

# ACCOMPLISHMENTS AND CHALLENGES AT THE SBA'S OFFICE OF INTERNATIONAL TRADE

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## HEARING BEFORE THE COMMITTEE ON SMALL BUSINESS UNITED STATES HOUSE OF REPRESENTATIVES ONE HUNDRED FIFTEENTH CONGRESS FIRST SESSION

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# CONTENTS

## OPENING STATEMENTS

Hon. Steve Chabot .....	Page 1
Hon. Nydia Velázquez .....	3

## WITNESS

Mr. Peter J. Cazamias, Associate Administrator, Office of International Trade, United States Small Business Administration, Washington, DC .....	4
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## APPENDIX

Prepared Statement:	
Mr. Peter J. Cazamias, Associate Administrator, Office of International Trade, United States Small Business Administration, Washington, DC .	23
Questions for the Record:	
None.	
Answers for the Record:	
None.	
Additional Material for the Record:	
SBA OIG Report .....	26



## ACCOMPLISHMENTS AND CHALLENGES AT THE SBA'S OFFICE OF INTERNATIONAL TRADE

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TUESDAY, MAY 23, 2017

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON SMALL BUSINESS,  
*Washington, DC.*

The Committee met, pursuant to call, at 11:00 a.m., in Room 2360, Rayburn House Office Building, Hon. Steve Chabot [chairman of the Committee] presiding.

Present: Representatives Chabot, King, Luetkemeyer, Radewagen, Knight, Kelly, Blum, Comer, Bacon, Fitzpatrick, Marshall, Estes, Velázquez, Evans, Murphy, Lawson, Clarke, Adams, Espaillat, and Schneider.

Chairman CHABOT. The Committee will come to order.

We want to thank everybody for being here today, and we would like to recognize somebody in our audience first, before we get to the business. I understand that we have a guest, Mr. Alex Bacon, from Omaha, who is the son of one of our newest and greatest members. Let us hear it for Alex. All right.

Anybody else got any relatives here today that we want to embarrass?

If not, we want to, again, thank everyone for being here to hear from the Small Business Administration's Office of International Trade, the OIT. Increasing small business exports has been a top priority for this Committee over the years, and I am pleased to be receiving an update from the OIT on their efforts to better coordinate Federal resources and help small businesses looking to export.

There is no question that foreign markets hold incredible opportunities for America's small businesses. Ninety-five percent of all consumers live outside the borders of the United States, and yet, only 1 percent, approximately, of United States small businesses actually export—only about 300,000 of America's small businesses out of the 26 million business that we have in this country.

Unfortunately, many small businesses consider exporting to be out of reach. Some small businesses believe it is too expensive or too complicated to find potential customers. Other small businesses that start exploring the idea of exporting often just give up because the process becomes too confusing and/or too complicated.

I believe that these are the real barriers to trade. If we want to unleash America's most significant economic force, then we must make it easier for small businesses to participate in the global marketplace. It has become clear that we must compel the administra-

tion to continue its efforts to better coordinate Federal resources so they are more efficient, streamlined, and better prepared to help businesses navigate the export process.

In recent years, my colleagues and I have taken steps to do just that. Congress moved to strengthen America's small business export activities by expanding the SBA's role in export promotion. OIT was directed to increase coordination efforts between Federal agencies engaged in export promotion, offer greater counseling and training to small businesses interested in expanding into foreign markets, and broaden its export finance counseling. Additionally, in 2015, Congress established the State Trade and Expansion Program, STEP. Replacing a 3-year pilot program, the STEP program awarded grants to States to strengthen their export agendas and assist small businesses looking to begin exporting or expand their existing export operations. Unfortunately, various Government Accountability Office and SBA Office of Inspector General Reports have identified a number of real shortcomings at OIT. Alarming, some recommendations made by GAO nearly 5 years ago still have not been addressed.

The STEP Grant Program is of particular concern to this Committee. The OIT report released just this month found that the SBA was unable to provide consistent data regarding the program's awards and expenditures and that the SBA has not been updating its data accurately.

Furthermore, the report indicates that grant recipients left over 25 percent of their awarded funds unused. This leads me to believe that there were probably opportunities for small business exporters that were completely missed. What good is allocating this grant money if it is not going to be administered properly, or worse, it goes completely unused?

Finally, I would like to touch on another issue that has been raised in recent weeks, and that is the apparent lack of communication between the OIT and the Office of Advocacy. Last month, the United States and Argentina entered into a memorandum of understanding, MOU, on, and I quote, "joint cooperation or regulatory coherence and meaningful engagement with private sector."

I understand that the OIT did not make the Office of Advocacy even aware of the agreement or ask for input on it until the agreement was nearly finalized. I am seriously concerned by this information. As I made clear, one of the things OIT is tasked with is coordinating Federal agencies' export promotion efforts. If they are unable to coordinate within their own agency, I am led to believe that the OIT may be incapable of following through on its fundamental responsibilities.

So today, we will hear from OIT's associate administrator, Peter—is it Cazamias?

Mr. CAZAMIAS. Cazamias.

Chairman CHABOT. Cazamias. I am going to mispronounce that again a couple times.

Mr. CAZAMIAS. That is quite all right.

Chairman CHABOT. I apologize. You can call me anything you want to.

Mr. CAZAMIAS. Story of my life.

Chairman CHABOT. Chabot, Chabot, Cabbott, Shabot.

On how the SBA plans to address the recommendations from the GAO and OIG, as well as how they plan to more efficiently and effectively assist America's small businesses hoping to join the global marketplace.

And we again thank you for being here. And I would now like to yield to the ranking member, Ms. Velázquez, for her opening remarks.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. And welcome, Mr. Cazamias.

Year after year we are told that small businesses are the catalyst for the growth of the U.S. economy, and rightly so as they create nearly two-thirds of new jobs and are responsible for countless innovations. A critical subset of this group is small exporters. In fact, 300,000 small businesses are sending their products across the world and three in five nonexporting firms are now interested in following suit. Firms that export grow faster, generate more jobs, and pay higher wages than other businesses. Clearly for our economy to continue gaining steam, it will increasingly depend on global commerce to fuel expansion.

Despite the advantages that come with trade, it remains exceedingly difficult for small businesses to enter foreign markets. Just 1 percent of small firms in this country are exporting their goods overseas, and even though small and medium-size businesses account for 97 percent of American exporting companies, their exports count for only a third of all U.S. goods shipped overseas.

The challenges small firms face are multifaceted. It takes time to identify foreign markets, to target new customers, and to learn the ins and outs of the exporting process. Nearly 40 percent of small businesses say they do not export because they simply do not know where to start. Over half of small business exporters spend a minimum of 3 months and nearly 10 percent of their annual operating revenue just preparing to export. Compounding this obstacle is that they often have fewer resources to spend on developing a trade strategy or complying with complex regulations. As a result, they consistently enter fewer foreign markets than their larger counterparts with nearly 60 percent only entering one, while more than half of large firms export to five or more markets.

These difficulties are something we must be mindful of as the administration works to negotiate NAFTA. In theory, balanced free trade agreements have the potential to be a significant driver of growth. By eliminating tariffs and other barriers to trade, they can help small firms expand sales globally and create jobs at home.

In order for these benefits to be fully realized, however, we must hold our trading partners accountable for unfair trade practices and ensure that our small businesses receive the level playing field they were promised. Truth be told, small businesses often face challenges when it comes to competing with foreign imports produced in countries with lower labor and nonexistent environmental standards. Time and again we are told about new markets, but little discussion is given to the low-priced goods that will spill onto our domestic marketplace. Good for consumers? Maybe. Good for small businesses? Definitely no. Regardless of this larger debate, it is absolutely critical that small businesses are able to compete with

their larger counterparts by participating in this global marketplace.

I would like to thank our witness, and I look forward to hearing how SBA export promotions are serving our small businesses.

Thank you, Mr. Chairman. I yield back.

Chairman CHABOT. Thank you very much.

If Committee members have opening statements prepared, we would ask they be submitted for the record.

And I will take just a moment to explain our timing rules here, which is pretty simple. Five minutes. The yellow light will come on after you have gone 4 minutes and that will let you know you have got a minute to go, and then the red light will come on. Since we just have one witness here this morning, if you need a little bit more time, you know, we will understand that as long as it does not go on too long. And then we will all question you for 5 minutes.

And I would now like to introduce our one witness here today, who is Peter Cazamias. He is the associate administrator for the Office of International Trade, OIT, at the Small Business Administration. Mr. Cazamias has extensive experience in international commerce having worked in the United Kingdom, Hong Kong, and India. Prior to serving at the SBA, he spent 7 years in the energy industry with FMC Technologies in Houston, Texas. Mr. Cazamias also served as a Marine, graduating from Officer Candidate School in 1997 and went on to the Basic School and Naval Justice School. And we thank you for your service.

Associate Administrator Cazamias, you are recognized for 5 minutes.

**STATEMENT OF PETER CAZAMIAS, ASSOCIATE ADMINISTRATOR, OFFICE OF INTERNATIONAL TRADE, UNITED STATES SMALL BUSINESS ADMINISTRATION**

Mr. CAZAMIAS. Thank you, Chairman Chabot, Ranking Member Velázquez, and esteemed members of the Subcommittee. I want to thank you for having me here to give my speech and to hear your important views.

Three weeks ago, about 3 weeks ago, I was honored to accept Administrator McMahon's appointment and begin my service as associate administrator for International Trade at the Small Business Administration, and today, I am honored to be able to meet with you and to listen to your important views on small business and trade.

Since starting at the SBA, I have been familiarizing myself with the role of the Office of International Trade and its function in helping small business grow and thrive through exports and involvement in global commerce.

Administrator McMahon believes that exporting is an essential component of small business growth because, as mentioned, 95 percent of the world's consumers and over three-quarters of all existing purchasing power exists outside the U.S. border.

Just a few weeks ago, I accompanied Administrator McMahon to the United Nations where she signed a proclamation naming June 27th as Micro, Small, and Medium-Size Enterprise International Day, and in so doing, she helped bring about international recogni-



tion to the vital role of small businesses in producing innovation, creativity, and job growth.

Today, among over our 28 million small businesses also as mentioned, a very small percentage can claim the title of exporter. The Office of International Trade is charged by statute to improve upon the 1 percent number cited. Its stated mission involves, one, increasing the number of U.S. small businesses that export; and two, increasing the dollar volume of U.S. small business exports.

The SBA, under the leadership of Administrator McMahon, will address this dual mission by focusing on three critical needs small businesses have when attempting to export.

First is the need for information. The SBA Office of International Trade recognizes that guidance and support for small businesses is crucial to achieving a foothold in the international marketplace. As such, OIT has a network of 21 export finance managers based in U.S. Export Assistance Centers who provide counseling on international payment risks and U.S. Government export financing options.

Two is the need for capital. Small businesses cannot trade and export to these new markets unless they have access to capital. Specifically, trade finance. Small businesses are hardest hit by trade finance gaps and compliance challenges. In the United States, over one-third of all small businesses find financing harder to obtain for foreign sales than for domestic sales. Given this challenge, the SBA works with lenders to provide tailored trade finance loan guarantees so that small businesses can finance their foreign sales and growth where the private sector is unable or unwilling to act because of real or perceived risks.

Three is the need among small businesses for overseas promotional products and market access. OIT emphasizes the importance of small business export promotion by strengthening its partnership with the State and territory governments through the State Trade Expansion Program, known as STEP, and through its chairmanship of the Trade Promotion Coordinating Committee's Small Business Working Group. This is a group of interagency representatives dedicated to the mission of increasing the number of small business exporters. And OIT also ensures that the interests of small business are adequately represented in bilateral and multilateral trade negotiations, always pressing for transparency, flexibility, and coherence in trade agreements so that foreign trade regulations do not unnecessarily burden U.S. small business exporters.

I am able to attest to the dynamic power of exporting and international trade and the effect it has on small businesses and local communities. I hail from the South Texas border city of Laredo. Located on the north bank of the Rio Grande, Laredo's economy is virtually entirely based on international trade and it serves as one of the largest land ports in the United States.

After graduating from Yale University, I served as an intern for the U.S. Commercial Service in Mexico City, where the negotiation of NAFTA was at the time a pressing issue. As a law student at the University of Texas, I studied and examined NAFTA's dispute resolution mechanisms. And more recently in my professional life, I drove the Asia-Pacific financial operations as the regional CFO for Insituform Technologies, a U.S.-based pipeline company. I then

lived in Delhi, India, and led the operational turnaround of Insituform's flagship Asian operating company.

I mention these background facts only to convey to you that I possess a longstanding interest in and familiarity with international trade and international business, and I intend to bring my practical, real-world business experience to bear in this role to help U.S. small businesses grow and prosper.

To conclude, I wish to say that under the able leadership of Administrator McMahon, I will be committed to ensuring that our small business exporters find all the support they need to be able to expand into international markets. I furthermore will endeavor to effectively and efficiently administer the Office of International Trade. My goal is to enable OIT to expand the footprint of small businesses in the overseas marketplace, thereby spurring innovation and employment growth here at home.

And with that, I wish to thank you for the opportunity to speak, and I look forward to answering your questions.

Chairman CHABOT. Thank you very much. And I will recognize myself for 5 minutes to begin the questioning.

Mr. Cazamias, as you mentioned, you have been in position all of 3 weeks now, so we obviously do not hold you responsible for anything that happened prior to you being there, unless, of course, you screwed something up in the 3 weeks you have been there. But as I mentioned in my opening statement, I do have real concerns regarding the OIT's lack of coordination with the Office of Advocacy.

As the associate administrator for the Office of International Trade, will you commit to us to notifying the Office of Advocacy of any future MOUs or other agreements relating to international regulatory cooperation and small businesses? Will you defer to the Office of Advocacy on those matters?

Mr. CAZAMIAS. Chairman Chabot, thank you for the question. I say without qualification, yes, I will absolutely in my role endeavor to keep the Office of Advocacy engaged and check with them every time we are having an MOU on the horizon.

Chairman CHABOT. Thank you. That was the right answer. We appreciate it.

A recent OIG report raises concerns about the Office of International Trade's oversight practices. Evidence suggested that four of the grants reviewed by OIG never received the required approvals from the associate administrator of OIT. How will OIT work to ensure that the STEP grant funds receive the proper approval going forward?

Mr. CAZAMIAS. Thank you, Chairman Chabot. This is one of the issues that I have inherited. And we are taking a systematic approach to documentation oversight procedures. We have contracted already, the office has contracted a consultant, a Six Sigma lean operations consultant, to take a look at all of our processes, mapping the entire process out and identifying areas that are critical to quality, finding where there are gaps, reducing redundancies, and we hope that at the end of this process we are going to have a process that actually is more comprehensive and effective in being able to address some of the issues that have existed in the past.

Chairman CHABOT. Thank you.

The OIG reviewed the SBA's STEP Grant Program to determine how funds were used. According to the OIG, the SBA was unable to provide consistent data for fiscal years 2011 through 2015. In fact, every office they met with provided different totals for each year. What steps will the OIT take to ensure more accurate and greater consistency in its financial reporting?

Mr. CAZAMIAS. Thank you, Chairman Chabot. This, as I understand, is part of the old reporting structure before fiscal year 2014 where discrepancies between various elements of the SBA were found. My understanding is that there is a new reporting structure in place. This, coupled with the approach we are now taking at mapping out processes and revamping our entire operational process for financial reporting and for documentation of milestone achievements, should produce the desired results.

Chairman CHABOT. All right. Thank you.

Congress authorized the STEP Grant Program to promote exports and expand trade opportunities at the State level. The OIG found that in more than half of the grants they reviewed the participants did not spend the majority of the funds. How will the OIT establish and document its oversight procedures so that STEP program managers can monitor the grant recipients' progress more closely and help them meet their goals?

Mr. CAZAMIAS. Thank you. This is an issue that is currently under investigation. I want the Committee to know that we are looking at all possibilities to understanding where the process may have failed in the past, whether it is an administrative issue—in year zero the applicants may have had certain needs, in year one they have changed. If this is the case and the reason for the gap, then we need to look at potentially creating new variation orders, change orders, and the like. However, maybe it is a problem of incentives. If that is the case, then the oversight process that is coming out of this new look at our procedures may very well answer the issue.

The point is, I think that we are undertaking a comprehensive look at all of our processes, and we think that this is one of the things we are going to have in mind to be able to produce a more consistent result without those kind of gaps.

Chairman CHABOT. Thank you. I think I have time to squeeze in one last question here.

The Committee has heard concerns with the OIT's grant management and administration practices. There are a variety of Federal agencies that manage much more complex grants. I am wondering, has anyone from the SBA consulted with other Federal agencies to identify more efficient ways to administer the STEP program?

Mr. CAZAMIAS. Thank you, Chairman Chabot. This is a question I will take under advisement and I will provide an answer to your office as soon as I have one.

Chairman CHABOT. All right. Thank you very much. My time has expired.

The ranking member is recognized for 5 minutes.

Ms. VELAZQUEZ. Thank you, Mr. Chairman.

Exporting is a key component of small business growth. Yet, only 1 percent of small businesses are currently exporting overseas. I

have been here for 25 years. This is the list of all trade agreements that we have been able to get signed by the United States from Chile, Colombia, Jordan, Korea, NAFTA, CAFTA, Panama, Singapore, Peru, Trade Promotion Agreement, and every time that we have held hearings on trade agreements we always raise the issue about the potential, the economic potential of small exporters. And time and again we hear 1 percent. One percent of small exporters are doing business overseas with one customer.

So my question to you is while free trade agreements have opened up new markets and have always been sold to us and to the American people as benefitting small businesses, it is clear that large corporations are the primary beneficiaries. It was 1 percent 25 years ago when we were discussing trade agreements, and today it is only 1 percent. So what changes to free trade agreements will have the biggest impact on small firms?

Mr. CAZAMIAS. Thank you, Ranking Member Velázquez, for the question.

Ms. VELÁZQUEZ. And I hope that you are all evaluating and discussing what changes, because the president is committed to renegotiate NAFTA. So there you have it.

Mr. CAZAMIAS. Yes, Ranking Member Velázquez. Well, I will take the information you provided very seriously. What I can say is that it is clear that we are taking a look at all of our free trade agreements. I just came back last week from a Trade Deficit Panel where we were meeting with business owners from all over the United States—Colorado, North Carolina, and Maine—and we were looking at the legacy of our free trade agreements. And that legacy seems to be massive deficits. And the implication or the ramifications of those massive deficits has been high unemployment and shuttered industries.

Ms. VELÁZQUEZ. I know all that. I want to know that now we are going to renegotiate the administration trade agreement. The chairman and I, we sit with a—

Mr. CAZAMIAS. Eye to eye?

Ms. VELÁZQUEZ. What is the name? Right, the HAGON Commission and we are going to be providing our input. So it will be helpful if you explain to us, what are the recommendations since you are traveling and listening to small exporters throughout the nation so that we could make those recommendations.

Let us go to the STEP program. It was authorized in 2010, right?

Mr. CAZAMIAS. That is my understanding.

Ms. VELÁZQUEZ. So the STEP program was authorized. There are matching funds that are provided to the states. How are you measuring whether this program is actually generating benefits to small firms? What metrics are you using to measure the program's success?

Mr. CAZAMIAS. Thank you for the question, Ranking Member Velázquez.

Only 3 weeks into the position, this is one of the issues I have to get my hands around. I do know that we use an ROI metric that involves the dollars of exports that were generated as a result of our programs touching the businesses versus the cost to administer, but I will get a more precise and more robust answer for you as soon as I can.

Ms. VELÁZQUEZ. And can you tell the committee, and if we do not have time, would you please send to the committee what specific activities are authorized under this program? Otherwise, I will conclude that this is simply subsidizing state expenses. So those metrics are important and what type of activities are authorized to use the funds for.

Mr. CAZAMIAS. OIT will provide that information summarily. Thank you.

Chairman CHABOT. Thank you very much. The gentlelady's time has expired.

The gentleman from Missouri, Mr. Luetkemeyer, who is the vice chairman of this Committee, is recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman. And thank Mr. Cazamias for being here today.

Just to follow up on a couple things here. I think the chairman made comment in his earlier remarks that GAO indicated that the past administration over 5 years had not done anything to fulfill some of their recommendations and so also in here there is some collaboration and coordination things that have not been done. And so the bar is pretty low for you from a standpoint that we wonder why we do not have an economy that is growing and we have something like this, SBA, which is supposed to stimulate growth and here we have twiddled our thumbs for 5 years.

Which brings me to the point, GAO also found that only 15 percent of some individuals' time was being spent on the export promotion responsibilities. Can you tell me that these individuals who are spending 15 percent of the time doing their job, are they working on other jobs or are they watching movies on their screens or whatever else they are doing? Or what are we doing here?

Mr. CAZAMIAS. Congressman, I take the message very clearly, and I will commit to examining this issue.

Mr. LUETKEMEYER. Okay. Just kind of curious. We do have examples of some of the employees being caught, you know, playing games and watching videos and things on their tube, and so when GAO says this, is it something like that or do they actually just have overlapping duties that they are actually doing other things instead of doing their job? I mean, there are other things they could be doing productively, I assume.

From your experience, with regards to exporting, what would you see as the barriers for small businesses to export that you can help them overcome with your new job?

Mr. CAZAMIAS. Thank you for the question, Congressman Luetkemeyer. I think the three issues, the three areas where we are able to provide the most effective assistance is in information, especially for new exporters, so that we can give them an idea of how to go about internationalizing their business, as well as in capital, because the Office of International Trade does act in areas where there is a perceived or actual risk that the private sector does not wish to act in providing trade finance. So I think in providing that kind of liquidity is an area where we are able to assist. And then thirdly, in market access, in coordinating dual trade missions with businesses and connecting them with overseas markets is something we are committed to doing.

Mr. LUETKEMEYER. One of the things that Congress is looking at as well as the President has suggested is a border adjustment tax or some sort of leveling of the playing field fee whenever products come into the country. Have you seen the problem on exports going out where our companies have been hurt by the ability to compete because of the border adjustment tax of other countries? And have you discussed it with small folk yet with regards to them having a fee perhaps imposed on some of their inputs that they turn around and have to export? I mean, it is kind of a complicated situation, but I am just curious if you have looked at it at all or if you have any comments.

Mr. CAZAMIAS. Congressman Luetkemeyer, I just got back last week from a Trade Deficit Panel at the Department of Commerce, and just as you alluded to, the datapoints, which are very few still, are mixed. It does seem that the idea of a border adjustment tax has been received with mixed feelings on the part of small businesses. In some cases, they support it even though it will make their products more expensive. In other cases, they believe that it is going to make their products more competitive with imports.

So I think we are at the beginning of the process in terms of a listening tour and data gathering, and I hope to be able to synthesize that information and be able to provide a more robust answer at some point throughout my tenure.

Mr. LUETKEMEYER. Okay. One last question here. With regards to trade agreements, you know, you were a director at the United Nations here recently. Are you, whenever they have trade negotiations, or the SBA director herself, at the table whenever these negotiations take place so that you can represent small businesses and their problems or concerns with these agreements?

Mr. CAZAMIAS. The Office of International Trade does have trade specialists who do perform the commander's guidance. So we have specialists who actually do this.

Mr. LUETKEMEYER. Okay. So there is somebody representing the small business folks' interests whenever a trade agreement is negotiated?

Mr. CAZAMIAS. That is exactly true.

Mr. LUETKEMEYER. Okay. And I assume that, you know, the agreements that we have have been in place for many, many years, and a lot of them probably just need to go back and retweak them and make sure that—are you a part of those negotiations or have you pointed those out to the President or the administration or the trade authorities?

Mr. CAZAMIAS. Yes, Congressman. We are starting out with a commercial dialogue with a number of nations as we are taking a look at these trade agreements anew.

Mr. LUETKEMEYER. Okay. Very good. Thank you, Mr. Chairman.

Chairman CHABOT. The gentleman's time is expired.

The gentleman from Pennsylvania, Mr. Evans, who is the ranking member of the Subcommittee on Economic Growth, Tax, and Capital Access, is recognized for 5 minutes.

Mr. EVANS. Thank you, Mr. Chairman.

According to statistics from the U.S. Census, exports from the Commonwealth of Pennsylvania declined by 7.3 percent from 2015

to 2016. There are a number of possible reasons for this decline but I am interested in supporting efforts of more small businesses to educate themselves and the possibility to seek customers outside the U.S. And to that end, most accounts of the Office of International Trade does a good job of helping businesses is my understanding.

But I am concerned about the level of coordination between the U.S., Export-Import Bank, the Commerce Department, and other similar Federal agencies which assist. Could you please describe how you communicate with these other agencies being that you are only 3 weeks there, but in terms of your vision of coordinating with those other agencies?

Mr. CAZAMIAS. Thank you for the question, Congressman Evans.

Yes, as you mentioned, it is only 3 weeks, but to my understanding, we are involved with the TPCC, which is a group of inter-agency—different agencies that provide a common framework for all the tools the Federal Government has at its disposal to help small businesses export, and this is one of the main ways that we coordinate with other agencies through chairing the small working group at the TPCC.

Mr. EVANS. So in terms of your own vision of it, I mean, I understand, what are your thoughts on it?

Mr. CAZAMIAS. Well, my thoughts are that it is going to be very important that we run the Office of International Trade effectively and efficiently, and if that means that there are ways to streamline by coordinating with other agencies, that is something that we are all going to be for. It is much better to work in concert with other agencies than in a silo.

Mr. EVANS. The internet and platforms such as eBay have broken down barriers for small firms. What can the Federal Government learn from these entries such as eBay has tried to convince more small firms to consider exporting?

Mr. CAZAMIAS. We think the internet is a fabulous tool for innovation and growth, and so I can commit to you that it will be one of the very many different areas we look at to try and imitate in terms of innovation.

Mr. EVANS. Do you have any specific ideas at this point? I know—

Mr. CAZAMIAS. I am sorry, Congressman. Only 3 weeks into the job I cannot say I have any fully formed ideas yet on this issue.

Mr. EVANS. Okay, no problem.

I yield back the balance of my time.

Chairman CHABOT. Thank you. The gentleman yields back.

The gentleman from Nebraska, the father of Alex Bacon, is recognized for 5 minutes.

Mr. BECAN. Thank you very much. I really appreciate your transparency and jumping in the job like you have, and we wish you well.

Mr. CAZAMIAS. Thank you, Congressman.

Mr. BECAN. I wanted to make sure I understood the differences of what some of the other agencies are doing out there. I know the Import-Export Bank, for example, supports a lot of our small busi-

nesses in our district. Could you help distinguish how you all differ with them and how you support small business and exports?

Mr. CAZAMIAS. Well, I think there are two areas where I could speak to that. One is in terms of the trade finance that we offer, but, more importantly, I think one of the greatest differentiators of the small business administration is that it is specifically focused on small businesses. It is our reason for being. And this is something that is important to keep in mind because by focusing on small businesses, it does help avoid the bang-for-the-buck approach that ends up creating an overconcentration of focus and resources on the larger entities.

Mr. BECAN. Okay. Thank you. And one thing that intrigues me is the matchmaker program and how you match the small businesses up with folks who help them reach access in other countries. Can you talk a little bit more about how that program is working? I think it has not been in existence for a long time. How many of these forms have you had and how is it working?

Mr. CAZAMIAS. Congressman, I do not have that information at my disposal at this moment, but I will get it for you and we will send it over to your office.

Mr. BECAN. Okay. Thank you.

Mr. Chairman, I yield back.

Chairman CHABOT. The gentleman yields back. Thank you.

The gentlelady from Florida, Ms. Murphy, who is the ranking member of the Subcommittee on Contracting and Workforce, is recognized for 5 minutes.

Ms. MURPHY. Thank you for being here today. I appreciate your testimony.

As you mentioned in your testimony, access to capital remains a significant barrier for small firms to access foreign markets. According to a recent survey by the National Small Business Association, only 40 percent of small businesses were even aware of the SBA export lending programs.

So two questions for you. One, do you think that the existing export loan programs are enough to meet the financing needs? And then secondly, what SBA plans do you have to better educate small businesses about the availability of the export loan programs?

Mr. CAZAMIAS. Thank you for the question, Congresswoman.

This is definitely one of the largest challenges I have inherited is understanding how to broaden our reach so that more small businesses are aware of the levers at their disposal at the Small Business Association. What I can say is that even now, the Small Business Association is—Small Business Administration is undertaking dialogues with local small businesses in Illinois, where there is a listening tour going on with the National Association of Manufacturers to understand exactly where our best practices have lied, what has been helpful, what has not been helpful. This is intended to not only improve the quality of our outreach, but also the breadth of it. So we are undertaking efforts to do exactly this.

Ms. MURPHY. Why just in Illinois?

Mr. CAZAMIAS. Oh, this is the beginning. This is one of our first stops. This is going to continue throughout a number of different States. I know Texas is next and there will be many others on the way.



Ms. MURPHY. Great. Do you know if Florida will be on your list?

Mr. CAZAMIAS. I intend to put it on the list.

Ms. MURPHY. Great. Thanks.

Moving on to a different topic, you know, the theft of intellectual property has become a real major problem in global business environment, particularly for small firms, and this is because they often lack the knowledge and the resources needed to adequately protect their IP abroad. The U.S. Patent and Trademark Office found that only 15 percent of small firms conducting businesses overseas know that they need to file for IP protection abroad. And this is really concerning. What does SBA plan to do to help small business owners guard themselves against theft of their IP in overseas markets?

Mr. CAZAMIAS. Thank you for the question.

I think I can say that we are going to take this issue very seriously and incorporate it as to one of the points that we use when we counsel small businesses in exporting.

Ms. MURPHY. So you intend to integrate it into the baseline training?

Mr. CAZAMIAS. That is going to be something we are definitely going to look at. The message has been received very well and it is going to be something that we are going to have to look at more seriously.

Ms. MURPHY. Great, thank you. And I will yield back the remainder of my time.

Chairman CHABOT. The gentlelady yields back.

The gentleman from Kansas, Dr. Marshall, is recognized for 5 minutes.

Mr. MARSHALL. Thank you, Chairman.

I guess, tell me some examples, who is doing a great job working with you? Can you give us some examples of some small companies that you really think are working well with your people?

Mr. CAZAMIAS. Thank you for the question, Dr. Marshall.

I think in the fullness of time I will be able to provide more examples when I have more information at my hand.

Mr. MARSHALL. Okay. All right. I represent some small businesses that make precision agriculture products. And if I would go back and visit with them and say this is what your branch of government can help them with, what would you tell them? What would you want me to tell them that you are going to help them—and they do have some access to some markets in Europe now, but boy, they could sure use a boost.

Mr. CAZAMIAS. Thank you for the question, Dr. Marshall.

I think that one of the functions of the OIT is to try and open up foreign markets and make introductions between our domestic companies and foreign markets. So a number of the export centers will be able to counsel some of these small businesses and promote dual trade missions overseas or get involved in the matchmaking program or even through the STEP program to try and enhance that market access.

Mr. MARSHALL. Okay. I guess my last question, what can we do to help you do your job better? What can we do in Congress to empower you?

Mr. CAZAMIAS. Thank you for the question.

I could not presume to give you advice only 3 weeks in, but what I can commit to is that my office will have a virtuous information loop with your offices so that when we can do something, provide some sort of information that will help us be successful and help you be more successful, we will certainly provide that information.

Mr. MARSHALL. Thank you. And I yield back.

Chairman CHABOT. The gentleman yields back.

The gentleman from New York, Mr. Espallat, is recognized for 5 minutes.

Mr. ESPAILLAT. Thank you, Mr. Chairman, Ranking Member Velázquez, for this hearing. Thank you for your testimony.

As the borders of the global market keep expanding, it is crucial that small business can benefit from this expansion and be competitive in a variety of arenas, especially in the topics related to export. The Small Business Administration Office of International Trade is an essential part of the development initiatives that will enhance and are strictly focused on improving the chances that small businesses will succeed in their economic ventures.

The Hamilton Project specifically relating to this discussion in a paper titled, "Minority and Women Entrepreneurs: Building Capital Networks and Skill," has signaled that research shows that minority and women-owned businesses rely significantly more on investments of personal or family wealth rather than on outside debt or equity. This clearly sets some minority and women-owned businesses at a disadvantage, especially when their families do not have the wealth to help them start out and maintain a business.

My questions will focus on the constraints of the trade deals that many U.S. small businesses could choose to engage with; the countries, mainly NAFTA and CAFTADR. I know that there are significant hurdles placed by those trade deals on even big businesses—packaging, transportation, the hygienic level of the products that they may want to export, intellectual property. These are issues that are very cumbersome and often very difficult for even big businesses to engage with.

Are there any particular plans to help, particularly minority, women-owned, and veteran businesses, veteran-owned businesses, to overcome these major hurdles that even large corporations often have, you know, some difficulties with? Otherwise, there is not going to be a real opportunity for small businesses to engage in trade outside of the United States. Do you have any roadmap as to how you are going to assist them?

Mr. CAZAMIAS. Thank you for the question, Congressman.

Yes, I think there is a dual answer to your question or a two-part answer. The first is that the Office of International Trade, Small Business Administration, does have programs that are dedicated to veteran, to women-owned businesses, and to minorities for counseling. But moreover, even at the Office of International Trade, we will be negotiating. We have individuals who will be negotiating trade deals with the idea of transparency in mind because we understand fully, and I understand fully having lived in India and having done business in India, the difficulty of compliance costs even on medium-size businesses. The difficulty of having to

repatriate capital back to the United States or register your business overseas.

So yes, I could not agree with you more. It has a disproportionate impact on small businesses and we will be negotiating those trade agreements with the interests of small business in mind.

Mr. ESPAILLAT. Okay. My last question is, is there a particular reason for which there has not been consistent with regards to the grant awards and expenditures in the past years?

Mr. CAZAMIAS. I understand the question and I thank you.

One of the things that I have learned as I have inherited this is that there were old reporting procedures that led to discrepancies. We are now taking a systematic approach, a look at our processes. Again, identifying areas that are critical to quality, identifying areas where there are redundancies. And we are going to map out an entirely new process taking a process-based approach that we think will have a more robust and effective end towards this issue.

Mr. ESPAILLAT. Thank you. I yield back my time.

Chairman CHABOT. Thank you. The gentleman yields back.

The gentleman from Kansas, Mr. Estes, is recognized for 5 minutes.

Mr. ESTES. Thank you, Mr. Chair.

I guess I have more of a comment and maybe asking for a commitment for a longer term. In my district, we have a lot of involvement in trade. Most of that is with some of our larger manufacturing and aerospace companies, as well as a lot of the agriculture companies that are there. But we also have a lot of smaller businesses, particularly machine shops and other type product manufacturers in particular, and the message that I hear is the struggle to figure out what resources they have and how do they engage in that marketplace? And I know we were talking earlier about which one of us was newer on our roles, our respective roles, but I guess I would throw the challenge down to you and ask if you would strongly consider as you are developing your role how to support and work with those smaller businesses to help them get a better leg up and get as much of a percentage of the international marketplace as they do within the domestic market.

Mr. CAZAMIAS. I commit to that without reservation, Congressman. That is, in fact, my mandate.

Mr. ESTES. Thank you, Mr. Chair. I yield back my time.

Chairman CHABOT. The gentleman yields back.

The gentlelady from New York, Ms. Clarke, is recognized for 5 minutes.

Ms. CLARKE. I thank you, Mr. Chairman. And I thank our Ranking Member Velázquez.

Foreign markets offer new opportunities for small businesses entrepreneurs to unleash their creative talents. Whether it is a craft product on Etsy or an industrial component for an automobile, each stand to benefit from the untapped potential of consumer markets abroad. However, the United States trade deficit is over \$40 billion. This means that foreign actors hold a large amount of American currency and exercise influence over its value. This impacts everything from the price of fruit in the local grocery store to the cost of consumer electronics and basic clothing expenses at big box stores. When trade imbalances exist, consumers, often working

families, are the most affected. These two factors—foreign consumer and foreign influence over the value of our currency—are why it is so important for the SBA to help facilitate small business exports.

So my questions are in that vein. The new administration, and Donald Trump's budget, proposes cutting the SBA's budget by 5 percent. Have you examined how such a decrease could impact OIT's ability to carry out its mission and promote America's exports? And if so, how?

Mr. CAZAMIAS. Thank you for the question, Congresswoman.

The mantra at the SBA is to run this office effectively and efficiently. So we will see this as a great opportunity to be able to do more with less.

Ms. CLARKE. I have been hearing more with less for the past decade and I have yet to see it produced, especially when you look at 1 percent. So let us try to use creativity and innovation.

Do you think that existing SBA export loan programs are enough to meet the financing needs of small businesses or do gaps still remain?

Mr. CAZAMIAS. Thank you for the question, Congresswoman.

This is an issue that I will definitely have to get my hands around to understand exactly where the distribution of demand is, exactly where our supply is hitting, and where there are gaps. This is one of the primary initiatives that I hope to be able to fulfill in the near term in my role.

Ms. CLARKE. Very well. And Congress is currently discussing ways of reforming the taxation of earned income abroad. How would a change in the treatment of foreign income impact OIT's efforts, and what do you view as OIT's role in training small businesses about changes to the tax code if they are made in order to assure these entrepreneurs and assure this Congress that there will be no undue hardship as a result?

Mr. CAZAMIAS. Thank you, Congressman.

The Office of International Trade has in its purpose to try to internationalize small businesses and make them exporters. If tax policy is something that becomes a critical component of being able to help small businesses export, I can only assume that our trade finance experts will be able to provide the necessary counseling so that they can become exporters because that is our purpose.

Ms. CLARKE. And is that something that you would personally be examining to make sure that there are not any unintended consequences?

Mr. CAZAMIAS. I can personally commit to ensuring that whatever tax policy implications will come down the pike, we will incorporate that or examine it very carefully and incorporate it into our counseling sessions as needed.

Ms. CLARKE. Very well. I yield back the balance of my time, Mr. Chairman.

Chairman CHABOT. Thank you. The gentlelady yields back.

The gentlelady from American Samoa, Mrs. Radewagen, who is the chairman of the Subcommittee on Health and Technology, is recognized for 5 minutes.

Mrs. RADEWAGEN. Talofa lava. Thank you, Mr. Chairman, and thank you, Ranking Member Velázquez, for holding this hearing. Mr. Cazamias, thank you for testifying.

Mr. CAZAMIAS. Thank you, Congresswoman.

Mrs. RADEWAGEN. So Mr. Cazamias, what does the SBA estimate it spent on export promotion activities in fiscal year 2016? Does this include export financing, small business development centers export counseling, the export-related activities of the district offices, and STEP program? If not, how much did the SBA spend on the activities in fiscal year 2016?

Mr. CAZAMIAS. Thank you, Congresswoman.

My office does have the breakdown of those numbers and we will supply it to your office.

Mrs. RADEWAGEN. Thank you very much.

I yield back the balance of my time, Mr. Chairman.

Chairman CHABOT. Thank you. The gentlelady yields back.

The gentlelady from North Carolina, Ms. Adams, who is the ranking member of the Subcommittee on Investigations, Oversight, and Regulations, is recognized for 5 minutes.

Ms. ADAMS. Thank you, Mr. Chairman. Thank you, Ranking Member Velázquez, for hosting the hearing today. And Mr. Cazamias—is that correct?

Mr. CAZAMIAS. Yes, that is correct.

Ms. ADAMS. Thank you very much for your testimony.

You talked a little bit about the small women-owned businesses, and, of course, I had a question, but I wanted to just add to that. You talked about what you all were going to do or what you think you might do. I wanted to add rural businesses to that as a part of that. I have a special interest in women-owned businesses, and those are the socially and economically disadvantaged, and making sure that there is equal opportunity in terms of this process, particularly the STEP proposals as they come across your desk, the weight that you give them. But I probably do not need to ask that question. It sounded like you are going to be focusing at least to some degree on that.

But let me ask about the discretion that is provided to you by the trade facilitation and Trade Enforcement Act in helping to assist these disadvantaged communities. Do you find that that is going to be helpful to you?

Mr. CAZAMIAS. Thank you, Congresswoman.

This is something, whether it is going to be helpful, I do not have the information at hand, but I am sure I can tell you, I can assure you that the importance of minority-owned businesses and women-owned businesses is very high on the priority list of this administration, of this Small Business Administration. Knowing the identity of our administrator, Administrator McMahon, you can understand that she also finds it of the utmost importance, and I know that we, even last year, were awarding exporter lender of the year to entities and banks that have shown outstanding performance in making SBA loans to minority-owned businesses. So it is something that is very high on the visibility and that we have a commitment to.

Ms. ADAMS. Great. Thank you.

You know, when we look at the businesses that are growing the fastest, they are women-owned businesses, and more specifically, African-American women-owned businesses.

But let me ask another question. Do you have any data available about STEP proposals that have been approved from rural, women-owned, and socially economic disadvantaged businesses that you may have taken a look at?

Mr. CAZAMIAS. I will have my office take a look at that and provide it to yours.

Ms. ADAMS. Okay, great. And a follow-up to that, I was interested in the percentages, and I know you are just getting started, and certainly, I wish you well, but also, in terms of the percentages that are submitted by rural, women-owned, and socially economic disadvantaged businesses, I am just curious about the data that has been kept and what those percentages might be, as well as not only what the numbers are but what the approval rate of those have been.

Mr. CAZAMIAS. Thank you, Congresswoman.

Whatever information we have in terms of the breakdown, we are going to provide it to your office.

Ms. ADAMS. Thank you very much.

Mr. Chairman, I am going to yield back the rest of my time. Thank you.

Chairman CHABOT. Thank you. The gentlelady yields back.

And I know the chair is not supposed to comment on these kind of things, but that is one beautiful hat, I think.

Ms. ADAMS. And I thank you very much for saying that. It is one of my 1,094 in my collection and I am wearing this as far as my birthday celebration for this week. But thank you very much.

Chairman CHABOT. All right. Well, happy birthday. Yeah, excellent.

The gentlelady's time is expired.

The gentleman from Iowa, Mr. Blum, who is the chairman of the Subcommittee on Agriculture, Energy, and Trade, is recognized for 5 minutes.

Mr. BLUM. Thank you very much, Mr. Chairman Chabot. And I concur with you on my colleague's hat. It is very beautiful. I was admiring that.

And also, I was not aware, but that is a great statistic about female, minority-owned businesses growing amongst the fastest businesses. That is tremendous. Good to hear.

Thanks for being with us today, Mr. Cazamias.

Mr. CAZAMIAS. Yes, thank you.

Mr. BLUM. Yes. Glad to hear you are from the private sector and you have had a tremendous amount of experience in international business as well, I have read.

I would like to have your personal thoughts on TPP. With your international trade experience, you must have some thoughts on that agreement.

Mr. CAZAMIAS. Well, Congressman, I think the current administration's new approach of looking at trade agreements on a one-to-one basis is really badly needed. Clearly, it is important that we start reevaluating what our trade posture is so that we do not run

the kinds of deficits we have historically and give a better chance to our domestic producers in being able to compete.

Mr. BLUM. So I take it that you did not like TPP because of the framework, because it was not bilateral or——

Mr. CAZAMIAS. Well, I believe that a one-to-one, a one-to-one type of trade posture is going to be beneficial.

Mr. BLUM. And what are your feelings on NAFTA?

Mr. CAZAMIAS. Initially, of course, back in 1992, and I am from the, you know, border country, I was initially supportive of it. I saw the burgeoning growth that it had, the effect it had on my city. But after 25 years, we have a lot more datapoints. We have a lot more in the way of datapoints now, and I have, unfortunately, seen what the legacy of these trade deficits are, and they are shuttered industries and high unemployment. So it is high time we take a new look at our trade agreements.

Mr. BLUM. EXIM Bank, they provide financing for export activities in the private sector as well. Does the OIT, Office of International Trade, work in conjunction with the EXIM Bank? Do they provide loans maybe to smaller businesses that EXIM Bank would not look at? Because one of the things when we debated reauthorization of EXIM Bank was, well, the majority of the funding or the benefits go to five companies, five mega corporations, and that you do not focus enough on small businesses. So do you work with them? How is that relationship?

Mr. CAZAMIAS. The level of coordination between the two entities is something I am going to have to get back to you on, Congressman, but I will say, it speaks to what I was saying earlier about the differentiating value of the Small Business Administration being able to focus on small businesses so that we do not take that “bang for the buck” approach.

Mr. BLUM. Do we track the revenues, the export revenues of small businesses?

Mr. CAZAMIAS. We track——

Mr. BLUM. Do we have that number? Does the SBA have that number?

Mr. CAZAMIAS. Yes. We track the export revenues that are a result of SBA counseling and SBA financing.

Mr. BLUM. And what has that trend been? What are those numbers over the last 3 years?

Mr. CAZAMIAS. Let me, before I take a guess, let me have my office provide those numbers so I can be specific. I do not wish to make a mistake in my testimony.

Mr. BLUM. Because particularly in government, the Federal Government, we talk a lot, as opposed to the private sector, it seems like we are not so concerned about results sometimes. And I think we need to do a good job. I just would offer this advice to you of measuring things, and every time you testify here I am going to be asking you, you know, is that trend up? Is that trend in the right direction? Are our small businesses, in fact, exporting more to foreign countries than they were last year?

Mr. CAZAMIAS. I sympathize with the sentiment, and I will be prepared.

Mr. BLUM. What would you say are the main ways, the main methods that your office is going to help small businesses export?

Mr. CAZAMIAS. I think there are, again, three ways that we are going to be able to help them export and that is, one, providing them the liquidity they need, especially for first-time exporters, but also for businesses who have been successful in exporting. We are going to be able to provide them international trade loans that are going to help them expand their PP&E.

Secondly, in opening up the markets and making connections between our domestic businesses and foreign markets and foreign buyers of domestic products.

Mr. BLUM. And I am a small business owner, and we are in the software business, and access to capital is important. I get that. But I think before the access to capital, you need the connections. You just mentioned that, connections. Can you talk to me in the 29 seconds we have left about how is your office going to help small businesses connect with foreign entities that need their products?

Mr. CAZAMIAS. Certainly, we have been coordinating with the States through the STEP program to conduct dual trade missions, joint trade missions, and to be able to have that kind of State co-operation so we can have those people who are closer to the businesses and understand what their needs are, make those connections to foreign entities.

Mr. BLUM. Always remember that that connection is the first step. Before we need access to capital, they need that connection. They need a buyer, international buyer that is interested in their product. So I would hope you emphasize that.

Mr. CAZAMIAS. Well received.

Mr. BLUM. My time is over and I yield back the time I do not have, Mr. Chairman.

Chairman CHABOT. The gentleman's time is expired. That is right, the gentleman's time has expired.

The gentleman from Florida, Mr. Lawson, who is the ranking member of the Subcommittee on Health and Technology, is recognized for 5 minutes.

Mr. LAWSON. Thank you, Mr. Chairman. And I want to thank you for being with us today.

When I read the staff report, I thought it was very fascinating and very revealing to look at the report that said only 1 percent of small business was conducted in trade; and secondly, when they said that over 95 percent of people outside of this country were consumers. And I know that you have had a great deal of international experience in this particular area.

So my question was centered around will it be financially feasible for small businesses to look more towards international trade, even though I have heard a lot of questions here this morning from a lot of the members about what we need, access to capital and so forth? But in 2017, when you see only 1 percent of small business in America not engaging in international trade, how do you respond to that? Is it financially feasible? Is it just something that we should not be involved in? I am not really sure.

Mr. CAZAMIAS. Congressman Lawson, that is a terrific question and it is one of the challenges that we have to meet up to to be able to expand the number of U.S. businesses and the percentage of U.S. businesses that are exporting internationally. I think it is worthy of investigation to determine whether it is a perception



issue, whether there is simply not the lack of awareness that it is important to diversify your customer base, to create new lines of revenue and find these international customers, or whether there is the perception that it is just too difficult, but I do believe that with the various trade financing options that exist at the Small Business Administration, we make it financially feasible. So perhaps it is something that we are going to have to investigate to understand if there is a perception or a lack of awareness, and if so, we need to figure out how to improve our outreach.

Mr. LAWSON. As a follow-up, did you say at one time you were in India?

Mr. CAZAMIAS. I lived in India for an entire year.

Mr. LAWSON. Okay. And I was trying to understand how the people in India are able to do international trade in America in a lot of different areas, and technology and so forth, but we are not able to do the same kind. And that is what really, I am so glad that you have that experience because I look forward to working with you. And you might want to elaborate on that.

Mr. CAZAMIAS. Congressman, I think it is related to what I was saying before. It is encouraging to know that we are taking a new look at our trade posture and that we are starting to look at one-on-one agreements because I think that this change of trade posture is going to have a measurable effect on what those trade balances are. So I look forward, as you do, I am sure, to see how this evolves over the next few years.

Mr. LAWSON. Okay. Mr. Chairman, with that I yield back.

Chairman CHABOT. Thank you. The gentleman yields back.

And the ranking member is recognized to ask a question.

Ms. VELAZQUEZ. Just one question. So we know that there are six federal agencies that share responsibility in providing export assistance to small businesses including: SBA, Commerce, USDA, and the EXIM Bank. You talk about liquidity and access to capital, so I hope that you do a better job at getting EXIM Bank to continue to do the job that they have done. Since they cannot make loans larger than \$10 million now, you have seen an increase in lending for small businesses for the first time exceeded 50 percent. It used to be 20 percent. So you are the chair of the TPCC?

Mr. CAZAMIAS. That is correct, Ranking Member Velázquez.

Ms. VELAZQUEZ. Okay. I hope that you will take upon yourself to clear issues over jurisdiction as it relates to all these six federal agencies.

Mr. CAZAMIAS. I will absolutely take that under advisement, Congresswoman Velázquez.

Ms. VELAZQUEZ. Thank you.

Chairman CHABOT. The gentlelady yields back. The gentlelady yields back.

And we want to thank the witness for his testimony here, and the chair would like to commend members on both sides for their participation today and the incisiveness and the brevity of some of the questions as well. We have fit a lot in, I think, in an hour and 8 minutes here. And so I think great attendance by both sides, and I think you did an admirable job for having been in the position no more than 3 weeks. Very impressive.

Mr. CAZAMIAS. Thank you.

Chairman CHABOT. And as you know, ensuring that America's small businesses have every opportunity to export is essential, and I hope that this hearing encourages the OIT to continue improving its outreach and training efforts and better coordinate Federal resources for small businesses all across this country.

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

Without objection, so ordered.

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

[Whereupon, at 12:11 p.m., the Committee was adjourned.]

**A P P E N D I X**



**U.S. Small Business Administration**

**TESTIMONY of**

**PETER CAZAMIAS**

Associate Administrator, Office of International Trade  
U.S. Small Business Administration

**House Small Business Committee**

Tuesday, May 23, 2017

Chairman Chabot, Ranking Member Velazquez, and other distinguished members of this committee; thank you for inviting me here to speak with you today.

Three weeks ago, I was honored to accept Administrator McMahon's appointment and begin my service as Associate Administrator for International Trade at the Small Business Administration (SBA). Today, I am honored to be able to meet with you and listen to your important views on small business and trade.

Since starting at the SBA, I have been familiarizing myself with the role of the Office of International Trade (OIT), and its role in helping small businesses grow and thrive through exports and involvement in global commerce.

Administrator McMahon believes that exporting is an essential component of small business growth, because 95% of the world's consumers and over three quarters of all existing purchasing power are located outside the United States.

Just a few weeks ago, I accompanied Administrator McMahon to the United Nations, where she signed a proclamation naming June 27th as "Micro, Small & Medium-sized Enterprises International Day," and in so doing, brought international recognition to the vital role small businesses play in promoting innovation, creativity and job growth.

Yet today, among our over 28 million U.S. small businesses, less than 5% can claim the title of "exporter." The Office of International Trade is charged, by statute, to improve upon this number. Its stated mission involves: (i) Increasing the number of U.S. small businesses that export, and (ii) Increasing the volume of exports by U.S. small businesses. The SBA, under the leadership of Administrator McMahon, will address this dual mission by focusing on three critical needs small business have when attempting to export:

1. The need for information. The SBA OIT recognizes that guidance and support for small businesses is crucial to achieving a foothold in the international marketplace. As such, the Office of International Trade has a network of 21 Export Finance Managers, based in U.S. Export Assistance Centers, who provide counseling on international payment risks and U.S. government export financing options.

2. The need for capital. Small businesses cannot trade and export to these new markets unless they have access to capital, specifically trade finance. Small businesses are hardest hit by trade finance gaps and compliance challenges. In the United States, over one-third of all small businesses find financing harder to obtain for foreign sales than for domestic sales. Given this challenge, SBA works with lenders to provide tailored trade finance loan guarantees so that small businesses can finance their foreign sales and growth. SBA's three targeted export loan guarantee programs—Export Express, Export Working Capital and the International Trade Loan—are designed to support small businesses throughout the exporter life cycle, from developing new markets, to financing export

transactions, to expanding plant and equipment due to exporting success.

3. The need among small businesses for overseas promotional services and market access. The SBA OIT emphasizes the importance of “small business export promotion” by strengthening its partnership with state and territory governments through the State Trade Expansion Program (STEP) and its involvement chairing the Trade Promotion Coordinating Committee’s (TPCC) Small Business Working Group—a group of inter-agency representatives dedicated to the mission of increasing the number of small business exporters.

And, because the Office of International Trade is also charged by statute with ensuring that the interests of small businesses are adequately represented in bilateral and multi-lateral trade negotiations, we actively participate in developing small business-beneficial trade commitments for transparency, flexibility, and evidence-based decision-making, so that foreign regulations do not unnecessarily burden U.S. small business exporters.

Today, I am able to attest to the dynamic power exporting and international trade has on small businesses and local economies. I hail from the South Texas border city of Laredo. Located on the North bank of the Rio Grande, Laredo’s economy is virtually entirely based on international trade and it serves as one of the largest land ports in the United States. I witnessed the burgeoning growth that international trade had on my native city.

After graduating from Yale University, I served as an intern for the U.S. Commercial Service in Mexico City, where the negotiation of the North American Free Trade Agreement (NAFTA) was at the time a pressing issue. As a law student at the University of Texas, I studied and examined NAFTA’s dispute resolution mechanisms. More recently in my professional life, I drove the Asia Pacific financial operations as a regional CFO for Insituform Technologies, an U.S.-based pipeline company. I then lived in Delhi, India and led a turnaround of Insituform’s flagship Asian operating company. I mention these background facts only to convey to you, that I possess a long-standing interest in and familiarity with international trade and international business issues, and intend to bring the benefit of my experience to bear to help small businesses in our country grow and prosper.

To conclude, I wish to say that under the able leadership of Administrator McMahon, I will be committed to ensuring that our small business exporters find all the support they need to expand into international markets. I furthermore will endeavor to effectively and efficiently administer the Office of International Trade. My goal is to enable the SBA to help expand the footprint of small businesses in the overseas marketplace, thereby spurring innovation and employment growth.

With that I wish to thank you for the opportunity to speak with you today, and I look forward to answering your questions.

EVALUATION REPORT

REVIEW OF SBA'S STATE TRADE AND  
EXPORT PROMOTION GRANT PROGRAM





## EXECUTIVE SUMMARY

### REVIEW OF SBA'S STATE TRADE AND EXPORT PROMOTION GRANT PROGRAM

Report  
No. 17-11  
May 4, 2017

#### What OIG Reviewed

The Small Business Jobs Act of 2010 (the Act) authorized the State Trade and Export Promotion (STEP) grant program with the objectives to (1) increase the number of eligible small business concerns in the states that export, and (2) increase the export value of those eligible small businesses that already export.

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

#### What OIG Found

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

We also found SBA implemented new reporting requirements for the FY 2014 STEP program that significantly improved the quality of the grant recipients' performance and financial reports. As a result, FYs 2014 and 2015 grant recipients provided performance and financial reports that identified the amount spent for each designated export activity as stated in the grant program

announcement. However, we were unable to determine how the grant recipients spent the funds in the first 2 years of the program, FYs 2011 and 2012, because SBA did not have defined program management procedures for the STEP grant program at that time. Additionally, we found that most of the grant recipients we reviewed did not expend all of the funds awarded.

#### OIG Recommendations

We provide three recommendations to improve SBA's oversight of its STEP program. We recommend that the Chief Financial Officer, the Associate Administrator for OIT, and the Chief Operating Officer implement corrective actions to ensure consistency in financial reporting within SBA. We also recommend that the Chief Financial Officer develop a process to ensure that SBA submits timely, complete, and accurate data in USAspending.gov. Additionally, we recommend that the Associate Administrator for OIT establish and document oversight procedures to ensure that the STEP program managers effectively monitor the grant recipient's progress in meeting targeted milestones.

#### Agency Response

SBA management's planned actions resolve the three recommendations. SBA plans to develop a process to ensure consistency in financial reporting for Federal assistance grants awards. SBA also will develop and implement a process to ensure that it submits timely, complete, and accurate data in USAspending.gov. Additionally, SBA will establish oversight procedures to effectively document and monitor grants recipients' performance in meeting their targeted milestones.



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

**Final Report Transmittal**  
Report Number: 17-11

**DATE:** May 4, 2017

**TO:** Linda E. McMahon  
Administrator

**FROM:** Hannibal "Mike" Ware  
Acting Inspector General

**SUBJECT:** *Review of SBA's State Trade and Export Promotion Grant Program*

This report presents the results of our *Review of SBA's State Trade and Export Promotion Grant Program*. We conducted this evaluation in accordance with the Council of the Inspectors General on Integrity and Efficiency *Quality Standards for Inspection and Evaluation*.

We considered management comments on a draft of this report when preparing the final report. SBA agreed with all three recommendations.

We appreciate the courtesies and cooperation that we received from your staff during our audit. Please contact me at (202) 205-6586 or Riccardo Buglisi, Director, Business Development Programs, at (202) 205-7489 if you would like to discuss this report or any related issues.

cc: Mary Anne Bradfield, Chief of Staff  
Peter J. Cazamias, Associate Administrator for Office of International Trade  
Eugene Cornelius Jr., Deputy Associate Administrator for Office of International Trade  
Joseph P. Loddio, Chief Operating Officer  
Timothy E. Gribben, Chief Financial Officer and Associate Administrator for  
Performance Management  
Eric S. Benderson, Acting General Counsel  
Martin Conrey, Attorney Advisor, Legislation and Appropriations  
LaNae Twite, Director, Office of Internal Controls



## Table of Contents

Introduction.....	1
Prior Work.....	2
Objective.....	2
Finding 1: SBA Provided Conflicting STEP Grant Award and Expenditure Data .....	3
Conclusion .....	4
Recommendations.....	4
Finding 2: OIT Could Improve Its Oversight of Grant Recipients' Use of Funds.....	5
Conclusion .....	8
Recommendation.....	8
Analysis of Agency Response .....	8
Summary of Actions Necessary to Close the Report.....	8
Appendix I: Objective, Scope, and Methodology.....	9
Use of Computer-Processed Data.....	10
Appendix II: Agency Comments .....	11

## Introduction

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The Small Business Jobs Act of 2010 (the Act) authorized the Small Business Administration (SBA) to establish the State Trade and Export Promotion (STEP) grant program as a 3-year pilot program. The objectives of the STEP grant program were to (1) increase the number of eligible small business concerns in the states that export and (2) increase the export value of those eligible small businesses that already export. The express purpose of the program was to award grants to states to execute export programs that assist eligible small business concerns in

- participation in a foreign trade mission,
- a foreign market sales trip,
- a subscription to services provided by the U.S. Department of Commerce,
- the payment of website translation fees,
- the design of international marketing media,
- a trade show exhibition,
- participation in training workshops, or
- any other export initiative determined appropriate by the Associate Administrator for SBA's Office of International Trade (AA/OIT).<sup>1</sup>

The Act defined the term "state" to include each of the 50 several states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, and America Samoa. Congress later added the Commonwealth of the Northern Mariana Islands as an eligible recipient in 2013.<sup>2</sup> The Act required the AA/OIT to establish the STEP grant program and gave the AA/OIT the authority to award each of the eligible recipients no more than one grant per fiscal year (FY) on a competitive basis.

Although Congress originally authorized funding of \$30 million each year for FYs 2011, 2012, and 2013, it did not appropriate any funds for FY 2013.<sup>3</sup> In FYs 2011 and 2012, SBA awarded grants to states with the goal of assisting eligible small business concerns with exporting. The STEP program's authorization expired at the end of FY 2013, but Congress appropriated \$8 million for STEP in FY 2014 and \$17.4 million for FY 2015.<sup>4</sup>

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<sup>1</sup> Public Law 111-240, Small Business Jobs Act of 2010, section 1207(b) (September 2010).

<sup>2</sup> Public Law 112-239, National Defense Authorization Act of 2013, section 588 (January 2013).

<sup>3</sup> Public Law 111-240, Small Business Jobs Act of 2010, sections 1701(a)(3) and (4) (September 2010).

<sup>4</sup> Public Law 113-76, Consolidated Appropriations Act, 2014 (January 2014) and Public Law 113-235 Consolidated and Further Continuing Appropriations Act, 2015 (December 2014).

The following SBA program offices work individually and collaboratively to manage and process the STEP grant awards and reimbursement payments:

<b>Office of International Trade</b>	<ul style="list-style-type: none"> <li>• Manages the STEP program</li> <li>• Develops program announcement</li> <li>• Reviews and selects applications for award</li> <li>• Provides closeout verification procedures</li> </ul>
<b>Office of Grants Management</b> Component of the Office of the Chief Operating Officer	<ul style="list-style-type: none"> <li>• Makes grant awards</li> <li>• Issues modifications</li> <li>• Approves advancement or reimbursement requests</li> <li>• Performs closeout procedures</li> </ul>
<b>Denver Finance Center</b> Component of the Office of the Chief Financial Officer	<ul style="list-style-type: none"> <li>• Executes grant payments</li> </ul>

Source: OIG generated based on program offices explanation of the STEP grant award and management process.

The Trade Facilitation and Trade Enforcement (TFTE) Act of 2015 established a new export program, the State Trade and Expansion Program, ending the pilot STEP grant program.<sup>5</sup> The TFTE required the SBA Office of Inspector General (OIG) to submit a report to the Congressional Committees on Small Business regarding the use of amounts made available under the STEP grant program.<sup>6</sup>

#### Prior Work

SBA OIG conducted a review of the pilot STEP grant program that identified weaknesses in SBA's management and oversight of the STEP grant program.<sup>7</sup> The report included nine recommendations to improve the SBA's management of the STEP grant program, including a recommendation to hold STEP grant recipients accountable for adhering to reporting requirements established in the notices of award and program announcements. Between May 2013 and September 2013, the OIT provided documentation to support the implementation of all nine recommendations.

#### Objective

Our objective was to determine how the funds for the STEP grant program were used. Specifically, we determined how much was awarded and expended and what the grant recipients spent the funds on.

<sup>5</sup> Public Law 114-125, Trade Facilitation and Trade Enforcement Act of 2015, section 503 (February 2016).

<sup>6</sup> Public Law 114-125, Trade Facilitation and Trade Enforcement Act of 2015 section 503 (8)(B) "Reports" (February 2016).

<sup>7</sup> SBA OIG Report 12-21, *The SBA Needs to Improve Its Management of the State Trade and Export Promotion Grant Program* (September 2012).

### Finding 1: SBA Provided Conflicting STEP Grant Award and Expenditure Data

We could not determine the exact amounts awarded and expended for the STEP grant program because of inconsistent financial data provided by SBA. Specifically, Office of the Chief Financial Officer (OCFO), Office of Grants Management (OGM), and Office of International Trade (OIT) provided different grant award and expenditure amounts for the STEP grant program FYs 2011, 2012, 2014, and 2015. Additionally, SBA reported incomplete and inaccurate grant award data in USAspending.gov.

#### *Inconsistent Grant Award and Expenditure Amounts*

The various program offices involved in managing and monitoring the grant program reported different STEP grant amounts awarded and expended (see Table 1). Office of Management and Budget requires agency management establish controls that ensure reliable financial reporting.<sup>8</sup> These variances indicate SBA did not implement effective control activities over the STEP grant program transactions to ensure that they were complete and accurate for reliable reporting.

Table 1. STEP Program Award Amounts and Expenditures by Program Office

	FY 2011	FY 2012	FY 2014	FY 2015
Grant Award				
OCFO	\$29,999,875	\$29,996,182	\$7,915,207	\$16,948,928
OGM	\$28,977,094	\$29,997,493	\$8,096,884	\$17,400,000
OIT	\$28,977,094	\$29,996,182	\$8,000,000	\$17,400,000
USAspending.gov	\$28,934,166	\$29,093,330	\$8,000,000	\$15,995,297
Amount Expended				
OCFO	\$24,806,447	\$26,680,359	\$6,104,041	\$13,120,597
OGM	\$19,214,426	\$26,680,359	\$5,676,577	\$9,930,240
OIT	*	*	*	*
USAspending.gov	*	*	*	*
* No data provided.				
Source: OIG generated based on data provided by each program office and data retrieved from USAspending.gov.				

SBA awards each STEP grant recipient a defined amount of program funds, as established in the notice of award. Therefore, each program office involved in the STEP grant process should report identical amounts. However, we found that the program offices reported disparities on the amount awarded for each FY. For example, for FY 2011, OCFO reported nearly \$30 million of STEP grant awards, whereas OGM reported nearly \$29 million, which was more than a \$1 million difference.

Additionally, the three program offices review the same financial form that the grant recipients submit for reimbursement, yet we found they were not consistent in reporting the amount expended.<sup>9</sup> For example, for FY 2011, OCFO reported over \$24.8 million of STEP grant program expenditures, whereas OGM reported over \$19.2 million, which was a difference of more than \$5.5 million. OIT did not provide aggregate totals for the amount expended because they kept track of the amount expended for each grant and did not have summary data readily available. An OGM

<sup>8</sup> Office of Management and Budget, Circular A-123, *Management's Responsibility for Internal Control* (December 2004).

<sup>9</sup> SF-270, Request for Advance or Reimbursement.

official stated that reported differences were likely a result of a non-standardized closeout process as well as potential human error.

*Incomplete and Inaccurate Grant Award Data in USAspending.gov*

SBA did not provide complete and accurate financial reporting information in USAspending.gov. The Federal Funding Accountability and Transparency Act of 2006, amended in 2008, required Federal agencies to report all contract and grant awards in USAspending.gov.<sup>10</sup> The law mandates Federal agencies report every transaction for Federal contracts, grants, loans, and other financial assistance to the USAspending.gov website within 30 days. Grant award transactions include all modifications to the award including obligations and deobligations. OGM was responsible for reporting the grant awards, and subsequent modifications, in USAspending.gov. However, OGM did not adequately perform this requirement, and as a result, reported incomplete and inaccurate data in USAspending.gov for the STEP grant program.

OGM reported incomplete and inaccurate data because they were not reconciling the data in the grants management system with the data in USAspending.gov. Further, grant specialists did not consistently enter the award information into the grants management system, and OGM did not require a secondary review to ensure the award documents were complete and accurate. As a result, grant closeout procedures lacked consistency and grant specialists did not always use the proper deobligation form to complete the closeout.<sup>11</sup> As of January 2017, OCFO moved the function of updating USAspending.gov from OGM to OCFO.

### **Conclusion**

Multiple information sources within SBA reported different STEP grant award and expenditure amounts and are therefore unreliable. Further, SBA did not provide complete and accurate financial reporting information in USAspending.gov. This resulted in SBA not being transparent with the public on what it awarded for the STEP grant program and being inconsistent with the Federal Funding Accountability and Transparency Act of 2006.

### **Recommendations**

We recommend that the Chief Financial Officer, the Associate Administrator for the Office of International Trade, and the Chief Operating Officer collaboratively:

1. Implement corrective actions to ensure consistency in financial reporting within SBA.

We recommend that the Chief Financial Officer:

2. Develop and implement a process to ensure that SBA submits timely, complete, and accurate data in USAspending.gov.

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<sup>10</sup> Public Law 109-282, The Federal Funding Accountability and Transparency Act of 2006 (September 2006).

<sup>11</sup> SBA Form 1223, Approval List.

## **Finding 2: OIT Could Improve Its Oversight of Grant Recipients' Use of Funds**

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We reviewed 15 STEP grants and found the following:

- Eight grant recipients primarily spent program funds on export trade show exhibitions, foreign trade missions, other export initiatives, and non-activity related Federal expenses, but only three successfully reached OIT's spending threshold.<sup>12,13</sup>
- Seven grants lacked supporting documentation to determine how the grant recipients spent program funds.<sup>14</sup>

The STEP grant program announcement required grant recipients provide quarterly and final reports to OIT. For the first 2 program years, OIT did not enforce this requirement or establish consistent reporting standards, as previously reported in SBA OIG report 12-21.<sup>15</sup> Although OIT implemented improved reporting and monitoring procedures in FY 2014, OIT officials could better manage the grant recipient's progress in achieving the grant milestones and spending targets by increasing their oversight procedures. On average, grant recipients did not use over 25 percent of their awarded funds. By not expending the full amounts, grant recipients may have lost opportunities to increase the number of small businesses exporting or increasing small business export sales, thus not maximizing the potential of the STEP grant program.

### *Grant Recipients' Use of Funds by Activity Category*

OIT's improved reporting requirements for the FY 2014 performance progress reports requires grant recipients to categorize their expenditures by eight designated export activities, as designated in the Act.<sup>16</sup> For example, North Carolina spent 79 percent of its Federal funds on export trade show exhibitions. These activities included a Boat Show in Cartagena De Indias, Columbia, and an International Furniture Expo in Shanghai, China. North Carolina reported the Expo attendance resulted in a signed distributor contract to showcase their product in 400 stores. Another grant recipient, Mississippi, spent 63 percent of its funds on foreign trade missions. These activities included business development missions to Mexico, the Caribbean, South Africa, and Canada among other locations. Further, Hawaii spent 46 percent of its funds on other export initiatives, which included scholarships and cost sharing programs. (See Table 2 for itemized expenditure ratios.)

While four of the grants we reviewed expended funds on other export initiatives, we found the grant files did not contain evidence of receiving the required prior approval from the AA/OIT.<sup>17</sup> According to OIT officials, the Director of OIT briefed the AA on the proposals prior to submitting the application packages to OGM for award. However, this meeting was informal and not documented. Therefore, SBA could not assure that funds spent by the grant recipients in this category received the required prior approval.

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<sup>12</sup> SBA awarded the eight grants during FYs 2014 and 2015.

<sup>13</sup> OIT program officials used a generally accepted spending threshold of at least 85 percent to measure whether a grant recipient successfully expended their Federal funds.

<sup>14</sup> SBA awarded the seven grants during FYs 2011 and 2012.

<sup>15</sup> SBA OIG Report 12-21, *The SBA Needs to Improve Its Management of the State Trade and Export Promotion Grant Program* (September 2012).

<sup>16</sup> As required by the reporting requirements in the 2014 and 2015 program announcements Section VI and Public Law 111-240, Small Business Jobs Act of 2010, Section 1207 (b) (February 24, 2016).

<sup>17</sup> As required by the reporting requirements in the 2014 and 2015 program announcements Section VI and Public Law 111-240, Small Business Jobs Act of 2010, Section 1207(b)(8) (February 24, 2016).

Table 2. How States Expended Funds

Grant Recipient	FY	Percentage of Federal Funds Spent on Program Activities								
		1. Foreign trade mission	2. Foreign market sales trip	3. Subscription to services provided by the Dept. of Commerce	4. Payment of website translation fees	5. Design of international marketing media	6. Export trade show exhibition	7. International trade training workshops	8. Other export initiative approved by the AA/OIT	Non-activity related Federal expenses
Utah	2014	1%	0%	17%	0%	0%	58%	2%	0%	22%
Minnesota	2014	41%	0%	0%	0%	5%	17%	1%	0%	36%
Mississippi	2014	63%	0%	0%	0%	0%	6%	0%	20%	11%
North Carolina	2014	0%	0%	0%	0%	0%	79%	1%	3%	17%
Hawaii	2015	0%	0%	0%	0%	0%	38%	16%	46%	0%
Maryland	2015	0%	0%	5%	0%	0%	55%	0%	40%	0%
Puerto Rico	2015	10%	0%	0%	0%	21%	68%	0%	0%	0%
Wisconsin	2015	43%	0%	0%	0%	0%	17%	13%	27%	0%
<b>Average</b>		<b>20%</b>	<b>0%</b>	<b>3%</b>	<b>0%</b>	<b>3%</b>	<b>42%</b>	<b>4%</b>	<b>17%</b>	<b>11%</b>

Source: OIG generated based on grant recipient performance progress reports, SBA Form 1223s, SF-270s, SF-425s, and closeout documentation.

OIG also found that four of the grant recipients reported expending program funds for purposes other than the eight designated export activities. According to OIT officials, the non-activity related Federal expenses category encompasses personnel, fringe benefits, supplies, and travel. Minnesota spent 36 percent, Utah spent 22 percent, North Carolina spent 17 percent, and Mississippi spent 11 percent of their awarded Federal funds on these types of expenses. According to OIT, not every state consistently reports personnel, fringe benefits, supplies, and travel; often these are included as part of the non-Federal matching contributions.

#### *Grant Recipients Are Not Fully Using Federal Funds Awarded*

Of the eight grants that had supporting documentation showing how the grant recipients spent program funds, only three grant recipients used more than 85 percent of the funds awarded.<sup>18</sup> According to OIT officials, the program managers track each grant recipient's use of funds quarterly and provide feedback when the grant recipients are not reaching expenditure milestones. Despite this effort, for the four FY 2014 grants we reviewed, the grant recipients spent an average of 68 percent of the Federal funds awarded. Likewise, for the four FY 2015 grants we reviewed, the grant recipients spent an average of 78 percent (see Table 3). As a result, these grant recipients did not use over \$1.1 million of their awarded funds.

<sup>18</sup> OIT program officials used a generally accepted spending threshold of at least 85 percent to measure whether a grant recipient successfully expended their Federal funds.

Table 3. Percentage of Funds Used by State

State	Award Amount	Amount Expended	Percentage of Funds Used
<b>FY 2014</b>			
Utah	\$500,000	\$377,823	76%
Minnesota	\$471,529	\$192,272	41%
Mississippi	\$461,251	\$307,967	67%
North Carolina	\$500,000	\$437,165	87%
<b>Totals</b>	<b>\$1,932,780</b>	<b>\$1,315,227</b>	<b>68%</b>
<b>FY 2015</b>			
Hawaii	\$750,000	\$713,013	95%
Maryland	\$518,413	\$411,558	79%
Puerto Rico	\$288,650	\$268,858	93%
Wisconsin	\$712,000	\$384,328	54%
<b>Totals</b>	<b>\$2,269,063</b>	<b>\$1,777,757</b>	<b>78%</b>
Source: OIG generated based on OIT records of the notice of award, request for reimbursement, and verified to the closeout document.			

*Grants with Undetermined Activity*

None of the seven FYs 2011 and 2012 STEP grant files that we reviewed had an entire year of quarterly reports available to determine how grant recipients used the funds. According to OIT officials, in FYs 2011 and 2012, SBA did not have defined program management procedures for the STEP grant program. Specifically, according to OIT officials, previous OIT program managers did not consistently monitor the grant recipient's performance. Additionally, OIT did not require grant recipients to use a standard reporting template for tracking quarterly reports during the first 2 years of the program.

OGM officials also explained that the grant files were incomplete because they lost documentation during OGM's implementation of an electronic records system. Therefore, we could not determine whether the grant recipients used the Federal funds for the intended purposes of the STEP grant program for FYs 2011 and 2012.

We identified SBA's documentation and program management issues in our prior report of SBA's management of the STEP program.<sup>19</sup> Based on our recommendations, the Agency implemented, among other things, a reporting mechanism to track how the grant recipients used the funds. Starting in FY 2014, SBA required the grant recipients to report how they expended Federal funds within nine cost categories.<sup>20</sup> As a result, OIT officials monitored grant recipients' use of funds more consistently in FYs 2014 and 2015 as evidenced by available documentation.

<sup>19</sup> SBA OIG Report 12-21, *The SBA Needs to Improve Its Management of the State Trade and Export Promotion Grant Program* (September 2012).

<sup>20</sup> The nine cost categories include the eight statutorily defined activities as well as the non-activity related Federal expenses.



### Conclusion

Congress authorized the STEP grant program to assist states in promoting the export and expansion of trade opportunities. The award of those grant funds encourages states to create programs that include activities that assist eligible small businesses in achieving this goal. However, in five of the eight grants we reviewed that had supporting documentation showing how the grant recipients spent program funds, the grant recipients were unsuccessful in spending the majority of the funds. This indicates that the STEP grant program may not be fully meeting SBA's established performance goals for this program's success.

### Recommendation

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

3. Establish and document oversight procedures to ensure that the STEP program managers effectively monitor the grant recipient's progress in meeting targeted milestones.

### Analysis of Agency Response

SBA management provided formal comments that are included in their entirety in Appendix II. SBA management agreed to implement the recommendations by October 1, 2017.

### Summary of Actions Necessary to Close the Report

The following provides the status of the recommendations and the necessary action to close the recommendation.

1. **Resolved.** The Chief Financial Officer, Chief Operating Officer, and Deputy Associate Administrator for OIT concurred with our recommendation and plan to complete final action on this recommendation by October 1, 2017. This recommendation can be closed when SBA provides evidence that it developed a process to ensure consistency in financial reporting in Federal assistance awards (grants).
2. **Resolved.** The Chief Financial Officer concurred with our recommendation and plans to complete final action on this recommendation by October 1, 2017. This recommendation can be closed when SBA provides evidence it developed and implemented a process to ensure that SBA submits timely, complete, and accurate data in USAspending.gov.
3. **Resolved.** The Deputy Associate Administrator for OIT concurred with our recommendation and plans to complete final action on this recommendation by October 1, 2017. This recommendation can be closed when SBA provides evidence that it has established and documented oversight procedures to ensure that the STEP program managers effectively monitor the grant recipient's progress in meeting targeted milestones.

## Appendix I: Objective, Scope, and Methodology

The objective of our review was to determine how the funds for the STEP grant program were used.

Our scope included all STEP grant awards for FYs 2011, 2012, 2014, and 2015. To achieve our objective, we reviewed the STEP grant award and expenditure totals for the 4 program years provided by the OCFO, OGM, and OIT. We also queried USAspending.gov to determine the amount reported by SBA for the STEP grant program. In addition, we judgmentally selected 15 STEP grant awards. Specifically, our sample included three awards from FY 2011 and four awards each from FYs 2012, 2014, and 2015, based on high dollar totals and assessed risk, to determine how the grant recipients used the Federal funds (see Table 4).

Table 4. Judgmentally Selected Grant Award Recipients

Fiscal Year	State	Total Award
2011	California	\$2,540,924
2011	Washington	\$1,591,919
2011	Pennsylvania	\$1,710,904
2012	Michigan	\$2,186,907
2012	Ohio	\$1,297,598
2012	Illinois	\$1,069,279
2012	New York	\$625,591
2014	North Carolina	\$500,000
2014	Minnesota	\$471,529
2014	Mississippi	\$461,251
2014	Utah	\$500,000
2015	Hawaii	\$750,000
2015	Wisconsin	\$712,000
2015	Maryland	\$518,413
2015	Puerto Rico	\$288,650
<b>Total Funds Awarded:</b>		<b>\$15,224,965.00</b>
Source: OIG generated list of judgmentally selected awards based on documentation provided by OIT.		

For each grant award selected, we reviewed the special terms and conditions; SBA Form 1222, Notice of Award; SF-PPR, Performance Progress Report; SBA Form 1223, Approval List, which serves as the obligation document; SF-270, Request for Advance or Reimbursement; SF-425, Federal Financial Report; and the closeout documentation for each of the judgmentally selected states. We also reviewed the STEP program announcements for each applicable FY. For each grant award, we compared the grant recipient's activities reported on the performance progress report to the designated export activities identified on the applicable program announcement. We did not review the supporting records for the grant expenditures, and we did not determine whether the expenditures were allowable, allocable, or reasonable.

Additionally, we interviewed personnel from the OIT, OGM, OCFO, and Denver Finance Center to gain an understanding of the SBA grant process. We also obtained an understanding of laws, regulations, and SBA policies and procedures regarding in STEP grant program as a basis for our review.

We conducted this review in accordance with the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Inspection and Evaluation. Those standards require that we

adequately plan and perform the evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our conclusions based on our objective.

**Use of Computer-Processed Data**

Because of the inconsistencies in the financial reporting data, we were unable to rely on the computer-processed data that SBA generated from the payment system and the grants management system, as well as the data SBA reported in USAspending.gov.<sup>21</sup>

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<sup>21</sup> SBA uses Joint Accounting and Administrative Management System as their payment system.

**Appendix II: Agency Comments**

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SBA

CHIEF FINANCIAL OFFICER,

CHIEF OPERATING OFFICER, AND

DEPUTY ASSOCIATE ADMINISTRATOR,  
OFFICE OF INTERNATIONAL TRADE

RESPONSE TO EVALUATION REPORT



**U.S. SMALL BUSINESS ADMINISTRATION**  
WASHINGTON, D.C. 20416

DATE: April 28, 2017

TO: Riccardo R. Buglisi  
Office of Inspector General (OIG)

FROM: Timothy E. Gribben  
Chief Financial Officer

Joseph P. Loddo  
Chief Operating Officer

Eugene Cornelius, Jr.  
Deputy Associate Administrator for Office of International Trade

SUBJECT: Review of SBA's State Trade and Export Promotion Grant Program

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Thank you for the opportunity to respond to the Draft Report of the State Trade and Export Promotion Grant Program (STEP). The objective of the Review was to determine whether STEP complied with grant requirements related to Federal expenditures and program performance.

The Office of the Chief Operating Officer (OCOO), the Office of International Trade (OIT), and the Office of Chief Financial Officer (OCFO) concur with Office of Inspector General's recommendations. The COO, OIT and CFO will improve the internal controls, processes, and procedures to manage Federal assistance awards (grants).

Below please find the Agency's response to each of the recommendations outlined in the Draft Report.

**Recommendation 1:** *Implement corrective actions to ensure consistency and financial reporting within SBA.*

Explanation of Proposed Action:

Concur. The OCOO, OIT, and OCFO will develop a process to ensure consistency in financial reporting in Federal assistance awards (grants).

Projected Completion Date: October 1, 2017

**Recommendation 2:** *Develop and implement a process to ensure that SBA submits timely, complete and accurate data in USA Spending.gov.*

Explanation of Proposed Action:

Concur. The OCFO will develop and implement a process to ensure that SBA submits timely, complete, and accurate data in USA Spending.gov.

Projected Completion Date: October 1, 2017

**Recommendations 3:** *Establish and document oversight procedures to ensure that the STEP program managers effectively monitor the grants recipients, progress in meeting targeted milestones.*

Explanation of Proposed Action:

Concur. OIT will establish oversight procedures to effectively document and monitor grants recipients' performance in meeting their targeted milestones.

Projected Completion Date: October 1, 2017