



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued June 30 2022

Massachusetts Office of International Trade and Investment

For the period September 30, 2018 through June 30, 2021





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Suzanne M. Bump

Making government work better

June 30, 2022

Mr. Mark Sullivan, Executive Director
Massachusetts Office of International Trade and Investment
136 Blackstone Street, Fifth Floor
Boston, MA 02109

Dear Mr. Sullivan:

I am pleased to provide this performance audit of the Massachusetts Office of International Trade and Investment. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, September 30, 2018 through June 30, 2021. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Massachusetts Office of International Trade and Investment for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue circular background.

Suzanne M. Bump
Auditor of the Commonwealth

cc: Mike Kennealy, Secretary of the Massachusetts Executive Office of Housing and Economic Development
Keiko Orrall, Chair of the Massachusetts Marketing Partnership

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LIST OF ABBREVIATIONS

EOHED	Executive Office of Housing and Economic Development
ME	market expansion
MEC	Massachusetts Export Center
MMARS	Massachusetts Management Accounting and Reporting System
MOITI	Massachusetts Office of International Trade and Investment
NTE	new to export
PPR	Performance Progress Report
RFC	Request for Counseling
SBA	Small Business Administration
STEP	State Trade Expansion Program
USBC	underserved small business community

EXECUTIVE SUMMARY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of the Massachusetts Office of International Trade and Investment (MOITI) for the period September 30, 2018 through June 30, 2021.

In this performance audit, we determined whether MOITI graduated small businesses from the State Trade Expansion Program (STEP), whether it collected required information from small businesses to which it awarded funding through STEP, whether it ensured that the financial assistance awards it gave to small businesses were only for allowable activities, whether these activities were supported by adequate documentation, and whether the small businesses that were given financial assistance awards provided the required cash match. When examining MOITI's requirements for graduating small businesses from STEP, we extended the audit period back through May 1, 2012, the date MOITI issued its first financial assistance award as part of STEP.

Below is a summary of our findings and recommendations, with links to each page listed.

Finding 1 Page 10	MOITI's process for collecting and recording information about small businesses in underserved small business communities (USBCs) applying to STEP is ineffective.
Recommendations Page 12	<ol style="list-style-type: none">1. MOITI should review the information it has for businesses that have received STEP financial assistance awards regarding their statuses as part of USBCs and correct any inaccurate information.2. MOITI should ensure that its employees are aware of the requirements of STEP.3. MOITI should revise its Massachusetts STEP Program Readiness Assessment and Application to include the federal Small Business Administration's (SBA's) definitions of the four USBCs and an area where a small business should document any of the four USBCs to which it belongs.4. MOITI should implement monitoring controls to ensure that it accurately records applicants' reported USBC statuses on the Performance Progress Reports it submits to SBA.
Finding 2 Page 13	MOITI has not implemented requirements for graduating small businesses from STEP.
Recommendation Page 14	MOITI should implement requirements for graduating small businesses from STEP.

OVERVIEW OF AUDITED ENTITY

The Massachusetts Office of International Trade and Investment (MOITI), established by Section 13K of Chapter 23A of the Massachusetts General Laws, is an agency overseen by the Executive Office of Housing and Economic Development (EOHED) and is part of EOHED's Massachusetts Marketing Partnership.¹ MOITI is administered by an executive director, who is appointed by the Governor. Its website states,

The Massachusetts Office of International Trade and Investment (MOITI) is the international business development agency charged with promoting trade and investment with global partners in Massachusetts and around the world. . . .

Our Goals

- *Increase foreign investment in Massachusetts*
- *Create jobs*
- *Strengthen the local economy*
- *Focus on important trade partnerships*

MOITI has been designated by the Governor as the agency responsible for administering the federal Small Business Administration's (SBA's) State Trade Expansion Program (STEP).

STEP

Background

STEP was initially established by the Small Business Jobs Act of 2010 as a three-year pilot program. It was later established as a permanent, federally administered program under the Trade Enforcement Act of 2015. Through STEP, SBA provides grants to state government organizations (such as MOITI), which then give financial assistance awards to small businesses. According to SBA's website,

STEP helps small businesses overcome obstacles to exporting by providing grants to cover costs associated with entering and expanding into international markets.

1. In 2010, the state Legislature created the Massachusetts Marketing Partnership to coordinate marketing initiatives related to travel and tourism, international trade, and economic development on behalf of the Commonwealth. The partnership is an 11-member board within EOHED. It provides administrative support for MOITI, the Massachusetts Office of Travel and Tourism, the Commonwealth Marketing Office, and the Massachusetts Film Office.

STEP's purpose is to increase the number of small businesses that export and to increase the value of exports from those businesses. The program is managed at the federal level by SBA's Office of International Trade. MOITI, along with the Massachusetts Export Center (MEC),² administers STEP in Massachusetts.

During the audit period, SBA granted Massachusetts \$500,000 in federal STEP funding. The state contributed \$166,667 in matching funds.³ The table below details the federal and state funding amounts from September 30, 2015 through September 29, 2021 and the number of small businesses that have received financial assistance awards as part of Massachusetts's STEP since 2015.

STEP Funding Amounts

Performance Period*	SBA Grant Amount	Commonwealth Match Amount	Total STEP Funding	Number of Small Businesses Given STEP Awards
September 30, 2018 through September 29, 2021	\$500,000	\$166,667	\$666,667	48
September 30, 2017 through September 29, 2019	\$500,000	\$166,667	\$666,667	43
September 30, 2016 through September 29, 2017	\$504,478	\$168,159	\$672,637	61
September 30, 2015 through September 29, 2016	\$500,000	\$166,667	\$666,667	50

* A performance period is the total time SBA approves for entities like MOITI to carry out the work authorized under each federal STEP grant received.

Financial Assistance Awards

To be eligible for a STEP financial assistance award, a business must meet the definition of "eligible small business concern" in Section 503 of the Trade Facilitation and Trade Enforcement Act of 2015 (see [Appendix B](#)) and be an export-ready United States business (i.e., a United States business that is

- MEC is part of the Massachusetts Small Business Development Center Network. This network is a technical assistance program, supported by both federal and state funding, that provides direct support to Massachusetts small and mid-sized businesses. MEC helps MOITI with conducting outreach and marketing STEP to Massachusetts small businesses.
- As a STEP grant recipient, the Commonwealth is required to provide a \$0.333333 cash match for every \$1 of federal funds received.

able to build and sustain export sales) seeking to export products or services that are either of United States origin or at least 51% United States content.⁴ An eligible small business can apply for a STEP financial assistance award, which is a reimbursement for costs associated with allowable activities undertaken during the performance period of the award, by submitting a Massachusetts STEP Program Readiness Assessment and Application to MOITI. MEC manages the STEP financial assistance award application process for MOITI, hosts a webinar for small businesses that walks them through the application process, and reviews and scores all STEP Program Readiness Assessment and Application forms.

According to the Massachusetts STEP Program Readiness Assessment and Application, financial assistance awards can be used for the following specific international business development and marketing costs:

- *Overseas trade show or conference exhibition and directly related expenses . . .*
- *U.S. Department of Commerce international business development services . . .*
- *Cost of compliance testing an existing product for entry into an export market . . .*
- *Design of export market-specific marketing media . . .*
- *Localization of websites for target export markets . . .*
- *Research tool subscription for targeted export market research.*

The application collects the following information: basic information about a business (such as contact information, amount earned from sales, number of employees, and description of products or services); information about the business's existing export activity; the proposed activity to be funded with the financial assistance award; the business's international marketing plan, including how the proposed STEP-funded activity fits in with the business's overall international business development strategy; and the projected economic effect of receiving an award.

4. SBA follows the United States Commercial Service's definitions of United States content. For products, SBA's "STEP U.S. Content Definition/Formula" defines United States content as "the ex-factory price of a good minus the aggregate value contributed by non-U.S. or foreign sources (e.g., costs or payments to foreign suppliers/providers/employees not resident in the United States)." For services, United States content is defined as "the contract value of the service (whether delivered in the U.S. or overseas), minus the aggregate value contributed by non-U.S. or foreign sources (e.g., costs or payments to foreign suppliers/providers/employees not resident in the United States)."

Small businesses also report one of two current levels of export experience on the application:

- new to export (NTE), for businesses with little or no export experience
- market expansion (ME), for businesses currently exporting and seeking to either expand into a new country's market or introduce a new product within an existing international market.

Two international trade experts from MEC review and score all applications that small businesses submit by the designated deadline, using an MEC-designed scorecard. Each application is scored as follows:

- 25% of the score is based on whether the STEP-funded activity is likely to lead to new or increased export sales
- 25% is based on whether the STEP-funded activity is likely to lead to job creation and economic impact
- 20% is based on the business's financial strength and ability to sustain export sales beyond the performance period
- 15% is based on the business's demonstrated commitment to increasing export sales
- 15% is based on whether the STEP-funded activity is likely to meet the applicant's needs and provide for long-term growth.

In an effort to prioritize applicants that are new to STEP, MEC deducts a standardized number of points from the final scores for businesses that have already received three or more STEP financial assistance awards. MEC sends a list of all applicants ranked by their application scores to MOITI, which issues awards to the highest-scoring applicants until available funding is exhausted.

During the audit period, financial assistance awards ranged from \$6,000 to \$12,000 per small business. Before reimbursement, small businesses must submit proof of payment (such as a paid invoice) for the related activity. Each small business that receives an award is also required to provide a match to cover a portion of the total cost of any activity. NTE small businesses have a minimum 25% match requirement, and ME small businesses have a 40% match requirement. For instance, to receive a \$6,000 reimbursement, an NTE small business would need to submit at least \$7,500 in paid invoices, showing that it had paid an amount that totaled 25% of the financial assistance award.

Small Business Communities

SBA encourages entities like MOITI to promote STEP to small businesses in certain underserved small business communities (USBCs). In its STEP Funding Opportunity Announcement⁵ OIT-STEP-2018-01 (see [Appendix A](#)), SBA identifies the following four USBCs:

- *socially and economically disadvantaged individuals . . .*
- *small business concerns owned or controlled by women . . .*
- *rural small business concerns . . .*
- *veterans and/or service-connected disabled veterans [i.e., those with disabilities related to military service].*

During the audit period, SBA required entities like MOITI to track how many small businesses that applied to STEP were in one or more of these USBCs. MOITI was required to collect this information as part of the STEP application process and report it to SBA during the audit period.

MOITI used an SBA form called the Request for Counseling⁶ (RFC) to collect this information from small businesses that had been given financial assistance awards. Businesses could report on their RFCs that they were part of one or more USBCs. MOITI recorded this information in the quarterly Performance Progress Reports that it submitted to SBA throughout the performance period.

Graduating Companies from STEP

According to STEP Funding Opportunity Announcement OIT-STEP-2018-01, entities like MOITI are strongly encouraged to develop requirements for graduating businesses from STEP after a reasonable duration and amount of funding so that they do not become dependent on STEP funding. SBA does not define what a reasonable duration or amount of funding is, so entities like MOITI can develop these definitions.

5. A funding opportunity announcement is a publicly available document used by a federal agency to communicate its intent to award grants, usually as a result of a competitive application process.

6. SBA developed this form to collect information from organizations that provide assistance (such as financing, training, and counseling) to small business owners through SBA-funded agreements. The form captures contact information and other background information about businesses seeking assistance.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor has conducted a performance audit of certain activities of the Massachusetts Office of International Trade and Investment (MOITI) for the period September 30, 2018 through June 30, 2021. When examining MOITI's requirements for graduating small businesses from the State Trade Expansion Program (STEP), we extended the audit period back through May 1, 2012, the date MOITI issued its first financial assistance award as part of STEP.

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

Below is a list of our audit objectives, indicating each question we intended our audit to answer; the conclusion we reached regarding each objective; and, if applicable, where each objective is discussed in the audit findings.

Objective	Conclusion
1. Did MOITI collect information about the four designated underserved small business communities (USBCs) discussed in Section 1.4 of the federal Small Business Administration's (SBA's) STEP Funding Opportunity Announcement OIT-STEP-2018-01 and "Questions and Answers (Q & A) in Response to OIT STEP-2018-01"?	No; see Finding <u>1</u>
2. Did MOITI graduate small businesses from STEP after they had spent a reasonable time in the program and obtained a reasonable amount of funding, as encouraged by Section 5.2 of STEP Funding Opportunity Announcement OIT-STEP-2018-01?	No; see Finding <u>2</u>
3. Did MOITI ensure that STEP financial assistance awards to small businesses were given only for allowable activities, that these activities were supported by adequate documentation, and that award recipients provided the required cash match, in accordance with Section 1.4 of STEP Funding Opportunity Announcement OIT-STEP-2018-01, the Massachusetts STEP Program Readiness Assessment and Application, and MOITI's Massachusetts STEP Program Reimbursement Form?	Yes

To achieve our audit objectives, we gained an understanding of MOITI's internal control environment related to the objectives by reviewing applicable policies and procedures and interviewing officials at

MOITI, the Executive Office of Housing and Economic Development (EOHED), and the Massachusetts Export Center (MEC). We evaluated the design, and tested the operating effectiveness, of internal controls related to STEP financial assistance awards MOITI gave to small businesses.

To obtain sufficient, appropriate audit evidence to address our audit objectives, we conducted further audit testing as follows.

- To determine whether MOITI collected information about the four USBCs discussed in STEP Funding Opportunity Announcement OIT-STEP-2018-01, we obtained the Performance Progress Report (PPR) that MOITI sent to SBA for the quarterly reporting period ended June 30, 2021. During the audit period, MOITI gave STEP financial assistance awards to 48 small businesses. We inspected the completed Requests for Counseling (RFCs) for these 48 businesses to determine whether the USBCs to which they reported belonging matched the PPR that MOITI sent to SBA. Using contact information on RFCs and/or Massachusetts STEP Program Readiness Assessment and Application forms, we conducted inquiries with officials from the 48 small businesses to verify that the USBCs to which they reported belonging on the RFCs were accurate.
- To determine whether MOITI had implemented requirements for graduating small businesses from STEP as encouraged by STEP Funding Opportunity Announcement OIT-STEP-2018-01, we interviewed officials at MOITI, EOHED, and MEC. We obtained a report of all financial assistance awards MOITI had given to small businesses since STEP's inception from the Massachusetts Management Accounting and Reporting System (MMARS). We conducted analytical procedures on the data in MMARS to determine how many different small businesses received STEP financial assistance awards. We summarized the data to identify the number of small businesses that received awards and the amount of each award. We also determined whether each small business was new or had received an award before.
- To determine whether the financial assistance awards MOITI gave to small businesses were only for allowable activities, whether the activities were supported by adequate documentation, and whether the award recipients provided the required cash matches, we obtained a report of all awards MOITI gave to small businesses during the audit period from MMARS. We selected a random, nonstatistical sample of 20 of 48 payments for testing. For our sample, we inspected each small business's completed Massachusetts STEP Program Reimbursement Form and supporting documentation (such as paid invoices, receipts, bank statements, and tradeshow conference badges) to determine the following:
 - whether each reimbursement was for an allowable STEP activity
 - whether the dates of each activity were during the STEP performance period
 - whether small businesses gave MOITI adequate documentation to support each activity
 - whether the amount paid by each small business, according to the supporting documentation, equaled or exceeded the amount of the required business cash match.

Where nonstatistical sampling was used, we could not project the results of our testing to the overall populations.

Data Reliability

OSA performed data reliability assessments for MMARS in 2014 and 2018. These assessments focused on reviewing selected system controls, including access, security awareness, audit and accountability, configuration management, identification and authentication, and personnel security.

As part of the current audit, we tested security management controls, such as personnel screening and security awareness training, at MOITI during the audit period. We obtained a report of all financial assistance awards MOITI gave to small businesses during the audit period from MMARS. To confirm the completeness and accuracy of the data, we traced a sample of expenditures from the data to original source documents (such as STEP Program Readiness Assessment and Application forms, STEP application scoring sheets, STEP award letters, and STEP contracts) and traced a sample of original source documents back to the MMARS data. Further, we matched totals of reimbursements made to small businesses from the MMARS data to the PPRs MOITI submitted to SBA and determined whether they were accurate.

Based on these data reliability assessment procedures, we determined that the data obtained for our audit period were sufficiently reliable for the purposes of our audit work.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. The Massachusetts Office of International Trade and Investment's process for collecting and recording information about small businesses in underserved small business communities applying to the State Trade Expansion Program is ineffective.

The Massachusetts Office of International Trade and Investment (MOITI) does not collect information about the four underserved small business communities (USBCs) defined by the federal Small Business Administration (SBA) from businesses at the time they apply to the State Trade Expansion Program (STEP). Instead, MOITI attempts to collect this information from small businesses only after they have been awarded funds. In addition, MOITI does not collect complete information: it allows businesses to indicate that they are owned and controlled by women, but not whether they are part of any of the other three SBA-defined USBCs. Finally, MOITI does not ensure that when it does collect this information, it is accurately recorded.

As a result, MOITI's ability to evaluate the effectiveness of its efforts to promote STEP to USBCs is limited. In addition, because MOITI only collects information after award recipients are chosen, it does not collect and record information about all applicants, only those that receive financial assistance awards. Further, according to SBA's program manager for STEP in Massachusetts, SBA relies on this information to evaluate the overall success of STEP and reports the information to Congress annually. Therefore, we believe it is important that this information be as complete and accurate as possible. Finally, when awarding grants to state government organizations (such as MOITI) for STEP, SBA takes into consideration the organizations' past performance in administering the program. Not effectively administering STEP could negatively affect MOITI's ability to secure future STEP funding from SBA.

To determine the accuracy of the information MOITI recorded, we reviewed completed Requests for Counseling (RFCs) for all 48 small businesses that received STEP financial assistance awards from MOITI during the audit period. Although MOITI had a completed RFC from each of the 48 businesses, the information on a form did not always accurately indicate a small business's status as part of a USBC. As currently designed, the RFC that MOITI uses to collect this information only captures information related to whether a small business is owned and controlled by women. There are no fields on the RFC that capture information related to the three other USBCs (whether small businesses are owned and controlled

by socially and economically disadvantaged individuals, owned and controlled by veterans, or located in rural areas).

Via phone or email, we successfully contacted officials from 43 of the 48 small businesses to validate their USBC statuses. (We could not reach officials from the other 5 businesses.) In four instances, a small business told us in this correspondence that it was part of a USBC other than that of businesses owned and controlled by women. However, these businesses were not able to indicate that on the RFCs they provided to MOITI. As a result, all four of these small businesses were designated as not part of a USBC on MOITI's Performance Progress Report (PPR).

In addition, MOITI inaccurately recorded the statuses of 5 (10%) of the 48 small businesses on the PPR sent to SBA. In three of these instances, MOITI recorded a small business as part of a USBC when it did not appear that the small business had reported such a status on its RFC. In the other two instances, MOITI did not record a small business as part of a USBC when it appeared that the small business had reported this status.

Authoritative Guidance

Section 1.4 of SBA's STEP Funding Opportunity Announcement OIT-STEP-2018-01 states,

Applicants [such as MOITI] are encouraged to promote trade expansion to a broad range of small businesses, to include the following four [underserved] small business communities . . .

- a. Owned and controlled by socially and economically disadvantaged individuals;*
- b. Owned and controlled by women;*
- c. Owned and controlled by veterans and/or service-connected disabled veterans; and/or,*
- d. Rural small businesses.*

[State government organizations that] receive a STEP award must collect these small business attributes for required reporting during the performance period.

SBA provided guidance to entities such as MOITI through a document called "Questions and Answers (Q & A) in Response to OIT-STEP-2018-01." The document gives the following answer to a question on collecting the aforementioned information about eligible small business concerns:⁷

7. "Eligible small business concern" is the term SBA uses to describe a business that meets the criteria to apply for a STEP financial award.

The question regarding [eligible small business concerns, or ESBCs] being considered disadvantaged or not must be a part of your application process. The ESBC completes an application so self-declaration is acceptable.

Reasons for Issue

MOITI officials told us that they were unaware of the requirement to collect information on whether small businesses applying for financial assistance awards were part of any of the aforesaid USBCs as part of the STEP financial assistance award application process. They also told us that SBA reviews the STEP application MOITI uses for financial assistance awards each year and has never told MOITI it needs to include that information.

MOITI did not have monitoring controls to ensure that it accurately recorded applicants' reported USBC statuses on its PPRs.

MOITI officials did not provide us with an explanation of why they used the RFC to capture information about the four USBCs.

Recommendations

1. MOITI should review the information it has for businesses that have received STEP financial assistance awards regarding their statuses as part of USBCs and correct any inaccurate information.
2. MOITI should ensure that its employees are aware of the requirements of STEP.
3. MOITI should revise its Massachusetts STEP Program Readiness Assessment and Application to include SBA's definitions of the four USBCs and an area where a small business should document any of the four USBCs to which it belongs.
4. MOITI should implement monitoring controls to ensure that it accurately records applicants' reported USBC statuses on its PPRs.

Auditee's Response

MOITI provides quarterly reports to the SBA regarding USBC information. It has also undergone several SBA audits, receiving recognition for a perfect audit score for STEP 5, demonstrated in the documentation provided to you during the audit. The SBA has never raised any concern about MOITI's USBC reporting. Accordingly, we do not necessarily agree with the characterization of MOITI's reporting to the SBA as "ineffective."

That said, MOITI does not dispute the audit's recommendations will improve administration of the STEP program and result in increased effectiveness of MOITI's internal controls including employee training/education and monitoring controls. MOITI will implement the recommendations accordingly.

Specifically, MOITI will (1) modify the STEP application to request USBC information from all applicants in advance of issuing awards; (2) ensure its personnel are STEP trained; and (3) conduct reviews with [the Executive Office of Housing and Economic Development's] Finance Department to ensure financial and other records are accurate. In accordance with SBA guidance, MOITI will collect USBC information in the form of an attestation from the applicant.

Auditor's Reply

MOITI states that it does not agree with our characterization of its USBC reporting process as ineffective. MOITI states that it has had several SBA audits; that SBA has never raised any concern about its USBC reporting; and that MOITI received recognition for a perfect audit score for the fifth year of STEP, the year of SBA's most recent review.

The Office of the State Auditor acknowledges that SBA periodically reviews STEP and that MOITI may have received a perfect score during the most recent review. However, the fifth year of STEP covered the period September 30, 2016 through September 29, 2017. SBA did not begin requiring agencies like MOITI to collect and report information about the four USBCs until the sixth year of STEP, so its reviews from the fifth year and earlier would not have examined MOITI's compliance with that requirement. Further, from the information provided to us during the audit, it appears that SBA's reviews are strictly financial and do not include a review of MOITI's process for collecting and reporting information about the four USBCs.

Based on its response, MOITI is taking measures to address our concerns in this area.

2. MOITI has not implemented requirements for graduating small businesses from STEP.

We reviewed all STEP financial assistance awards made by MOITI to small businesses since STEP's inception and found that MOITI had not implemented requirements for graduating small businesses from STEP. As a result, small businesses can receive financial assistance awards every year, which could make them reliant on STEP funding. Further, implementing graduation requirements would create opportunities for new small businesses to receive financial assistance awards.

Our analysis identified 169 small businesses that have received financial assistance awards from MOITI since STEP's inception. Of these 169 small businesses, 41 (24%) had received awards for three or more years. Eight of these small businesses received awards in all six of the years we reviewed; 5 received awards in five of the years; 6 received awards in four of the years; and 22 received awards in three of the years. MOITI has issued a total of \$1,602,816 in financial assistance awards to these 41 small businesses.

The total amount of funding given to each small business ranged from \$18,473 to \$62,500. The average amount of funding each small business received was \$39,093.

Authoritative Guidance

According to SBA's STEP Funding Opportunity Announcement OIT-STEP-2018-01, one of the objectives of STEP is to increase the number of small businesses in a state that export. To accomplish this objective, Section 5.2 of the announcement strongly encourages organizations that receive STEP grants (such as MOITI) to develop requirements for small businesses to graduate from STEP after a reasonable duration and amount of funding. Although this announcement covers the performance period beginning September 30, 2018, SBA officials told us that organizations that receive STEP funding have been encouraged since STEP's inception to graduate small businesses from the program to recruit new small businesses into STEP.

Reasons for Issue

MOITI officials told us that adjusting application scoring for repeat STEP businesses (deducting points for businesses that have already received three or more STEP financial assistance awards) was their attempt to meet SBA's guidelines in this area.

Recommendation

MOITI should implement requirements for graduating small businesses from STEP.

Auditee's Response

MOITI concurs with the Audit Finding that the SBA's intention is for MOITI to transition small businesses from STEP once they have sufficient export experience. However, MOITI has had sufficient STEP funding for all qualified applicants and has not denied an applicant funding due to the SBA's unspecified "graduate requirement." In addition, experienced STEP clients, on average, have a higher Return on Investment (ROI), which is a key matrix the SBA uses for repeat STEP awards.

MOITI will implement a STEP Transition Plan, per the audit recommendation starting with FY 2023 STEP 11 (the FY 2022 STEP 10 proposal has already been submitted to the SBA). Draft plans will limit a company to four (4) STEP awards. However, if funding is available, a company may exceed four awards, determined on a case-by-case basis.

Auditor's Reply

Based on its response, MOITI is taking measures to address our concerns on this matter.

APPENDIX A

Small Business Communities

According to Section 8.1.15 of the federal Small Business Administration's State Trade Expansion Program Funding Opportunity Announcement OIT-STEP-2018-01,

Small Business Communities (for the purposes of the [State Trade Expansion Program]) are defined as:

- i. socially and economically disadvantaged individuals . . . who have been subjected to racial or ethnic prejudice or cultural bias within American society because of their identities as members of groups and without regard to their individual qualities; whose ability to compete in the free enterprise system has been impaired due to diminished capital and credit opportunities as compared to others in the same or similar line of business who are not socially disadvantaged. The socially and economically disadvantage[d] individual must own not less than 51 percent of the firm. These include:*
 - *Black Americans;*
 - *Hispanic Americans;*
 - *Native Americans (Alaska Natives, Native Hawaiians, or enrolled members of a Federally or State recognized Indian Tribe);*
 - *Asian Pacific Americans . . . and*
 - *Subcontinent Asian Americans (persons with origins from India, Pakistan, Bangladesh, Sri Lanka, Bhutan, the Maldives Islands or Nepal).*
- ii. small business concerns owned or controlled by women that are:*
 - a. not less than 51 percent unconditionally and directly owned and controlled by one or more women who are United States citizens . . .*
- iii. rural small business concerns—an eligible small business concern located in a rural area. . . . This includes any area that is outside of a metropolitan statistical area (MSA). MSAs have at least one urbanized area of 50,000 or more population, plus adjacent territory that has a high degree of social and economic integration as measured by commuting ties. . . .*
- iv. veterans and/or service-connected disabled veterans . . . a person who served in the active military, naval, or air service and who was discharged or released under conditions other than dishonorable . . . and who is:*
 - a. not less than 51 percent unconditionally and directly owned and controlled by one or more veterans who are United States citizens.*

APPENDIX B

Eligible Small Business Concern

According to Section 503 of the Trade Facilitation and Trade Enforcement Act of 2015,

Section 22 of the Small Business Act (15 U.S.C. 649) is amended [as follows] . . .

(I) STATE TRADE EXPANSION PROGRAM.—

1. DEFINITIONS.—In this subsection—

A. the term "eligible small business concern" means a business concern that—

- i. is organized or incorporated in the United States;*
- ii. is operating in the United States;*
- iii. meets—*
 - I. the applicable industry-based small business size standard established under section 3 [of the Small Business Act]; or*
 - II. the alternate size standard applicable to the program under section 7(a) of this Act and the loan programs under title V of the Small Business Investment Act of 1958 . . .*
- iv. has been in business for not less than 1 year, as of the date on which assistance using a grant under this subsection commences; and*
- v. has access to sufficient resources to bear the costs associated with trade, including the costs of packing, shipping, freight forwarding, and customs brokers.*