detail required about performance targets conflicts with the reality of promoting exports in a fluid international business environment. As discussed above, OIT requires states’ STEP applications to detail their projected use of grant funds. For example, when submitting their applications, states project which trade shows they will attend and the number of small businesses they will take to these trade shows. Further

required details include projecting the costs and number of companies that will attend events in particular foreign locations, for example. In the past, the application required performance targets that were based on estimates of business interest and export opportunities up to 18 months in advance. Today, with the aforementioned transition to 2-year awards, STEP applications must project such activities and performance targets up to 30 months in advance of their execution. In the event of differences between planned and actual performance during the course of the program cycle, OIT requires states to explain the differences and their plans for aligning their future performance with the targets established in their applications.

Difficult Process to Repurpose Funds

Officials from eight low-use states said they attributed their low use of grant funds to challenges with program rules or regulations. Difficulty in repurposing funds was the most common example that they cited. Some officials said that OIT's difficult repurposing process limits states' ability to move funds from one purpose to another when participating small businesses' plans change or don't align with the original program proposal, leaving funds unused. Several state officials described difficulty adapting to changing business plans or opportunities. For instance, one official said that when unanticipated opportunities appear, such as follow-up trade missions, OIT's restrictive repurposing process limits states' ability to move funds from one purpose to another. Officials from two states reported applying for smaller grant amounts than in previous years in order to have a more manageable amount to spend, thereby avoiding the need to repurpose funds.

In order for states to use STEP funds in ways that differ from the plans in their approved program applications, SBA requires that states request agency permission to repurpose the funds.²⁶ According to the Uniform Guidance, the federal awarding agency may restrict grant recipients' repurposing of funds in excess of 10 percent of the total grant amount, and determine the level of detail required for requests to repurpose funds.²⁷ OIT officials told us that in cases of repurposing more than 10 percent of total funds, the documentation required is determined on a case-by-case basis depending on the amount of funds involved and the

²⁶According to SBA officials, the need to repurpose (also called "reprogramming") funds occurs when a state is unable to use STEP funds for the purpose originally proposed in its program application or otherwise wishes to use funds for an activity not proposed in its original application.

²⁷See 2 C.F.R. § 200.308 (e) and (h).

degree of difference between the original approved use and the proposed new use. These OIT officials said that in some cases, states may only need to submit a written request via email; in other cases, states may be required to revise and resubmit their STEP applications.

To compensate for the difficulty in repurposing funds, officials from two states told us that in subsequent years they had proposed more general programs that allowed for greater flexibility, such as by increasing the use of stipends, which provide small businesses with a predetermined amount of funds for a range of allowed activities. When a state applies for a STEP grant using this approach, the state is typically less specific in its performance targets, such as which trade shows will be attended and by how many small businesses. One state official said that this approach can increase use rates by providing states with more flexibility in distributing the funds. OIT officials agreed that where a state is less prescriptive in its application performance targets it is easier for the state to repurpose funds, such as when federal trade missions are cancelled or small businesses express interest in activities that were not originally proposed. However, the OIT officials noted that the lack of specificity may result in lower grant application scores.²⁸

Burdensome and Changing Reporting Requirements

Officials from 11 of the 12 low-use states described challenges related to burdensome or changing reporting requirements, such as the number of forms required for quarterly reporting, or the level of detail required on certain forms, as well as challenges related to changes that SBA makes to reporting requirements during the grant period. Two state officials told us that, because they often have few people working on the grant, complying with these reporting requirements takes undue amounts of

²⁸To examine how states' use rates have affected the award process, we reviewed certain application scoring procedures and found that SBA changed the role of OIT program managers between the fiscal year 2017 and 2018 cycles. Standard operating procedures for SBA grants management allow for the consideration of past performance in making award decisions, but also state that employees with oversight responsibility for any applicant "will not be able to participate in the application review process." The three OIT program managers each have oversight for about one-third of the total number of grants in a given year. Our review of OIT's scoring templates used in the fiscal year 2017 cycle showed that, in addition to providing input on states' past performance, OIT program staff were allowed to review and score the applications for that year. Program managers were responsible for scoring the application's technical proposal and budget information between 0 and 10 points, out of a possible total of 100 points. When we asked OIT about this potential conflict with the standard operating procedures, officials provided updated scoring templates that were used in the fiscal year 2018 cycle, with the opportunity for the program managers to review and score the project design removed. OIT officials stated that this change was a result of periodic reconsideration of the direction for the program.

time, and thus have the effect of reducing use. For example, one state official described having to divide the cost of shared taxis and hotel rooms for a trade show, reporting the per-person cost for each company that was part of the state's delegation. Officials from two states also pointed out that the reporting requirements for STEP were much more detailed and burdensome than grants they administered from other federal agencies, such as the Department of Commerce. In addition, officials from six states expressed concern that OIT occasionally makes changes to program requirements, such as reporting requirements, after the grants have been awarded and the grant cycle has begun. Some state officials said that these mid-year changes increase the administrative burden on their limited staff.

During our discussion of states' concerns with OIT, officials said that they are limited in their ability to address certain concerns described by the states. For example, OIT officials told us that the quantity and type of forms and level of detail required in states' reporting are imposed by federal guidelines, determined by OGM, or based on agency leadership's expectations. In addition, OIT officials said that sometimes requirements are changed outside of their office and are beyond their control. The officials stated that, for some changes, they are not in a position to wait until the following program cycle for implementation. They said that they do, however, postpone less urgent changes until the following program cycle rather than making them mid-cycle.

Some States Said Challenges Related to Poor Communication Hinder Fund Use

Communication between OIT and states was a frequently cited area of concern in our interviews with officials from the 12 low-use states. Officials from nine states raised concerns related to the quality of communication with OIT. For instance, some state officials described issues such as sometimes waiting weeks or months for responses to emails that they had sent to OIT, resulting in administrative delays or preventing states from executing some activities as planned. In one example, state officials said that SBA recently waited months to notify the state of a problem opening its emailed quarterly report file, causing the state to wait months to receive its STEP grant funds. The officials said that such delays bring their program to a halt. Communication within OIT was also cited as an issue that hindered states' fund use. Officials from 10 states noted that program rules, regulations, or requirements are inconsistently communicated. Further, several state officials described witnessing OIT program managers disagree regarding the interpretation of program rules during discussions with state representatives at a SIDO conference.

SBA Has Not Adequately
Assessed Risk to Achieving
Program Goals from Some
States' Low Grant Fund Use

When we discussed states' concerns with OIT officials, they told us that they maintain open lines of communication with the states and that STEP program managers are required to retain logs of their communication with the states. The officials described making an effort to listen to states' concerns, adding that they had modified the program in certain ways as a result of state input, as noted above. States can provide feedback about STEP to their respective OIT program managers, who then discuss states' comments during weekly meetings with OIT management and other program managers. In addition, OIT officials said that they make themselves available for informal conversations with states at SIDO's annual conference. According to OIT officials, communication with the states is usually channeled through each program manager, even when the content is pertinent to all grant recipients and could be communicated from one source.

At the time of our review, 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. In addition to the goals of the program outlined earlier, OIT officials told us that one program performance metric is the use rate for STEP 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. *Standards for Internal Control in the Federal Government* 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.²⁹ These standards for internal control include assessing the risks facing the agency as it seeks to achieve its objectives, with the assessment providing the basis for developing appropriate responses to risks from external and internal sources. Therefore, agency management should set its risk tolerance with regard to STEP at a level that appropriately mitigates risk while enabling the achievement of program objectives. Without assessing and addressing this risk to the program, OIT may continue to fall short of 100 percent grant fund use. Low grant fund use could negatively affect OIT's ability to achieve program goals in supporting state export promotion activities.

²⁹GAO-14-704G, Principle 6: Define Objectives and Risk Tolerances.

SBA Has Not Effectively Shared Best Practices

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 did not use 25 percent or more of their grant funds in the fiscal year 2015 cycle, 19 states used all or almost all of their funds, as shown in appendix I. 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 in terms of the characteristics of its economy.

According to the *Uniform Guidance*, grant recipients' performance should be measured in a way that helps the federal awarding agency and other non-federal entities to improve program outcomes, share lessons learned, and spread the adoption of promising practices.³⁰ Further, under federal standards for internal control, management should externally communicate the necessary quality information so that external parties, such as grant recipients, can help to achieve the entity's objectives.³¹ We have also previously reported on the importance of collecting and sharing best practices, as well as the processes for doing so.³² 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 state STEP programs, including increasing fund use rates in pursuit of OIT's stated aim of 100 percent grant fund use.

Conclusions

The STEP program has provided about \$139 million of federal support to assist small businesses in finding export opportunities, and Congress has authorized STEP through 2020. SBA has a process in place to ensure

³⁰See 2 C.F.R. § 200.301.

³¹[GAO-14-704G](#), Principle 15: Communicate Externally.

³²GAO, *Best Practices Methodology: A New Approach for Improving Government Operations*, [GAO/NSIAD-95-154](#) (Washington, D.C.: May 1995).

compliance with the program's legal requirement to cap the total grant amount to the 10 states with the largest number of eligible small businesses at 40 percent—thereby ensuring that states with fewer small businesses benefit from the program. However, SBA has not taken some necessary steps to manage the program's total and cash matching requirements according to applicable law or federal internal control standards. SBA does not document that states are meeting the total match requirement, and has not developed a process to determine whether states are meeting the cash match requirement. As a result, SBA does not have reasonable assurance that the states are meeting these requirements. Matching requirements directly engage states, augment federal funds, and ensure further support to small businesses that export. As such, meeting the matching requirements is a key aspect of the program's success. Although not every state has problems using the full federal award amount, about a quarter of the states do, which may hinder the program's ability to fully achieve its goals of increasing the number of small businesses exporting, increasing the number of small businesses exploring significant new trade opportunities, and increasing the value of exports for small businesses already engaged in international trade. While SBA has taken some steps to improve the program based on feedback from states, it could do more in this regard, including finding ways to assess and address the specific concerns raised by states that have experienced difficulty using grant funds. SBA could also take further steps to collect and disseminate best practices among states to strengthen their ability to fully use grant funds. Higher grant fund use could enhance SBA's ability to assist as many exporting small businesses as possible, leading to a fuller realization of the program's goals.

Recommendations for Executive Action

We are making the following four recommendations to SBA:

The SBA Administrator should establish a process that ensures documentation of states' compliance with the total match requirement before grant closeout. (Recommendation 1)

The SBA Administrator should develop a process to determine states' compliance with the cash match requirement. (Recommendation 2)

The SBA Administrator should assess the risk to achieving program goals posed by some states' low grant fund use rates. Assessing this risk could include examining the challenges that states reported related to the program's application and award processes, administrative burden, and communication. (Recommendation 3)

The SBA Administrator should enhance collection and sharing of best practices among states that receive STEP grant funds. (Recommendation 4)

Agency Comments

We provided a draft of this report to SBA for review and comment. In written comments (reproduced in appendix II), SBA generally agreed with our findings and concurred with our recommendations. SBA observed that the states we did not interview may have had different experiences with the program than the states in our sample. As we note in the report, our sample is nongeneralizable, and so the experiences these states reported to us may not be common to all states receiving the grant. As we stated in our report, we selected the 12 states that had the lowest grant use rates in fiscal year 2015 in order to understand the challenges they faced.

We are sending copies of this report to the Administrator of SBA and other interested parties. In addition, the report will be available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8612 or gianopoulosk@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.

Sincerely yours,



Kimberly Gianopoulos
Director, International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

The objectives of this report were to examine the extent to which (1) the Small Business Administration's (SBA) State Trade Expansion Program (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 did the following:

Legal and regulatory review. 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.¹ We focused on SBA's compliance with the proportional distribution, total match, and cash match requirements because these requirements are consistent across both of the program's laws, and to avoid duplication with ongoing Office of Inspector General (OIG) work on the program. In addition, we 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), and *Standards for Internal Control in the Federal Government* to identify relevant guidance and practices in managing grants to non-federal entities and in designing and executing effective control processes.² We also reviewed these documents and previous GAO work for information about the collecting and sharing of best practices.

Program data review. We analyzed data on award amounts, matching funds required, and matching funds provided for the fiscal years 2015 and 2016 program cycles, as well as information about the sources of matching funds in selected cases for the fiscal year 2015 program cycle.³ We focused on these program cycles because these were the most recent years for which the most complete information was available. We also reviewed the data the Office of International Trade (OIT) used to comply with the legal requirement for proportional distribution for the fiscal

¹Pub.L.No. 111-240 and Pub.L.No.114-125.

²2 C.F.R. § 200 and [GAO-14-704G](#).

³The fiscal year 2015 STEP program cycle began with the program application announcement on April 8, 2015 and, according to SBA officials, concluded with grant closeout on August 25, 2017. The fiscal year 2016 STEP program cycle began with the program application announcement on February 3, 2016; according to SBA officials, all but two states had completed grant closeout as of the writing of this report.

year 2017 cycle. We assessed the reliability of these data by interviewing OIT officials about the sources of the data, how the data are stored and maintained, and by tracing data from relevant sample documents back to their sources. We found these data sufficiently reliable for the purpose of understanding OIT's processes for complying with the proportional distribution and matching requirements.

Program management review. We reviewed SBA's standard operating procedure for managing grants and cooperative agreements in order to understand the agency's requirements for this. We reviewed relevant documentation, including sample grant files, application forms, application scoring forms, grant reporting forms. To examine the relationship that states' past use rates have on the award process, we reviewed OIT's forms for scoring the grant applications in fiscal years 2017 and 2018. We interviewed officials from OIT and OGM to understand how SBA monitors STEP grants, including the steps they take to comply with the proportional distribution, total match, and cash match requirements. We examined SBA's calculations of the total match amounts required for states, and we identified 4 instances in which SBA's documentation showed an insufficient match in fiscal years 2015 and 2016. We spoke to OIT officials to gain insight into why the scoring procedures for the grants changed for the fiscal year 2018 program cycle. In addition, we reviewed TFTEA, previous GAO work, and the most recent STEP best practices reports for information relating to SBA's communication to states about best practices in applying for and managing STEP grants. We interviewed officials from OIT to learn about steps they had taken to address concerns raised by states that participate in the program and to facilitate the sharing of best practices among states receiving the grant.

Review of grant use rates. We analyzed SBA data on award amounts and amounts used for the fiscal years 2015 and 2016 cycles. We assessed these data by interviewing OIT officials about the sources of the data and how the data are stored and maintained. In discussing the fiscal year 2016 cycle with OIT officials, we learned that South Dakota and Texas had been granted extensions and therefore had not yet completed reporting on their use of these grants. As a result, we dropped these states from our calculation of the fiscal year 2016 cycle use rate. With the exclusions of South Dakota and Texas, we found these data sufficiently reliable for the purpose of calculating use rates for STEP for the fiscal years 2015 and 2016 cycles. In comparing the available grant use data from these years, we found the following: (1) some states that were in the low-use (less than 75 percent utilization) category in fiscal year 2015 were also in this category in fiscal year 2016, (2) some states that were in

the low-use category in fiscal year 2015 were not in this category in fiscal year 2016, and (3) some states that were not in the low-use category or did not participate in STEP in fiscal year 2015 were in this category in fiscal year 2016. In our interviews, we asked officials from states in the low-use category in the fiscal year 2015 cycle about their experiences in subsequent years, including whether they intended to apply for the grant in the fiscal year 2018 cycle.

Tables 2 and 3 below display data on fund use across participating states in fiscal years 2015-2016, including the percentage of federal award funds unused, amount of federal award funds unused, and percentage of total federal funds unused for each year. We used the data in table 2 to identify our population of low-use states. The 12 states that we interviewed used less than 75 percent of their award funds in the fiscal year 2015 cycle. They represent almost 70 percent of funds that remained unused during that cycle, representing a large proportion of the total unused funds that year. In table 2, the first three rows show data on the 12 states included in our sample. We used the data in table 3 to determine whether our population of low-use states achieved different use rates the following year.

Table 2: GAO Analysis of Unused State Trade Expansion Program (STEP) Funds for Interview Sample Selection, Fiscal Year 2015 Cycle

Percentage of federal award funds unused	Number of states	Amount of federal award funds unused	Percentage of total federal funds unused
75.1-100	2	\$659,073	19.5
50.1-75	1	\$302,713	9.0
25.1-50	9	\$1,375,264	40.7
0-25	28	\$1,043,338	30.9
Total	40	\$3,380,388	100^a

Source: GAO analysis of Small Business Administration Office of International Trade data for STEP. | GAO-19-276

^aTotal does not sum because of rounding.

Table 3: GAO Analysis of Unused State Trade Expansion Program (STEP) Funds, Fiscal Year 2016 Cycle^a

Percentage of federal award funds unused	Number of states	Amount of federal award funds unused	Percentage of total federal funds unused
75.1-100	2	\$322,010	10.2
50.1-75	3	\$692,966	21.9
25.1-50	6	\$1,063,458	33.5
0-25	30	\$1,092,991	34.5
Total	41	\$3,171,425	100^b

Source: GAO analysis of Small Business Administration Office of International Trade (OIT) data for STEP. | GAO-19-276

^aDoes not include South Dakota or Texas, which received a grant cycle extension from OIT.

^bTotal does not sum because of rounding.

Interviews with low-use states. We conducted semi-structured interviews with officials from the 12 states that did not use at least 25 percent of their federal award in the fiscal year 2015 grant cycle. In these interviews, we discussed the states' practices and reporting with respect to the total and cash match requirements, and inquired about the practice of using the federal award to offset state staff salaries while reporting these salaries as a cash match. These 12 interviews do not constitute a generalizable sample of STEP grantees, because we selected these states on the basis of their low use of grant funds in order to understand challenges faced by those states. As such, the practices reported by states we interviewed may not be common to all states receiving STEP grants.

State challenges. In our semi-structured interviews with officials from the 12 states that did not use 25 percent or more of their award in fiscal year 2015, we gathered information about continuing challenges in fully using the grant funds. These states were:

- Arkansas
- California
- Delaware
- Illinois
- Kansas
- Kentucky
- Maine

- Massachusetts
- Minnesota
- Missouri
- Nevada
- Wisconsin

We conducted these interviews in March and April 2018. However, our 12 interviews represent a nongeneralizable sample of the population of states that have received the 301 awards made through the STEP grant cycles since fiscal year 2011. As such, challenges reported by these states may not be common to all states receiving this grant. We asked officials from these 12 states questions about their experiences participating in the program, about challenges they had experienced, and about their views on how the program could be improved. To describe the themes that emerged from these 12 interviews with respect to challenges in fully using the funds, we identified categories based on an analysis of the responses that we received. Two GAO analysts independently coded the content of these interviews according to these categories. We conducted further analysis of the results of our coding to identify the three major groupings of challenges that we present in this report: (1) the timing of the application and award periods; (2) administrative burden; and (3) communication. The coders had an initial agreement rate of about 90 percent. Disagreements were resolved through discussion between the coders and, occasionally, through arbitration by a knowledgeable third party.

SIDO survey data review. We analyzed 2015, 2016, and 2017 survey data provided by State International Development Organizations (SIDO), a national group that supports state trade offices. We reviewed data from their annual member survey conducted in those years. This survey asks SIDO member states about, among other things, top advocacy priorities, the number of staff in each state's international trade office, and the location of these trade offices within the state government. The survey also asks states to describe the importance of STEP to each state, and provide the estimated proportion of each state's export promotion budget that the grant constitutes. To assess these data, we interviewed a SIDO official about the organization's methods for developing the survey each year, as well as their processes for collecting and storing the data, and reviewed the response rates in each year. We reviewed the survey instrument and data, and conducted testing for missing data, obvious errors, and outliers, and determined that these data were sufficiently

reliable for the descriptive purposes for which they are used in this report. However, we noted that the number of respondents by year varied. According to SIDO 36, 38, and 41 states fully or substantially completed the survey in 2015, 2016, and 2017, respectively. We are presenting the results as general proportions or rounded percentages. We did not independently audit the survey results.

We conducted this performance audit from September 2017 to March 2019 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Comments from the Small Business Administration



U.S. Small Business
Administration

February 18, 2019

Kimberly Gianopoulos
Director
International Affairs & Trade
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Ms. Gianopoulos:

Thank you for providing the U.S. Small Business Administration (SBA) with a copy of the Government Accountability Office (GAO) draft report titled "*Small Business Administration: Export Promotion Grant Program Should Better Ensure Compliance with Law and Help States Make Full Use of funds (GAO-19-276).*"

The draft report examines the extent to which SBA's management processes ensure compliance with STEP requirements as well as the steps take by SBA to address challenges reported by states in using grant funds to achieve program goals. However, we take exception to your sampling methodology. You note on page 2 that you drew a nongeneralizable sample of 12 states from the 40 grantees. While you acknowledge the challenges that this sample reported "may not be common to all states" receiving grants, we strongly believe the other 28 states did not have the same experiences as the 12 states in your sample.

SBA generally agrees with the recommendations to SBA. SBA has the following comments related to GAO's recommendations to SBA.

- Recommendation #1: The SBA Administrator should establish a process that ensures documentation of state recipients' compliance with the total match requirement before grant closeout.

Response. SBA will establish a process that ensures documentation of state recipients' compliance with the total match requirement before grant closeout.

- Recommendation #2: The SBA Administrator should develop a process to determine states' compliance with the cash match requirement.

Response. SBA will develop a process to determine states' compliance with the cash match requirement.

- Recommendation #3: The SBA Administrator should assess the risk to achieving program goals posed by some states' low grant fund use rates. Assessing this risk could include examining the challenges that states reported related to the program's application and award processes, administrative burden, and communication.

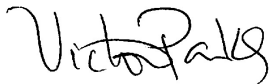
Response. SBA will assess the risk to achieving the STEP program goals posed by some states' low grant fund use rates. This assessment to risk will include examining the challenges that states reported in this audit related to the STEP program application and award processes, administrative burden, and communication.

- Recommendation #4: The SBA Administrator should enhance collection and sharing of best practices among states that receive STEP grant funds.

Response. The Office of International Trade plans to develop an internal control that will focus on collecting and sharing best practices among states that receive grant funds. This internal control will focus on best practices that help STEP improve program outcomes, help share lessons learned, and spread the adoption of promising practices. The internal control will then lead STEP management to externally communicate the necessary quality information to grant recipients so that grant recipients can achieve their program objectives. Our intent is that best practices will improve program effectiveness and will help lead to 100 percent grant fund use.

Thank you for the opportunity to comment on this report and for taking our views into consideration.

Sincerely,



Victor Parker
Acting Deputy Associate Administrator
Office of International Trade
U.S. Small Business Administration



All SBA programs and services are extended to the public on a nondiscriminatory basis.

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Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Kimberly Gianopoulos, (202) 512-8612 or gianopoulosk@gao.gov

Staff Acknowledgments

In addition to the contact named above, Adam Cowles (Assistant Director), Cristina Ruggiero (Analyst in Charge), Jesse Elrod, and Peter Kramer made key contributions to this report. The team also benefitted from contributions made by Martin de Alteriis, Mark Dowling, John Hussey, Jeff Isaacs, Christopher Keblitis, and Kimberly McGatlin.

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