

**U.S. DEPARTMENT OF COMMERCE**  
**Office of Inspector General**

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RELEASE**

***INTERNATIONAL TRADE  
ADMINISTRATION***

*US&FCS Spain's Leadership Has Improved  
Operating Environment, But Some Program  
Activities Need More Emphasis*

*Final Audit Report No. IAD-10593-8-0001 / July 1998*

*Office of Audits, Business and Trade Audits Division*



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## EXECUTIVE SUMMARY

Because Spain is a member of the European Union (EU), its economy is driven largely by the Spanish government's commitment to joining the European Monetary Union in 1999. To do so, Spain must fulfill the convergence criteria specified by the Maastricht Treaty of 1992, which established macroeconomic objectives that link EU countries. Spain is close to meeting the objectives in each of the required areas, which include inflation, interests rates, deficit/GDP, debt/GDP, and currency stability.

Spain's economic viability is concentrated in a series of regional markets joined by two hubs: Madrid and Barcelona. Most major business transactions take place around these two cities, though industrial production is spread throughout Spain. The Spanish government at all levels (national, regional, and local) has eased regulations and increased incentives in an effort to attract foreign firms and investment.

The United States enjoys excellent bilateral relations with Spain. During 1996, the U.S. achieved a \$3.4 billion trade surplus with Spain, the result of \$7.7 billion in exports to Spain and \$4.3 billion in imports from Spain. Yet, despite structural reform packages passed by Spain in 1996 and 1997, U.S. companies continue to face obstacles to doing business in Spain, including higher import tariffs than European firms. Fortunately, however, U.S. products are usually associated with a high level of technology and quality, and notable opportunities for American firms exist in several industries.

The Department's operations in Spain are carried out by the International Trade Administration's U.S. and Foreign Commercial Service (US&FCS). US&FCS maintains two offices in Spain, in Madrid and Barcelona, and employs four foreign commercial officers and 15 foreign service nationals (FSNs). In FY 1997, US&FCS Spain had an operating budget of \$1.2 million.

The Office of Inspector General conducted a performance audit of US&FCS operations in Spain. We have divided our findings into three broad areas: (I) General Management and Organizational Issues; (II) Program Activities and Performance Measurement; and (III) Internal Control Environment.

### **I. General Management and Organizational Issues**

Several recent actions indicate that US&FCS Spain management is committed to improving the effectiveness and efficiency of the Department's commercial operations in Spain. The physical relocation to the new Business Information Center, a joint venture with the United States Information Service and the Foreign Agricultural Service, resulted in a substantial cost savings and an improved working environment. In addition, the Senior Commercial Officer's leadership has effected several positive changes. Since his arrival at the post in September 1996, US&FCS Spain's inter-agency relationships have been strengthened, program controls have been

reasserted, and strategic planning has been redesigned to target specific areas of opportunity in the Spanish market.

Nevertheless, certain management areas need improvement. Foremost among these is US&FCS Spain's organizational structure, which fragments administrative responsibilities and the supervision of staff assigned to duties in this area. The absence of a clear assignment and supervision hierarchy for administrative functions hampers US&FCS Spain's ability to support its operations.

Several staffing issues should also be addressed. First, a lack of local language skills prevents two of the four officers from performing extensive outreach. In addition, the post's FSNs regularly go long periods without receiving training in critical areas. This, along with a fear of career stagnation, has resulted in less-than-optimal staff morale.

US&FCS Spain faces a substantial cost increase under ICASS.<sup>1</sup> The magnitude of this increase highlights the need for management -- both at the post and at US&FCS headquarters -- to remain actively engaged in the ICASS process and to explore methods for reducing administrative costs.

## **II. Program Activities and Performance Measurement**

During FY 1997, post management focused primarily on internal matters due to perceived problems related to the commercial staff and US&FCS Spain's relationships with other agencies. The lack of attention to program activities negatively impacted service provided to US&FCS customers.

US&FCS Spain's average of only one success story per staff member over the last two years indicates that greater emphasis should be placed on generating and documenting success stories, the primary performance measure for US&FCS. Partner organizations also suggested that US&FCS Spain should do more to exploit opportunities for small and medium-sized firms in the Spanish economy. In addition, market research reporting, particularly Industry Sector Analysis and International Market Insight reports, require improvement to be a more effective trade promotion tool.

US&FCS Spain has developed an aggressive events schedule for FY 1998, but could encounter problems in implementing the large number of events due to uncertainty regarding who will provide administrative support on these projects. Management should also develop a plan to recover the operational costs of events held in the new Business Information Center. In addition, the "You Brief Us" program, a fee-based program for American companies to voice their

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<sup>1</sup>The International Cooperative Administrative Support Services (ICASS) system was designed as a replacement for the "FAAS" system, used by the State Department to allocate costs for services provided overseas.

concerns, offers questionable benefits to U.S. firms; management should more clearly identify its benefits and develop a pricing structure to legitimize the program.

Several agencies at the U.S. mission in Spain provide advocacy support to U.S. companies. US&FCS Spain received high praise from other agencies for encouraging teamwork in this area and producing a coordinated advocacy strategy for the U.S. mission.

### **III. Internal Control Environment**

After reviewing the post's financial and administrative operations, we conclude that US&FCS Spain should improve internal control systems to better meet the requirements of the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b)). Although adequate internal control systems are in place to document and record transactions and events and to ensure that assets are generally safeguarded against waste, loss, unauthorized use, and misappropriation, many controls should be strengthened. Improvement in the communication and information flow between US&FCS and the State Department's Budget & Finance (B&F) section is needed. B&F officials confirmed that reporting services provided to the post in the past year have been unsatisfactory. Escalating administrative costs under ICAAS increase the need for US&FCS Spain to receive timely, high-quality service from B&F in order for management to quickly address such cost issues.

We identified specific control weaknesses that need to be addressed in several areas: the procurement process, imprest fund documentation, vehicle management, SCO travel documents, reconciliations of operating and trade event account balances, and prior-year unliquidated obligations. For example, we found significant differences between account balances recorded by the State Department and ITA. We also found differences in trade account balances between ITA's Trade Event Management System and the post's records.

### **RECOMMENDATIONS**

Our most important recommendations call for the Assistant Secretary and Director General of US&FCS to:

1. Develop an organizational structure for US&FCS Spain in which administrative responsibilities and lines of supervision are clearly delineated.
2. Direct US&FCS Spain management to focus greater attention on program-related activities, including outreach, events, and market research reporting.
3. Develop a strategy that increases international trade among small and medium-sized companies in accordance with the Department of Commerce strategic plan.

4. Provide the training and oversight necessary to ensure that market research reports represent high-quality products, and ensure that industry coverage is consistent with the “best-prospects” list, as required by US&FCS guidelines.
5. Implement procedures to ensure that appropriate records regarding all accounting transactions are maintained, including summaries by event along with running balances of collections and expenditures.

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In responding to our draft report, US&FCS indicated general agreement with many of our observations and conclusions. The actions planned or already taken by US&FCS should begin to resolve many of our concerns. Where minor disagreements persist, they have been duly noted and addressed by the OIG.

In her memorandum accompanying the response, the then-Acting Assistant Secretary and Director General<sup>2</sup> stated that the Senior Commercial Officer has addressed important managerial problems and is now devoting more time to improving the delivery of export assistance programs and improving internal controls. The Acting Assistant Secretary and Director General also stated that there was no mention of the US&FCS Barcelona operation in the draft report. We note that although we did not report separately on the Barcelona operation in our report, the performance measures reported for US&FCS operations in Spain include those of Barcelona. In providing market coverage for the Catalan region, US&FCS Barcelona is an extremely effective operation under sound direction by the Commercial Officer. The Barcelona Commercial Officer has developed strong relationships within the Consulate and in the business community, and effectively motivates the commercial staff. Our complete recommendations, as well as a summary of the US&FCS comments and the OIG response, appear on pages 13, 22, and 31.

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<sup>2</sup> Since we released the draft report, an Assistant Secretary and Director General has been confirmed by the United States Senate.

## INTRODUCTION

Under the authority of the Inspector General Act of 1978, as amended, and the requirements of the Omnibus Trade and Competitiveness Act of 1988, the Office of Inspector General conducted a performance audit of Department of Commerce operations in Spain. Our fieldwork was conducted during December 1-5, 1997.

Performance audits are objective and systematic examinations of evidence for the purpose of providing an independent assessment of an organization, program, activity, or function in order to provide information to improve accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action. By identifying systemic strengths and weaknesses, the OIG will help the Department's managers, in this case those in the International Trade Administration (ITA) and the U.S. & Foreign Commercial Service (US&FCS), implement more efficient and effective operations to better serve the Department's customers.

In the absence of the Ambassador to Spain, we discussed our observations with the chargé d'affaires, and held an exit conference with the US&FCS SCO and the Regional Director for Europe on December 5, 1997. During this conference, the SCO generally agreed with our observations.

## PURPOSE AND SCOPE OF AUDIT

The OIG is committed to the pursuit of operational effectiveness throughout the Department, challenging management to achieve excellence with respect to programmatic, administrative, and financial operations. The purpose of this performance audit was to evaluate the effectiveness of the Department's operations in Spain, which are carried out primarily through US&FCS Spain offices in Madrid and Barcelona.

In accordance with the General Accounting Office's (GAO) *Assessing Internal Controls in Performance Audits*, we reviewed the agency's internal control environment relating to administrative and financial management. We conducted tests to achieve our objective of determining the effectiveness of administrative and financial management controls.

We tested US&FCS Spain's operations for compliance with the GAO Policy and Procedures Manual for Guidance of Federal agencies, and the Federal Managers' Financial Integrity Act of 1982. The report findings and recommendations draw upon significant tests of records; physical evidence; documentary evidence, including accounting records and memorandums; and analytical evidence based on data obtained. We also held interviews with US&FCS personnel, multiplier organizations, and clients. We did not rely solely on computer-generated data to support our findings. Our audit covered a review of programmatic, management, administrative, and financial issues.



We reviewed the policies, procedures, and practices being implemented by US&FCS Spain to determine whether it is successfully and efficiently meeting its mission: to assist U.S. companies, particularly small and medium-sized enterprises, with export assistance. We also determined whether US&FCS Spain's goals and objectives are being achieved, and whether these goals and objectives are in line with Department objectives. The audit evaluated the effectiveness and efficiency of operations, and assessed the operation's compliance with applicable laws, regulations, and procedures.

In conducting our audit, we placed primary emphasis on the following areas:

- General management and organizational issues.
- Program activities and performance measurement.
- Internal control environment.

The audit also considered ITA headquarters and domestic office activities that are coordinated with US&FCS Spain.<sup>3</sup> The audit was conducted in accordance with Generally Accepted Government Auditing Standards and was performed under the authority of the Inspector General Act of 1978, as amended, and Department of Commerce Organization Order 10-13, dated May 22, 1980, as amended.

## **BACKGROUND**

### **SPANISH MARKET**

Spain's economic policy is driven by the Spanish government's commitment to fulfill the convergence criteria for the European Monetary Union (EMU) specified by the Maastricht Treaty of 1992. The Maastricht Treaty established macroeconomic objectives that must be met by countries entering the first tier of EMU. Spain has been making progress in each of these areas and is in good position to join the first tier of countries in 1999.

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<sup>3</sup> The OIG discloses that two audit team members formerly worked for ITA; however, they had no material involvement with US&FCS Spain operations.

EMU Convergence Criteria

	Inflation	Interest Rates	Deficit/GDP	Debt/GDP
Maximum Limit	2.7	9.0	3.0	60.0
Spain 1997*	2.6	8.4	3.0	68.2

\* Source: Organization for Economic Cooperation and Development. Figures are estimates based on 1996 data.

Spain and the United States enjoy excellent bilateral relations. During 1996, the U.S. achieved a \$3.4 billion trade surplus with Spain, the result of \$7.7 billion in exports to Spain and \$4.3 billion in imports from Spain. The U.S. trade surplus for 1997 was expected to decline slightly to \$2.9 billion. Major U.S. exports to Spain include pollution control and water resources equipment, franchising, computers and peripherals, aircraft and parts, telecommunication services, and electrical power systems. The U.S. ranks fourth among investor nations in Spain after the Netherlands, France, and the United Kingdom. U.S. direct investment in Spain was \$1.3 billion in 1996.

Spain's economic viability is concentrated in regional markets joined by two hubs -- Madrid and Barcelona -- around which most major business activities occur. However, the Spanish government at all levels (national, regional, and local) has eased regulations and increased incentives in an effort to attract foreign firms and investment. Due to cultural and geographic differences, each region has developed its own industrial characteristics. Madrid is Spain's center for banking and telecommunications. The Catalonia region, which includes Barcelona, serves as an industrial base for textiles, chemicals, plastics, printing, and machinery manufacturing. The region around Bilbao, an important port in Cantabria, contains extensive shipyards, steelworks, iron ore mines, and oil refineries. Seville, in Andalusia, is a major source of olive oil, wine, and other agricultural products.

Despite structural reform packages passed in 1996 and 1997, U.S. companies continue to face obstacles to doing business throughout Spain, including higher import tariffs than European firms. Fortunately, however, U.S. products are generally associated with a high level of technology and quality, and notable opportunities for American firms exist in several industries. As a result of EU grants, infrastructure investment will exceed \$100 billion over the next 10 years. In addition, the Spanish government has initiated privatization projects in such key sectors as oil, gas, power and energy, transportation, and construction/engineering.



## US&FCS SPAIN

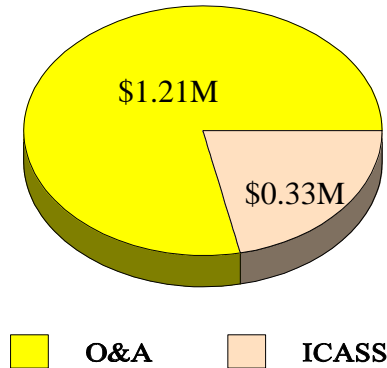
The Department's operations in Spain are carried out by US&FCS through offices in Madrid and Barcelona. During FY 1997, US&FCS moved its primary office in Madrid to the new American Business Information Center (BIC), where it is co-located with the Foreign Agricultural Service (FAS) and the United States Information Service (USIS). The commercial office in Barcelona is located in the American Consulate.

In FY 1997, US&FCS Spain had an operating budget of approximately \$1.2 million and employed four foreign commercial officers and 15 foreign service nationals (FSNs) including personal services contractors. Estimated costs for administrative support services under ICASS were \$330,000.<sup>4</sup> Spain is ranked 19<sup>th</sup> worldwide out of 69 countries on the US&FCS Resource Allocation Model, a management tool to guide decision-makers in allocating overseas resources.

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<sup>4</sup> The International Cooperative Administrative Support Services (ICASS) system was designed as a replacement for the Foreign Affairs Administrative Support (FAAS) system, used by the State Department to allocate costs for services provided overseas. During FY 1997, the system operated on a virtual basis to provide an estimate of what ICASS charges would have been. In FY 1998, ICASS officially replaces FAAS.

**US&FCS Spain**  
**Operating Funds (FY 1997)**



O&A		\$1,208,520
ICASS		\$330,000

According to materials distributed by the U.S. mission in Spain, US&FCS Spain supports U.S. commercial interests in the United States and helps companies increase sales and market share.<sup>5</sup> Specifically it (1) promotes the export of U.S. goods and services to strengthen the U.S. economy, maintain job security, and create jobs; (2) protects and advocates for U.S. business interests; (3) assists U.S. firms to realize their potential by providing counseling, overseas market information, international contacts, and trade promotion vehicles; and (4) supports the export promotion efforts of other public and private organizations, using partnerships to create a full-service export development infrastructure.

US&FCS Spain is part of the “Showcase Europe” initiative. This initiative, managed by the US&FCS posts in Europe, attempts to coordinate US&FCS efforts in order to approach Europe on a regional basis and to move U.S. firms already exporting to one or more European markets into additional markets. Therefore, much of US&FCS Spain’s strategic planning is designed to implement the Showcase Europe initiative.

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<sup>5</sup> Collectively, the U.S. government agencies with a presence in Spain represent the “U.S. mission.”

## FINDINGS AND RECOMMENDATIONS

During our audit, we found notable strengths in several areas. At the same time, we also identified weaknesses. Management should address several areas of concern in order to increase the quality and productivity of US&FCS Spain's program. In addition, improvements in internal controls are needed to ensure accurate recording of financial transactions and to safeguard assets.

We have categorized our findings and recommendations into three broad areas:

- General Management and Organizational Issues.
- Program Activities and Performance Measurement.
- Internal Control Environment.

### I. GENERAL MANAGEMENT AND ORGANIZATIONAL ISSUES

US&FCS Spain management has taken several notable steps to improve its work products and its overall operating environment. The recent physical relocation of the Madrid office to the new BIC has resulted in substantial cost savings and improved working conditions. In addition, the SCO's leadership has effected many positive changes, including strengthened interagency relationships, better program controls, and planning that targets real areas of opportunity for U.S. companies in Spain.

Several issues, however, require continued management attention. US&FCS Spain's organizational structure fragments administrative responsibility and supervision, and may lead to weakened internal controls. We also identified areas of concern related to staffing. Two of the four officers placed in Spain by US&FCS management possess limited Spanish language skills. In addition, we believe that post's management can take action to further improve morale and increase training opportunities for the FSNs. Finally, US&FCS Spain faces a substantial cost increase under ICASS, increasing the need for management to analyze its administrative expenses.

#### A. Business Information Center Creates More Efficient and Effective Operating Environment

US&FCS Madrid's relocation in FY 1997 to the new BIC has resulted in substantial cost savings. According to our calculations, the move will enable the office to save nearly \$50,000 per year in rent. It is worth noting that, due to the cost savings enjoyed by the agencies housed in the BIC (US&FCS, USIS, FAS), and the "one-stop-shop" service available to clients through co-location, the State Department OIG praised the initiative as "the biggest example of cooperation in the mission." We, too, commend US&FCS Spain for this cost-saving and service-enhancing measure.

With the BIC's close proximity to the embassy, US&FCS Spain has been able to maintain a close connection with the staff and offices of other agencies. Commercial staff regularly walk to the embassy for meetings with related agencies, and vice versa. In addition, US&FCS Spain's co-location with FAS and USIS has helped to eliminate the feeling and appearance of isolation that reportedly plagued operations in the prior location. Clearly, the BIC has resulted in an operating environment that is more pleasant for both US&FCS staff and its customers.

## **B. SCO Leadership Effects Positive Changes in Key Areas**

Upon the current SCO's arrival in September 1996, he identified several operational areas that required strengthening. We were advised that (1) US&FCS Spain's working relationships with some of the other embassy agencies were strained, (2) the staff did not consistently follow proper clearance procedures, and (3) organizational planning did not involve the entire commercial staff. We were pleased to observe that FY 1997 saw improvements in each of these areas.

### Interagency Working Relationships Are Strong

Several of the agencies we interviewed at the post (e.g., State Department Economics and Political sections, FAS) informed us that their relationships with US&FCS Spain have significantly improved. The agencies gave much of the credit for their present relationships with US&FCS to the SCO. According to representatives of these agencies, the SCO has fostered interagency cooperation by encouraging their participation in large commercial projects, lending support (both his and his staff's) when needed, and "sharing credit" for major successes. Each of these agencies, as well as the Ambassador's office, praised both the SCO and the commercial staff for their contribution to the country mission.

### Program Controls Have Been Reasserted

The SCO has implemented procedures to control the review and distribution of program-related documents. During FY 1996 and early FY 1997, the office was experiencing problems in this area; specifically, substantive cables and letters were going forward without proper clearance from an American commercial officer or other relevant embassy sections. This failure to follow protocol resulted in criticism from other agencies, including the Chief of Mission's office. The SCO has corrected the problem by installing procedures that safeguard against the unchecked distribution of key documents and ensure more effective quality control related to market research reports. (For a more detailed discussion, see Section II.)

### Effective Planning Guides Operations

Much of US&FCS Spain's planning is driven by Showcase Europe, a regional initiative that includes the identification of priority industry sectors for the European market. To meet these

regional objectives, the SCO's planning is focused on developing strategies to help U.S. firms take advantage of market opportunities in those sectors. In addition, US&FCS Spain has targeted sectoral opportunities in the local market. Specifically, the SCO's strategy for FY 1998 is to pursue areas in which the Spanish government has committed to heavy spending. These include environmental technologies and transportation, which have received EU cohesion funding, as well as military sales. Because this strategy targets definite areas of substantial Spanish government spending, we believe the approach is an effective way of identifying real opportunities for U.S. companies to benefit from US&FCS products and services.

As part of its planning process for FY 1998, US&FCS Spain held a two-day meeting of the entire in-country staff. Other agency heads, including the Acting Chief of Mission, were also invited to participate in portions of the conference. We found this initiative to be a positive means of involving related agencies in US&FCS operations and allowing commercial staff to contribute substantively to the planning process.

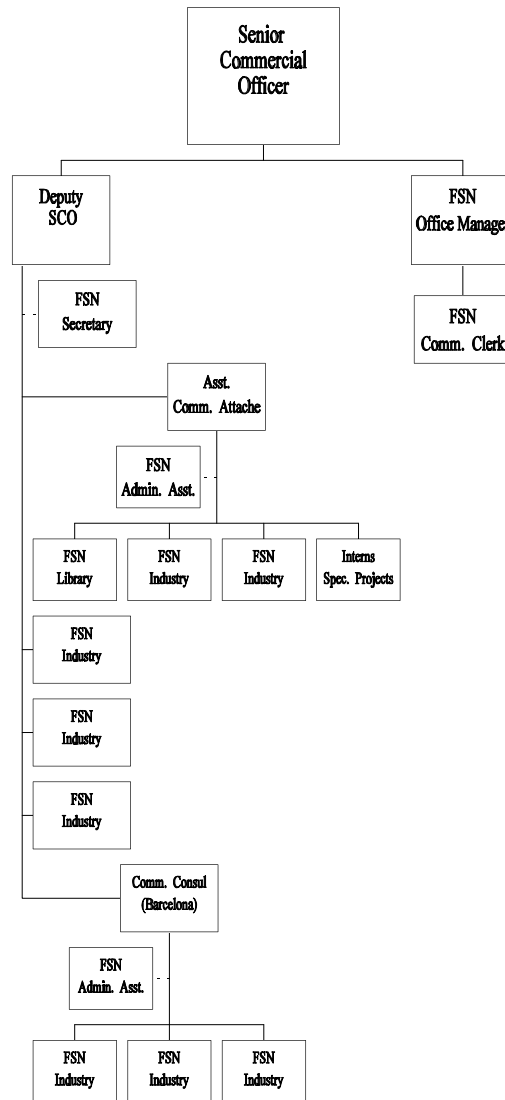
### **C. Supervisory Oversight and Organizational Structure Should Be Reevaluated**

Direct supervisory responsibilities are divided among the SCO and the other commercial officers in a way that complicates US&FCS Spain's reporting structure. In Madrid, the Deputy SCO (DSCO) and the Assistant Commercial Attache share supervision of both administrative and programmatic operations. As indicated in the current organizational chart (see Appendix 1), the DSCO supervises most of the industry specialists and takes the lead in most administrative functions, while the Assistant Commercial Attache supervises other industry specialists and oversees some administrative activities and special projects. The office manager, an FSN, officially reports directly to the SCO. Thus, the supervisory structure over the administrative duties is fragmented. Figure 1 (next page) shows the current organizational structure for US&FCS Spain.

In Madrid, four of the FSNs perform administrative functions. As the result of a recent reclassification of duties, two of these FSNs now also perform trade promotion duties. According to the SCO, the position reclassification was an attempt to broaden the scope of duties and enhance career development opportunities. In the case of one employee, however, the current structure and duty classification has resulted in divided supervisory authority.

FIGURE 1

Current US&FCS Spain Organizational Chart





Our interviews disclosed that FSNs feel that authority over administrative functions is not clearly structured. Some FSNs also complained that it was difficult to get administrative support for their projects, it took an inordinate amount of time to obtain such support, and there was no logical system in place to divide up administrative work. Thus, the current delineation of staff responsibilities, while enhancing the potential career development of several employees, has created resentment and conflict among members of the staff by not effectively ensuring that administrative assistance is provided.

In the absence of a clear hierarchy to supervise and coordinate administrative duties, US&FCS Spain — with a significantly increased trade events and promotion schedule in 1998 — may be less able to support its operations effectively. By contrast, the administrative structure of a well-organized Commercial Section should maximize the office's ability to carry out its mission of trade promotion as efficiently as possible. Management should strive to enhance the career development of its employees, but in ways that do not negatively affect this mission.

#### **D. Staffing Issues Require Management Attention**

Based on our review, including comprehensive interviews with US&FCS and embassy staff, we identified a number of staff-related items that merit attention from both post and headquarters management. These include the foreign language capabilities of the American officers, FSN morale, and the training opportunities made available to the FSN staff.

##### Officer Language Skills Do Not Meet Expectations

Three of the four commercial officers in Spain have passed at least level 3 in reading and speaking on the Spanish language test administered by the Foreign Service Institute (FSI).<sup>6</sup> However, according to our interviews with the commercial staff, two of these officers do not possess the Spanish language skills necessary to conduct a meaningful conversation with a Spanish-speaking business person. Other members of the embassy staff confirmed that the Spanish-speaking skills of these officers are marginal.

Passing the FSI language test provides little practical benefit if the officers are not able to communicate effectively in the relevant foreign language. Although Spanish business people generally speak some English, the absence of adequate language skills reduces the ability to

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<sup>6</sup> According to FSI standards, level 3 denotes general professional proficiency. For reading, this means the officer should be “able to *read* within a normal range of speed and with almost complete comprehension of a variety of authentic prose materials on unfamiliar subjects.” For speaking, this means the officer should be “able to *speak* the language with sufficient structural accuracy and vocabulary to participate in most formal and informal conversations on practical, social, and professional topics.”

perform outreach. This was confirmed by the statement by one of the low-fluency officers that he does not perform outreach.

Because Spanish is not considered a difficult language to learn, US&FCS has not designated Spain a “hard-language” post. The difficulty of placing an officer with the language skills to communicate effectively in Spain is not as great as placing an officer in a hard-language designated post, for example, China or Russia. While each of the commercial officers provides commendable service in all other respects, their Spanish language skills should be improved to enable them to perform more effective outreach activities.

### FSN Staff Morale Needs Improvement

The FSNs in Spain generally agreed that the SCO has instituted positive changes since his arrival, including a greater emphasis on industry sectors and improved communication between management and staff. However, many of the staff interviewed raised common points of frustration that impact morale.

At the operational level, most of the FSNs complained that, contrary to standard operating practice, they were not allowed to travel to events in the U.S. or other Showcase Europe countries for which they had successfully recruited corporate participants. The internship program, through which US&FCS utilizes American college students for three-month stints to assist with basic market research and report preparation assistance, caused additional criticism from both the permanent staff and the interns. FSNs claimed that post management placed the interns “on a pedestal,” while the interns complained that they did not feel integrated into US&FCS Spain operations. The reported absence of training opportunities and the difficulty in obtaining administrative support were also cited by the FSNs as areas of frustration.

Some of the more experienced FSNs expressed concerns regarding career growth. Though the recent addition of programmatic duties to two formerly administrative personnel has provided a hope that other personnel will also be reclassified in the future, a perception that management’s focus is on the development of younger staff has prompted fears that job enhancement of older FSNs is a low priority for post management. Specifically, senior FSNs criticized management’s failure to fill a vacant FSN-11 (i.e., senior FSN) position for which they feel clearly qualified. Both the SCO and US&FCS headquarters management stated that, in order to control the agency’s FTE count at the time the position became vacant, the unwritten but universally accepted practice was to replace vacant FSN positions with personal service contracts (PSC). Thus, the SCO filled the senior FSN position with a lower level PSC.

While US&FCS Spain management is aware of some of the issues that are affecting FSN morale, many of the steps it has taken are perceived by the FSNs to be ineffective. Though not yet at a critically low level, worsening morale could reduce the staff’s motivation and hamper the ability of US&FCS Spain to meet its objectives.

### FSN Training Is Not Adequate

FSN training is not being provided on a regular basis; many FSNs have not received training for a period of several years. Both trade specialists and administrative personnel perform a wide variety of tasks that require regular training to develop and maintain skills. Virtually without exception, officers and FSNs expressed the need to place a greater emphasis on training in order to strengthen FSN skills. The following areas were specifically identified as desired training areas: sector-specific training, time and project management, English writing, market research, computer usage, and administrative operations. We were told by the staff that FSNs have gone long periods without receiving training in any of these areas.

Although the FSNs generally appear to be performing their jobs well, we believe training would enhance the quality of their work and increase productivity. Specifically, our team noted that the English-writing skills of the FSNs were weak. Good management practices dictate that staff be allowed to develop their skills and enhance their knowledge of areas for which they are responsible. While US&FCS does provide some training to FSNs, the amount provided is often limited by budget constraints. The absence of regular training for the FSNs hampers the effectiveness of US&FCS Spain. For example, as discussed in the Program Activities and Performance Measurement section, we reviewed several market research reports that read poorly and contained obvious flaws in sentence structure.

### **E. US&FCS Spain Faces Substantial Cost Increase Under ICASS**

During FY 1997, US&FCS Spain paid \$170,000 for administrative services under the Foreign Affairs Administrative Support (FAAS) system. With ICASS officially replacing FAAS in FY 1998, the estimated ICASS charges for US&FCS Spain are \$350,000, a one-year increase of \$180,000 in administrative costs. This represents approximately three percent of the total amount of base funding transferred from the State Department to Commerce to cover the worldwide cost increase under ICASS. Since Spain is only one of 70 countries that US&FCS operates in and represents only 1.5 percent of the agency's overseas budget, it would appear that the ICASS cost increase may be disproportionately large.

The magnitude of this cost increase highlights the need for management to remain actively engaged in the ICASS process. During our reviews of other US&FCS posts, we have found uneven involvement in ICASS by commercial officers, which can lead to the posts paying higher-than-necessary costs. By contrast, in Spain the commercial officer assigned to ICASS spends considerable time analyzing and negotiating US&FCS's ICASS charges. Other agencies, including State, commended US&FCS for holding the service provider accountable without compromising the cooperative spirit of ICASS.

The commercial officer assigned to ICASS informed us that he has begun to negotiate US&FCS Spain's ICASS allocation based on the FY 1998 target budget. US&FCS needs to persistently monitor its ICASS distribution and continue to explore ways to reduce its administrative costs.

### RECOMMENDATIONS

We recommend that the Assistant Secretary and Director General for US&FCS:

1. Develop an organizational structure for US&FCS Spain in which administrative responsibilities and lines of supervision are clearly delineated.
2. Establish clear lines of communication between the administrative employees and the commercial officer in charge of administrative functions to provide for effective coordination and monitoring of administrative staff time.
3. Provide greater consideration to the practical foreign language abilities of officers so that, as much as possible, assigned personnel are language proficient and capable of performing effective outreach.
4. As appropriate, take the necessary steps to identify and address issues that affect employee morale, including travel policy, the intern program, and administrative support for FSNs.
5. Evaluate the training needs of the FSN staff, work with US&FCS headquarters to develop a program to satisfy those needs, and, if budget constraints are a problem, encourage creative training alternatives.
6. Develop global and post-specific strategies for controlling ICASS costs, including active local participation by the post.

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### US&FCS Comments on Draft Report and OIG Response

*US&FCS Comment on Draft Report Recommendations 1 and 2:*

US&FCS states that increased success stories in conjunction with the completion of core activities indicate that post's current administrative organization will not negatively affect the quality of its performance. US&FCS notes, however, that the recent review and subsequent reallocation of officers (effective in 1999) has eliminated the Assistant Commercial Attache position. As such, the administrative reporting process will be improved to the extent that

administrative staff will in the future report to a single officer, the Deputy Senior Commercial Officer.

*OIG Response:*

Without limiting the career development of any employee at post, we encourage post to continue to clarify the roles and responsibilities of administrative personnel in order to ensure that the staff time of all members is efficiently utilized.

*US&FCS Comment on Draft Report Recommendation 3:*

US&FCS confirms that both officers have achieved the required FSI 3/3 score. Despite this fact, US&FCS states that the officers may require additional tutoring and in-country experience to achieve proficiency. While both officers continue to receive supplemental language training to improve their language skills, US&FCS asserts that post's outreach efforts have not necessarily been affected by the limited language skills of these two officers.

*OIG Response:*

We agree that US&FCS should take steps to ensure that supplemental foreign-language training is provided to officers who have not reached a practical level of foreign-language proficiency. Since a standard 3-year post assignment is brief relative to the time required to become proficient in a foreign language, we also believe that US&FCS could more efficiently utilize its resources if emphasis was placed on assigning officers who are already proficient in the applicable foreign language.

*US&FCS Comment on Draft Report Recommendation 4:*

With respect to improving staff morale in general, US&FCS notes that a PSC in Madrid has been converted to an FSN. With the exception of occasional FSN requests which could not be met due to resource constraints, post is unaware of needed administrative support ever being denied to FSNs. In addition to monitoring FSN workload, post is also cognizant that unplanned/unchanneled requests made by FSNs could excessively burden the administrative staff. With respect to trade missions and the additional workload they entail, US&FCS notes that post has budgeted a contractor that works 3 to 4 weeks full-time on promotional and administrative-related tasks. Post also has the assistance of full-time interns who can assist with non-administrative work.

US&FCS states that post's travel policy in support of International Buyer Programs (IBP) is fair and consistent with US&FCS's world-wide practice. According to US&FCS, a 15-company threshold has been established for recruitment. Accordingly, a number of FSNs have participated in IBPs in which free tickets and rooms were received, as recorded in the appropriate

Gifts & Bequests documentation. Regarding the two instances in which FSNs did not participate in IBP travel, US&FCS notes that there was a timing conflict in one case and in the other the FSN failed to recruit the requisite number of companies.

With respect to the internship program, US&FCS disagrees that special treatment has ever been provided to the interns and states that it has managed the program according to Department of Commerce guidelines. While all officers encourage staff to take advantage of the strong writing, editing, and computer skills that the interns bring to the office, US&FCS states that some FSNs in the past have been reluctant to utilize this additional resource. According to US&FCS, the SCO is a strong supporter of the Department's internship program because it offers women and minorities an opportunity to observe first hand what a career in the Commercial Service can offer. It is also an additional resource of competent and efficient personnel.

*OIG Response:*

To the extent that roles and responsibilities are defined and threshold requirements for IBPs are clearly communicated to staff, we believe post has begun to address many of the points raised in our recommendation regarding staff morale. We encourage post to continue to address areas of concern to FSNs, administrative staff, and interns in order to further improve staff morale and operational efficiency.

*US&FCS Comment on Draft Report Recommendation 5:*

According to US&FCS, post management believes that performance will almost always improve when staff are provided with adequate training. US&FCS states that, while post has requested headquarters-sponsored training for its FSNs on numerous occasions, training slots are limited and all requests cannot be granted; e.g., post made six training requests in FY 1997, but no employees were selected. US&FCS states that it will follow up with the Office of Foreign Service Personnel to ensure that FSN training needs are given high priority for upcoming sessions. With respect to field training, post management has volunteered the use of its American Business Information Center (ABIC) as a training site for FSNs from Spain, as well as other regional posts. Finally, the SCO has requested and will receive \$6,500 for local computer training to ease the transition to the new software system.

*OIG Response:*

The OIG is satisfied that actions planned or taken by US&FCS address the recommendation.

*US&FCS Comment on Draft Report Recommendation 6:*

US&FCS acknowledges that the switch from FAAS to ICASS has resulted in a larger than desired budget increase for US&FCS Spain. Headquarters management reiterates that US&FCS Spain is an active participant in the post's ICASS management and review. According to US&FCS, constant monitoring and review of ICASS cost centers led to a reduction in the fiscal year 1998 ICASS budget of \$17,437 (about five percent).

*OIG Response:*

We encourage the continuing efforts of the commercial officers at US&FCS Spain to reduce the post's local ICASS costs. Because the increase in administrative costs to US&FCS Spain under ICASS is disproportionately large, the continued active engagement by both the post and headquarters management is necessary to further reduce the financial administrative burden and maximize the funds available for overseas program operations.

## II. PROGRAM ACTIVITIES AND PERFORMANCE MEASUREMENT

In FY 1997, much of post management's attention was focused on internal operating matters, often at the expense of program activities. As a result, the trade promotion program was not as effective as possible. One notable exception involved US&FCS Spain's advocacy program, which received praise from several agencies at post for its team-driven strategy.

We identified specific program areas needing improvement, including a greater focus on developing success stories, better identification of opportunities for small and medium-sized firms, and increased quality in market research reporting. The FY 1998 events schedule, although aggressive compared to prior years, risks bottlenecks due to a lack of administrative support. In addition, post management needs to develop some type of planning to recover costs associated with events held in the new Business Information Center. Finally, US&FCS management needs to develop a cost/benefit analysis and pricing structure to help legitimize the "You Brief Us" program.

### A. Post Management's FY 1997 Focus Was on Internal Issues, Not Program Activities

US&FCS Spain's "program" activities were not the primary emphasis in FY 1997 due to management's focus on internal issues. Several perceived problems identified by the SCO shortly after his arrival at post required the majority of his management attention. They included, among others:

- A lack of coordination with other agencies at post.
- The commercial staff's failure to respect embassy protocol.
- Insufficient education levels among the commercial staff and poor writing skills.
- Low staff morale.
- Instances of insubordination.

The SCO's attempt to address these problems shifted attention away from US&FCS clients.<sup>7</sup> As a result, several areas related to the promotion of US&FCS products and services suffered. Specifically, we found the office (1) generated a low volume of success stories, (2) identified few opportunities for small and medium-sized companies, and (3) had poor market research quality (each of these items are discussed in greater detail in subsequent sections).

Having made improvements in several of the internal areas, the SCO has focused greater attention on program activities in FY 1998. The staff has been re-educated about the importance

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<sup>7</sup> The internal items are mentioned here only in relation to their effect on program activities. The SCO's positive resolution of several of these items is discussed in the sections on general management and organizational issues.



of success stories, a quality control program for market research reporting has been implemented, and US&FCS Spain has embarked on an ambitious events schedule. We believe this program re-prioritization will result in better client service in FY 1998 and more successes for U.S. firms.

**B. Advocacy Strategy Is Driven by Interagency Effort**

Several agencies at the U.S. mission in Spain provide advocacy support to U.S. firms bidding on Spanish government projects. According to the agencies we interviewed, although US&FCS often takes the lead on these projects, it actively pursues the involvement of other agencies, such as State Department Economic Section, USIS, and the Office of Military Sales. During our review, US&FCS received high praise for encouraging teamwork in this area and helping to prevent turf wars. During FY 1997, the charge d'affaires credited US&FCS with being the key to a successful mission effort that resulted in a \$750 million deal for Lockheed Martin.

The Spanish government's commitment to spending on infrastructure development (estimated at \$100 billion over 10 years) should create some major opportunities for U.S. companies. Despite a series of recent setbacks for U.S. firms competing for major Spanish projects, we believe the interagency approach to advocacy supported by US&FCS appears to maximize the potential for success for U.S. exporters.

**C. Number of Success Stories Is Low Compared to Other US&FCS Posts**

The numbers and dollar values of US&FCS Spain's success stories are summarized in the following table. Success stories represent a record of export actions achieved by U.S. companies in which US&FCS played a role.

**Success Stories Summary\***

	<b>Number</b>	<b>Value</b>
<b>FY 1996</b>	14	\$80 million
<b>FY 1997</b>	17	754 million
<b>FY 1998 (1<sup>st</sup> Qtr.)</b>	12	2 million

- The success stories values in both FY 1996 and FY 1997 are heavily skewed by two large export actions. In FY 1996, one success story comprised 81 percent of the total value; in FY 1997, a single success story comprised 99 percent of the total value.

On average, the number of success stories achieved by US&FCS Spain in FY 1996 and FY 1997 equates to about one success story per non-administrative staff member. In contrast, US&FCS Belgium and Portugal, which both have smaller staffs, generated four success stories per person

during the same period. In addition, the majority of US&FCS Spain success stories are reported by only a small percentage of the non-administrative staff. Given these circumstances, we believe US&FCS Spain has the resources in place to generate a greater number of success stories.

The SCO has acknowledged that success story volume is low, in part because of his focus on resolving internal problems in the last year, but also because the impact of his leadership is not reflected in the FY 1996 and FY 1997 numbers. However, several FSNs indicated that there is no formal procedure in place for following up with clients on potential success stories. The *ad hoc* manner of monitoring probably results in a lower number of success stories and may also lead to under-reporting.

The US&FCS Operations Manual recognizes the importance of success story reporting as the principal means of informing Department officials, the Congress, the Office of Management and Budget, and the public of agency accomplishments, suggesting that management should emphasize collection of information that helps justify the existence of the agency. Although the manual provides guidelines as to how success story information is to be reported, each post maintains responsibility for implementing an effective method to identify such stories.

We noted that US&FCS Spain recently implemented a new tracking system tied to commercial library inquiries as a means of increasing the generation of success stories. The new system is already paying dividends; in FY 1998 the office is on pace to nearly triple its number of success stories over FY 1997. We believe increased management emphasis on success stories, as well as the development of a standard follow-up procedure with clients, will enable US&FCS Spain to continue to generate success stories at a higher rate.

#### **D. Greater Focus Is Needed on Identifying Opportunities for Small and Medium-Sized Enterprises**

Small and medium-sized enterprises (SMEs) are not emphasized in US&FCS Spain's strategic plan, and there is little evidence to indicate that they are the focus of the office's outreach activities. By contrast, US&FCS promotional material states that the agency is committed to increasing the number of U.S. firms, particularly SMEs, involved in international trade and that many US&FCS export promotion products are designed specifically for SMEs. In addition, the Commerce Department's 1997 Strategic Plan states that one of ITA's roles is to increase trade assistance targeted to SMEs.

Although partner organizations that we met with praised US&FCS Spain for making business information available, they suggested that the post was not taking advantage of significant opportunities for SMEs. Rather than focusing directly on providing assistance to SMEs, US&FCS Spain has identified sectors in the Spanish economy that are in line to receive heavy government spending. It is predominantly larger firms that benefit from such large-scale

projects. While we applaud this approach as a general strategy to promote opportunities for U.S. firms, post management should also develop a plan to specifically help SMEs take advantage of these opportunities.

#### **E. Market Research Needs Quality Improvements**

Similar to other posts worldwide, US&FCS Spain generates, or assists in generating, the following types of market research: Country Commercial Guides, Customized Market Analyses, Industry Subsector Analyses (ISAs), and International Market Insights (IMIs). Our analysis of US&FCS Spain's market research reporting, particularly ISAs and IMIs, showed that some reports contained incorrect sentence structure and misstated financial information.

According to the US&FCS Operations Manual, posts are responsible for selecting, producing, and maintaining the quality of ISAs. The selection of ISA titles should draw primarily from the broader "best-prospects" sectors identified in the post's annual strategic commercial plan. Several of US&FCS Spain's recent ISAs fall outside the list of best prospects.

In many cases, English is not the native language of the FSNs who write these reports. In the absence of training to enhance their English-writing skills, these reports are time consuming and prone to inaccuracies. In addition, according to some of the staff, pressure to produce a large number of IMIs has shifted the focus from quality to quantity in reporting. While poorly written market research has no immediate impact on US&FCS operations, narratives that do not convey clear messages will likely undermine the confidence of US&FCS clients who attempt to use the market research information. In addition, by ignoring the parameters established for selecting topical areas for some of its market research reporting, US&FCS Spain may have expended valuable resources developing information for a clientele that does not exist.

While the SCO acknowledged past quality problems, he stated that these problems were being resolved through a more critical review process. Additionally, in order to improve the quality and substance of the market research, the SCO has directed FSNs to develop more specific information on the procurement process within each of the best prospect sectors.

#### **F. Aggressive FY 1998 Events Schedule May Lack Adequate Implementation Support**

US&FCS Spain has included many more trade activities on its schedule for FY 1998. Without changing its communication equipment and standard operating procedures, the post could face problems effectively managing and implementing this increased number of events.

The total number of trade event activities scheduled for the first half of 1998 (21) is almost twice that for the same period in 1997 (11), and also covers a broader range of sectors. These include the trade shows and trade missions that US&FCS Spain is supporting, as well as the International

Buyer Program.<sup>8</sup> Such increased productivity and sector coverage is commendable. However, the dramatic increase in trade activity puts pressure on the post's resources. Magnifying this effect, the 1998 schedule includes significantly more trade shows, which tend to consume more of each FSN's time.

To avoid bottlenecks and provide a high level of service to event participants, improvement is needed in both equipment and organization of operations. According to the staff, existing office communication equipment (e.g., fax board insertions for computers and E-mail software), is not sufficient to support the large volume of communication that takes place in preparing for trade events. In addition, to the extent that no one is directly responsible for coordinating and delegating administrative support, it is unclear how time-sensitive activities will be assigned.

#### **G. Individual Events Run Surpluses, But Business Center Does Not Recover Costs**

During FY 1997, US&FCS Spain made collections in excess of event-specific expenditures on all but one of its trade events. For most of these events, the surplus was less than \$1,000, indicating that the post was operating the events close to the cost recovery ratio mandated by Department guidelines. However, US&FCS is not recovering costs associated with the event space in the new Business Information Center.

According to federal regulations, events staged at a fixed federal facility should collectively recover all the facility's costs, including overhead. Using financial information provided by the post, we determined that the total 1997 US&FCS cost of operating the BIC's small event space was approximately \$19,000. During this period, US&FCS staged only three events in the BIC, collecting a total of about \$1,000.

Based on the BIC's 1997 cost/revenue figures, the schedule of events held there is not sufficient to enable US&FCS to fully recover the costs associated with the event space. To effectively monitor the BIC's cost recovery, post management should regularly perform a cost/revenue analysis. In addition, to better match revenues and expenses, US&FCS should incorporate a portion of the event space overhead into the pricing structure for each event held in the Center.

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<sup>8</sup> The International Buyer Program allows FSNs to recruit and accompany a delegation of prospective importers, in this case from Spain, to a foreign trade show in which U.S. goods are exhibited.

## H. “You Brief Us” Program Offers Questionable Benefits to U.S. Firms

In conjunction with “Power-Gen ‘97 Europe,” a trade show for the energy sector held in Madrid in June 1997, US&FCS Spain hosted a “You Brief Us” conference for U.S. firms participating in the trade show. For a fee of \$550, participating companies were given an hour to discuss commercial issues with the US&FCS staff involved in Power-Gen. The US&FCS promotional brochure states, “ ‘You Brief Us’ offers your company a rare opportunity to brief, exchange views with, and explain your specific needs to 30 U.S. Embassy specialists and officers representing markets across Europe, the Newly Independent States, and Northern Africa.”

“You Brief Us” is not a standard part of regional events. However, versions of the program have been held during other Showcase Europe conferences. Although any U.S. firm is eligible to participate, it is unclear what service or benefits these companies can expect in return for their fee, other than the right to be heard. In addition, the commercial staff was unable to provide an explanation of how the \$550 fee was determined or a breakdown of what expenses the fee was intended to cover.

To help legitimize this program, we believe US&FCS should (1) explain more fully in its promotional materials what services a company can expect for participating in the program, and (2) develop a pricing structure that clearly identifies the expenses that the participation fee covers.

## RECOMMENDATIONS

We recommend that the Assistant Secretary and Director General for US&FCS:

1. Direct US&FCS Spain management to focus greater attention on program-related activities, including outreach, events, and market research reporting.
2. Establish a goal to increase success stories to a level that meets (or exceeds) the average for a post the size of Spain.
3. Develop a strategy that increases international trade among small and medium-sized companies in accordance with the Department of Commerce strategic plan.
4. Provide the training and oversight necessary to ensure that market research reports represent high quality products, and ensure that industry coverage is consistent with the “best-prospect” list, as required by US&FCS guidelines.
5. Ensure that adequate resources in terms of equipment and administrative personnel are made available to accommodate the increased trade event activity.

6. Design a model to regularly perform a cost/revenue analysis of the Business Information Center to monitor costs associated with events held in the facility.
7. Explicitly disclose the benefits that participants in the "You Brief Us" program can expect, and develop a pricing structure that clearly identifies the expenses covered by the participation fee.

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### **US&FCS Comments on Draft Report and OIG Response**

#### *US&FCS Comment on Draft Report Recommendation 1:*

US&FCS reports that US&FCS Spain's staff has made several outreach trips since fiscal year 1997, including export promotion trips to 12 of the 17 Spanish regions. The post is also continuing its work with a local contractor to publish a "Doing Business in Spain Guide" for distribution throughout Spain and to many key multipliers in the United States. In addition, in fiscal year 1998, US&FCS Madrid is scheduled to complete eight events in Spain and support numerous Showcase Europe events in Europe and the United States.

US&FCS Spain plans to complete the required ISAs, a respectable number of IMIs, and, by the end of fiscal year 1998, detailed studies on most of the 17 Spanish regions. US&FCS management is pleased with the increased level of programmatic activity, and the greater focus on trade events and mission, several of which will prominently feature SMEs.

#### *OIG Response:*

As stated in our report, the OIG recognizes the increased attention devoted by US&FCS Spain to program activities during fiscal year 1998. We commend US&FCS for aggressive planning in this area and encourage the post, with the support of agency management, to continue to make export promotion activities the office's top priority.

#### *US&FCS Comment on Draft Report Recommendation 2:*

US&FCS and post recognize the importance of success stories and agree that the number of success stories documented by post is on track to substantially increase in FY 1998. US&FCS notes that the number of success stories has increased each year since the arrival of the current SCO.

#### *OIG Response:*

We commend US&FCS Spain for increasing the volume of reported success stories. However, we believe post could further increase reported success stories by developing and transmitting to FSNs clear (and mandatory) guidelines for monitoring and collecting success story information.

*US&FCS Comments on Draft Report Recommendation 3:*

US&FCS states that companies would like to come on trade missions to Spain but the cost is too high. US&FCS Madrid is purchasing new furniture so that the configuration of the meeting area in the BIC can be changed to accommodate more companies, allowing the events to be held in-house and at a lower cost, hopefully making the package more attractive to companies. In addition, in FY 1999 Valencia Spain will be the host to a major EU-organized partnering event which is expected to include a delegation of American SMEs.

*OIG Response:*

We recognize that greater success in recruiting SMEs to participate in trade events and missions in Spain is at least one part of increasing trade among such firms. To extent that US&FCS Spain is able to enhance the event space in the BIC and attract more companies for trade missions, we support their efforts. We also encourage US&FCS Spain to more vigorously promote events targeted to SMEs such as the upcoming event in Valencia. However, to increase the focus of the entire US&FCS Spain operation on identifying opportunities for SMEs, we believe the office needs to incorporate and emphasize a targeted strategy for SMEs into its strategic plan.

*US&FCS Comment on Draft Report Recommendation 4:*

US&FCS states that post will focus on Industry Sector Analyses on the "Best Prospect List" and those tasked under Showcase Europe starting in FY 1999. It will also ensure that its current schedule of market research will be properly proofed for linguistic and factual accuracy.

*OIG Response:*

The OIG is satisfied that the actions planned or taken by US&FCS address the recommendation.

*US&FCS Comment on Draft Report Recommendation 5:*

US&FCS states that it is confident that the management expertise and resources to successfully complete the FY 1998 event schedule. As a part of the worldwide effort to upgrade US&FCS posts over the next two years, post's computer hardware and software will be upgraded in the summer of 1998.

*OIG Response:*

The OIG is satisfied that the actions planned or taken by US&FCS address the recommendation.

*US&FCS Comment on Draft Report Recommendation 6:*

US&FCS indicates that the post is purchasing different furniture for the BIC to allow for larger missions to utilize the events space, for which the office plans to charge appropriately. However, US&FCS points out that the cost of commercial space rental in Madrid is low, thus, the post would only be able to charge a minimum fee to the participating companies.

*OIG Response:*

The OIG has already recognized the overall cost savings achieved by the BIC compared to the former physical office location. We also commend US&FCS for establishing a practical and cost-effective configuration for the BIC's common event space. To avoid the possibility of overcharging companies for leasing the event space, we suggest that US&FCS Spain conduct a regular analysis of costs associated with operating the shared space versus the revenue generated through in-house events. US&FCS Spain should attempt to recover as much of those costs as possible through events held in the BIC.

*US&FCS Comment on Draft Report Recommendation 7:*

US&FCS states that management has developed some guidelines for posts to use in structuring and promoting the "You Brief US" programs, which many participating companies have applauded. Efforts to recruit such participants will be transparent and open to large firms and to SMEs alike. Posts will be requested to structure these events on a cost recovery basis.

*OIG Response:*

The OIG believes that US&FCS has developed a plan to emphasize the benefits of the "You Brief US" program to potential participants and to implement an appropriate pricing structure.



### III. INTERNAL CONTROL ENVIRONMENT

After reviewing US&FCS Spain's financial and administrative operations, we concluded that several improvements in the internal control systems would help US&FCS Spain to better meet the requirements of the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b)). The systems in place to document and record transactions and events and to ensure that assets are safeguarded against waste, loss, unauthorized use, and misappropriation are generally adequate but should be strengthened.

Especially needed is an improvement in the communication and information flow between US&FCS and the State Department's Budget & Finance (B&F) section. B&F confirmed that services provided to the post in the past year have been below expectations. With the implementation of ICAAS, administrative costs to the post will escalate, increasing the need for US&FCS Spain to remain actively engaged and to ensure that the services provided by B&F are timely and of high quality. Controls should also be strengthened over the procurement process, imprest fund documentation, vehicle management, SCO travel documents, reconciliations of account balances, and prior year unliquidated obligations.

#### A. Control Systems Meet Most Requirements of Federal Managers' Financial Integrity Act

US&FCS Spain has established adequate internal control systems to comply with most provisions of the Federal Managers' Financial Integrity Act. Systems are in place to document and record transactions and events and to ensure that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. Management has separated key duties and responsibilities in authorizing, processing, recording, and reviewing transactions among key individuals, with minor exceptions. Other than the SCO signing his own travel authorization and reimbursement vouchers, no one individual is solely responsible for a single transaction. However, the organizational structure does not provide clear lines of supervision regarding the officer(s) who approve these activities, and the actual assignment of these activities has not been well communicated to the staff.

In addition to US&FCS management establishing good internal controls over transactions, a number of internal accounting and administrative controls over the post's financial and administrative activities are provided by the State Department's B&F section and its General Services Office (GSO).<sup>9</sup> GSO staff have established good internal controls over the procurement process, including updating inventory records when goods are received and conducting periodic

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<sup>9</sup> Although we did not audit the State Department's internal control systems, we conducted a review of the control elements in the B&F and GSO offices that affect US&FCS operations. The internal controls provided by these offices impact the overall control environment related to many US&FCS functions, including procurement.

verification of post inventory items. In instances when US&FCS Spain inappropriately identifies specific vendors on a purchase order, GSO staff will obtain competition for the item. GSO and B&F have controls over the procurement and payment cycle to ensure that appropriate reviews and authorization signatures are on purchase orders and other documents. However, as discussed below, we noted a weakness in the application of this internal control.

**B. Poor Service From the Embassy's Budget & Finance Section Has Negatively Affected the Control Environment**

The Budget and Finance (B&F) section provides financial management services and maintains a system of internal controls over post transactions. While the control environment is generally adequate, controls should be strengthened in a number of areas, including communication and information flow. B&F has not always provided timely, high-quality service to US&FCS Spain. As a result, US&FCS Spain has been unable to monitor the current status of post fund balances.

We discussed the situation with B&F senior staff, who confirmed that they have not been providing adequate services to US&FCS Spain. B&F staff attributed the poor service over the past year to several factors, including the resignation of several key staff members, an employee taking extended sick leave, and the section's attention being diverted to preparations for a Presidential visit.

**C. Procurement and Disbursement Controls Are Adequate With One Exception**

Although procurement controls at post generally were good, one control was not properly applied. We found that B&F had not updated its list (effective February 1997) of authorized approving officers for the following sub-activities in the procurement process: ordering, receiving, certifying, and approval for payment. For all the sub-activities the following American officers were authorized:

- ▶ Current SCO.
- ▶ Former DSCO.
- ▶ Current Assistant Commercial Attache.

The former DSCO left the post and was replaced by the current DSCO during FY 1997. The authorized signature list had not been updated to reflect this change. The post is small enough that the B&F section can recognize all the American officers. However, with the numerous personnel changes at B&F, a sound internal control structure requires a current list of authorizing officials and a procedure to verify that officers have the authority to initiate procurement actions.

**D. Insufficient Controls Are Maintained Over SCO's  
Travel Authorizations and Expense Vouchers**

The SCO approves his own travel authorizations and reimbursement vouchers for payment. In reviewing travel files at B&F, we found nothing to indicate improper use of travel funds. However, the lack of an outside review and approval of the SCO's travel authorizations and reimbursement vouchers is an internal control weakness.

The SCO told us that such self-approval is standard practice throughout US&FCS posts. Our reviews of other posts and interviews with commercial officers indicate that it is not standard procedure. With the widespread use of faxes and modems to transmit data, obtaining a supervisory approval or blanket travel orders in advance would not be burdensome and would contribute to a stronger control environment.

**E. Physical Asset Controls Are Good Except For Vehicle Management**

The post has established proper physical asset management procedures to ensure that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. Record systems are in place to track inventory and use of vehicles. Management has the inventory log updated by GSO each time procurements are received and invoices paid. However, while some records are kept for vehicle usage, the vehicle management system should be improved.

US&FCS requires that posts with vehicles keep a log that records official and personal use, and US&FCS staff must reimburse the government for all personal use of a vehicle. We reviewed the log maintained for US&FCS Spain's vehicle in Madrid. The log did not explicitly show personal use of the vehicle and recorded only the ending kilometer for each trip. Since no beginning kilometer reading was shown, we reasoned that subtracting the ending kilometer reading from the previous ending kilometer reading would give total trip distance. Instead we found huge differences in kilometers driven for trips to the same destination. For example:

### **Trips from Madrid to Ifema and Return**

Date of Trip	Trip Ending Odometer	Previous Trip Ending Odometer	Kilometers Driven
3/7/96	7375	7358	17
6/12/96	9393	9360	33
7/1/96	9673	9532	141
11/5/96	14304	14279	25
11/22/96	14763	14723	40
illegible	16549	14763	1786

From the analysis above, we conclude that post is not accounting for all the kilometers the vehicle has been driven, and the risk of personal use of the vehicle is high.

#### **F. Controls Over the Imprest Fund Should Be Strengthened**

As a general practice, US&FCS Spain disbursed many trade event payments from the petty cash fund, including payments to translators. The office manager said that the practice was limited to vendor expenses under \$500, and that both the office and the vendors prefer this method of payment because it takes B&F a long time to obligate, liquidate, and disburse checks. We reviewed several disbursements for expense payments for translator expenses. All of the invoices were copies of originals. The invoice copies had minimal information regarding the vendor, only the vendor name and a brief description of the services rendered. Generally there was no telephone number or address of the person providing the service. The invoice copy was not marked in any manner as having been paid. While use of the imprest funds may be an economical alternative, under the current system, the invoices accepted by the post and B&F are inadequate.

#### **G. Department of State and ITA Operations and Administrative Account Balances Differ**

Our review of official records disclosed a measurable difference in the operations and administrative (O&A) account balance reported by ITA and the State Department. During our review of FY 1997 account balances, we initially identified a total difference of nearly \$500,000 between ITA and State accounting data for expenditures.

**Reconciliation of State and ITA Accounting Data (FY 1997)**

Expenditure	ITA Balance	State Balance	Difference
O&A	\$1,706,454	\$1,208,520	\$497,934

For O&A, the ITA account balance includes American officer salaries and benefits, while State's does not. When the \$417,000 in American officer salaries and benefits is subtracted from the ITA total, the adjusted difference is \$80,934. We were unable to determine the reason for the final difference. With such a discrepancy in account balances between State and ITA records, ITA may be relying on inaccurate data to manage its overseas posts. ITA needs to reconcile its account balances and determine the reasons for significant discrepancies.

**H. Account Balances in the TEMS Differ with Post Records**

Our review of records disclosed differences between account balances reported by the post and US&FCS Washington's Trade Event Management System (TEMS) for collections. We identified a net difference of approximately \$9,300 between post and TEMS data for FY 1997 trade event overseas collections.

**Reconciliation of Post and TEMS Data  
Trade Event Cash Collections (FY 1997)**

Event	Collections per Post	Collections per TEMS	Difference
Gold Key	\$8,300.00	\$7,750.00	(\$550.00)
Infrastructure Seminar	7,475.00	7,475.00	0.00
State of Colorado	6,200.00	6,200.00	0.00
Tecma 96	2,235.00	2,235.00	0.00
Post-Initiated Events	6,313.86	6,067.86	(224.00)
FITUR 97	1,550.00	1,550.00	0.00
BIT 97/Travel and Tourism	no record <sup>a</sup>	5,500.00	5,500.00
Publications	no record <sup>b</sup>	4,600.71	4,600.71
<b>Total</b>			<b>\$9,326.71</b>

<sup>a</sup> No one at post had any knowledge of this event.

<sup>b</sup> While there was no cumulative total in the post records, weekly cash reports included the collections from this activity.

While the minor differences are likely the result of rounding or timing differences, the bulk of the discrepancy stems from the fact that post did not have any collection records for two of the events. The Office of Trade Event Management indicated that one of the events (BIT 97) may have been misrecorded in TEMS. Nonetheless, as a result of differences in account balances between post and TEMS records, US&FCS may be relying on inaccurate data to oversee its trade events at foreign posts. US&FCS Spain needs to reconcile its trade event account balances with TEMS department records and determine the reason for the significant differences.

### **I. Prior Year Unliquidated Obligations Should Be Reviewed**

The O&A accounts show unliquidated balances of \$4,000 for FY 1995 and \$16,315 for FY 1996. The \$4,000 balance obligated in FY 1995 is from a series of travel advances given to a former employee in Barcelona. According to a memo from this employee to the US&FCS office manager in Madrid, four travel vouchers that collectively account for the \$4,000 were submitted. However, neither US&FCS Spain nor the B&F office had a copy of the vouchers. The post should take action to obtain and/or file a proper travel claim and liquidate the appropriate amount from this long-standing obligation.

The bulk of the \$16,315 obligated in FY 1996 as office furnishings is actually related to furniture costs associated with the current SCO's residence. According to the office manager, US&FCS Spain has not yet received a bill for the furniture and they expect US&FCS headquarters to handle the expense. The post should review these transactions, identify the appropriate source of funds, and take action as to resolve these obligations.

## **RECOMMENDATIONS**

We recommend that the Assistant Secretary and Director General for US&FCS:

1. Require US&FCS Spain to report on the quality and timeliness of financial and administrative services provided by the embassy and, if service standards are not met, take action to remedy the situation or identify alternative service providers.
2. Update the list of American officers who have authority to initiate procurements.
3. Redesign the vehicle log so that all kilometers driven are accounted for, and ensure that personal use of the vehicle is properly documented and appropriate costs are reimbursed to the government.
4. Require the SCO to submit all travel authorizations and reimbursement vouchers to an appropriate supervisor for review and approval.

5. Require invoices submitted for imprest fund reimbursement to clearly identify the vendor's business address and telephone number, include a detailed description of the service provided, and be promptly marked as paid.
6. Implement procedures to ensure that appropriate records regarding all accounting transactions are maintained, including summaries by event along with running balances of collections and expenditures.
7. Ensure that internal records are periodically reconciled to B&F and State Department reports to ensure that all transactions generated at post are being captured in the RAMC reports.
8. Implement procedures to ensure that unusual items, such as obligations that remain outstanding for more than two years, obligations occurring outside the year of expenditure authority, or disbursements occurring two or more years after the establishment of the obligation, are identified and investigated.
9. Implement procedures to ensure that post trade event collection and expenditure data are reconciled with OTEM's financial records.

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### **US&FCS Comments on Draft Report and OIG Response**

#### *US&FCS Comment on Draft Report Recommendation 1:*

According to US&FCS, through post's active involvement in ICASS, it closely monitors the quality and timeliness of the service providers. The post plans to report deviations from ICASS standards to the Council as well as to headquarters.

#### *OIG Response:*

In addition to the actions already planned or taken, US&FCS Spain should consider following up its reporting on deviations from ICASS standards by engaging other agencies in developing strategies to increase service quality and, in the absence of noticeable service improvement, exploring alternative providers.

#### *US&FCS Comment on Draft Report Recommendation 2:*

US&FCS states that post has updated the list of American officers who have authority to initiate procurement.

*OIG Response:*

The OIG is satisfied that the actions planned or taken by US&FCS address the recommendation.

*US&FCS Comment on Draft Report Recommendation 3:*

US&FCS states that post has redesigned the log to ensure that it complies with US&FCS' requirements. Each time the staff members use the car, they must document kilometers at the start and end of each trip. The type of use (official or personal) is also noted. The Assistant Commercial Attache has been instructed to review the log quarterly.

*OIG Response:*

The OIG is satisfied that the action planned or taken by US&FCS address the recommendation.

*US&FCS Comment on Draft Report Recommendation 4:*

US&FCS states that the Department of State has been contracted under ICASS to provide local management and fiscal oversight. All vouchers, including purchase orders, disbursements, travel requests, travel vouchers, etc., are examined and require the approval of the B&F officer, the GSO and/or the Administrative Counselor. This relationship between the agencies represented at post and the Department of State is not unique to Commerce, but is also followed by the other agencies.

US&FCS argues that if there is a need to make improvements on management oversight or fiscal practices, these should be addressed system-wide and not on a post-by-post basis, as they are generic in nature and carried out throughout the world by all or many US&FCS posts. For example, all travel requests require the signature of the B&F officer for approval and certification that the funds are available and not in violation of anti-deficiency regulations. It would be impractical to require that a US&FCS headquarters officer approve travel requests due to difference in time, long distance, etc.

US&FCS states that travel vouchers presented after travel has been completed are presented to post administrative authorities for review and approval. The B&F officer or, in his/her absence, the Administrative Counselor reviews and approves vouchers - all vouchers - not just the SCO's for payment. According to US&FCS, the procedures followed by US&FCS Spain are standard and do not violate in any way the US&FCS Operations Manual or the Foreign Affairs Manual.



*OIG Response:*

Section 301-1.101(3) of the Federal Travel Regulations states, “Travel-authorizing officials shall authorize or approve only that travel necessary to accomplish the agency mission in the most effective and economical manner. Authorizing officials should be aware of travel plans...and shall ensure appropriate consideration of the need for the travel, the use of travel substitutes, and the most cost-effective routing and means of accomplishing travel.”

In the case of the SCO’s travel documentation, we are not persuaded that such a review is taking place. Although the B&F officer in Spain signs each of the travel documents, the OIG found that the extent of his review is nothing more than a determination that funds are available to cover the amount on the voucher. It does not constitute “management” approval of the travel being considered from an agency-mission perspective, as required by the Federal Travel Regulations. The separation of duties standard is a standard business practice endorsed by the GAO in Report OP-4.1.4, *Assessing Internal Controls in Performance Audits*. It is necessary to ensure an adequate internal control environment that someone other than the traveler provide this review.

As stated in our report, we found nothing to indicate improper use of travel funds. In addition, it may be impractical to require that a US&FCS headquarters officer approve all individual travel requests. However, we continue to recommend that action be taken to ensure a proper review and approval of the SCO’s travel documents. Though US&FCS states that the signature of the B&F and/or Administrative Counselor on the SCO’s travel documents are standard world-wide, we have found the nature of their review to be inconsistent. For example, in other OIG reviews (e.g., South Korea and Japan) we found that the SCO’s travel documents were properly reviewed and analyzed by either the DCM or the Administrative Counselor, not simply certified by the B&F officer that funds were available. Therefore, we recommend that the SCO at US&FCS Spain submit his travel documents to an appropriate authorizing official--such as the Administrative Counselor or the DCM--for a proper review as required by Federal Travel Regulations.

*US&FCS Comment on Draft Report Recommendation 5:*

US&FCS states that invoices similar to those mentioned in the report were immediately adjusted to contain more details in accordance with the OIG’s recommendations.

*OIG Response:*

The OIG is satisfied with the action taken and encourages US&FCS to include similar pertinent information on future invoices.

*US&FCS Comment on Draft Report Recommendation 6:*

US&FCS states that a new system has been implemented to summarize collections for publications. US&FCS notes that all collections for publications are duly noted in the Weekly Collections Report. In the meantime, apart from the individual event collection logs already in place, the Event Expense Worksheets for the events have also been adjusted to reflect the current status of collections.

*OIG Response:*

The OIG is satisfied that the actions planned or taken by US&FCS address the recommendation.

*US&FCS Comment on Draft Report Recommendation 7:*

US&FCS states that problems with the B&F section are now under control and the new financial technician assigned to the US&FCS accounts is working much more closely with the post's staff. US&FCS Madrid reconciles the internal records with the RAMC reports on a regular basis and queries any discrepancies immediately.

*OIG Response:*

The OIG is satisfied that the actions planned or taken by US&FCS address the recommendation.

*US&FCS Comment on Draft Report Recommendation 8:*

US&FCS states that the only 1995 obligation for \$4,000 has been settled, with the support of US&FCS/OIO. The employee in question issued a check to cover a small outstanding balance and all amounts have now been liquidated.

As far as the post can tell, there were only four unliquidated 1996 obligations in the O&A account, one of which has already been deobligated. The other three unliquidated obligations deal with furniture for the SCO's residence. In line with standard practice, the order was placed through GSO to GSA suppliers in the U.S. US&FCS states that the office in Madrid has inquired on several occasions if anything can be done to expedite payment and has been advised by GSO that charges of this nature can take an inordinate length of time and that GSO cannot speed up the billing process. However, US&FCS states that US&FCS Madrid will adopt a more assertive role in the monitoring of unliquidated balances of prior-year funding.

*OIG Response:*

The OIG is satisfied that the actions planned or taken by US&FCS address the recommendation.

*US&FCS Comment on Draft Report Recommendation 9:*

US&FCS states that collection — as opposed to expense — reports are rarely reconciled with other documentation and notes that the post does not and never has received copies of OTEM reports held in Washington. Arrangements will be worked out with the appropriate office in ITA to have copies of the TEMS reports forwarded to US&FCS Madrid on a regular basis to ensure a timely monitoring or collections.

*OIG Response:*

The OIG is satisfied that the actions planned or taken by US&FCS address the recommendation.

## APPENDIX

### Acronyms

B&F	Budget and Finance Office (State Department)
BIC	Business Information Center
DSCO	Deputy Senior Commercial Officer
ECON	Economics Section (State Department)
EMU	European Monetary Union
EU	European Union
FAAS	Foreign Affairs Administrative Support
FAS	Foreign Agricultural Service
FSN	Foreign Service National
GAO	General Accounting Office
GSO	General Services Office
ICASS	International Cooperative Administrative Support Services
IMI	International Market Insight Report
ISA	Industry Sector Analysis
ITA	International Trade Administration
O&A	Operations and Administrative
POL	Political Section (State Department)
SCO	Senior Commercial Officer
SME	Small and Medium-Sized Enterprise
TEMS	Trade Event Management System
US&FCS	United States and Foreign Commercial Service
USIS	United States Information Service



**UNITED STATES DEPARTMENT OF COMMERCE**  
**International Trade Administration**  
Washington, D.C. 20230  
ASSISTANT SECRETARY AND DIRECTOR GENERAL OF THE  
U.S. AND FOREIGN COMMERCIAL SERVICE

ATTACHMENT TO FINAL AUDIT REPORT

MEMORANDUM FOR: George E. Ross  
Assistant Inspector General for Audits  
FROM: Marjory E. Searing, Acting *M. Searing*  
SUBJECT: Response to the Draft IG Report for Spain

I have attached US&FCS' response to the 22 recommendations contained in the draft inspection report for Spain. I believe you will find that these responses satisfactorily address the concerns raised in the draft report. I am pleased to see that the Inspector General's report for Spain was overall a positive one, although there are some minor administrative and programmatic issues with which the post will comply and, in many instances, already has done so.

I also am pleased that you noted the costs saving effected by the post due to its relocation to commercial quarters and the excellent collegial relationship the post now enjoys with other sections of the U.S. Embassy. Our SCO has done an admirable job in addressing some important managerial problems at post and now is devoting his and his staff's time to improve upon the operation's delivery of export assistance programs, especially for SMEs. The post now is providing more success stories, as well as taking remedial action on internal controls and other administrative matters cited in the draft report.

The only component missing from the report was any mention of the US&FCS Barcelona operation which also was reviewed by the IG team. Although it is my understanding that no issues were uncovered with that operation, it would have been helpful to have some references made to that post in order to have a complete picture of our total US&FCS presence in Spain.

Please let me know if I can be of any further assistance to you in your preparation of the final report.

cc: DAS Dolores Harrod  
RD/OIO/EUR Jim Wilson



## **I. GENERAL MANAGEMENT AND ORGANIZATIONAL ISSUES**

- 1. Develop an organizational structure for US&FCS Spain in which administrative responsibilities and lines of supervision are clearly delineated.**
- 2. Establish clear lines of communication between the administrative employees and the commercial officer in charge of administrative functions to provide for effective coordination and monitoring of administrative staff time.**

The SCO is cognizant of the IG's expressed concern in this area and has undertaken measures to ensure that its reporting system at post is understood by all staff. The draft report stated that US&FCS Spain may have difficulties implementing its significantly increased trade events and promotion schedule for 1998, in part, due to the fragmented organizational structure of the administrative staff. Management does not agree that the existing organizational structure will adversely impact any aspect of the post's core activities as evidenced by the post successfully completing all scheduled core activities while simultaneously increasing the number of documented success stories. Also, as a result of the recent world-wide review and reallocation of US&FCS officers, the Assistant Commercial Attache position in Madrid will be eliminated in 1999. The change will lead to all administrative staff reporting to one officer--the Deputy Senior Commercial Officer. In this manner, the delineation of responsibility and accountability will be improved and even more transparent.

- 3. Provide greater consideration to the practical foreign language abilities of officers so that, as much as possible, assigned personnel are language proficient and capable of performing effective outreach.**

As noted in the IG draft report, both officers referred to in the report have achieved the required 3/3 score from FSI. However, even with FSI language training, it may require additional tutoring and in-country experience to achieve the necessary proficiency. The two subject officers continue to study Spanish one hour per day at post. The fact that these officers have not yet completely mastered Spanish has not necessarily limited US&FCS Spain's outreach efforts. (See # 1 under Section II: Program Activities and Performance Measurements)

- 4. As appropriate, take the necessary steps to identify and address issues that effect (sic) employee morale, including travel policy, the intern program, and administrative support for FSNs.**

The post's travel policy in support of International Buyer Programs (IBP) is fair and consistent with US&FCS' world-wide practice of recruiting and escorting International Buyer Delegations. If an FSN recruits 15 companies, a free airline ticket and hotel room are provided. When the SCO arrived in 1996, this practice was not in effect. However, in the last year, there have been a number of cases where the staff members have received free tickets and rooms as a result of their recruiting efforts, and which were reported as Gifts & Bequests through the required procedures--resulting in a cost-saving to the U.S. Government.

Post can only identify two instances when FSNs were denied an opportunity to travel to an event. The first case was an FSN who successfully recruited companies for CeBit but was also the responsible FSN for a large environmental trade mission taking place during the same time frame. The other case involved an IBP, and the FSN was informed that attendance would be contingent on recruiting 15 companies and working with a travel agent and the show organizer to obtain the needed ticket and hotel room. The FSN did not recruit the required number of firms.

Because of the large number of events, travel to Showcase Europe (SCE) events are handled on a case by case basis. First, while the post does have some funding for SCE travel, it does not have enough to facilitate travel to all SCE events. If a FSN recruits 15 companies, he/she is expected to take advantage of the free ticket and room. If the FSN is unable to recruit 15 firms and the event has an FSN training element and funds are available, FSN travel would be authorized. The heart of IBPs and SCE events is recruitment. Thus, it is important that FSNs make a serious effort to recruit delegations.

*(See Appendix I for record of FSN travel since 1995)*

The intern program is managed according to the Department of Commerce guidelines. The interns are viewed as important to overall office operations. However, the post disagrees with any suggestion that they receive special treatment. Interns, in general, contribute strong and much needed writing, editing, and computer skills to the office. These added skills, when properly used, can help increase both the quality and quantity of work, especially when the office has large numbers of trade missions and Showcase Europe events to support. In the past, some FSNs have been reluctant to assign meaningful tasks to interns. All the officers at post continue to encourage staff to take advantage of the additional resources that the interns provide.

Additionally, the SCO is a strong supporter of the Department's intern program because it offers women and minorities an opportunity to see first hand what a career in the Commercial Service can offer. Furthermore, he is very pleased with the competence and efficiency of the women and minorities attracted by its program.

With respect to improving morale, US&FCS management will be converting a PSC to an FSN in Madrid. Regarding administrative support for FSNs, post is unaware of any instance when an FSN was denied needed administrative support, unless a very occasional request that could not be serviced immediately due to the limitation of resources and current workload of the admin staff. The post monitors its FSNs' workload and requirements and is also concerned by the possibility of unplanned/unchanneled requests resulting in an excessive burden on its very willing admin staff. In the case of trade missions, in addition to using its admin staff, the post budgeted for a contractor that works 3 to 4 weeks full-time on promotional/admin-related tasks. Further, the post has full-time interns that are available to assist with some of the non-admin work (see above section on interns).

- 5. Evaluate the training needs of the FSN staff, work with US&FCS headquarters to develop a program to satisfy those needs and, if budget constraints are a problem, encourage creative training alternatives.**

Post management believes that if staff is provided with adequate training and the best possible equipment, overall performance will almost always improve. Post records show that US&FCS Spain has repeatedly requested headquarter-sponsored training for its FSNs. Unfortunately, they compete for limited space with FSNs world-wide. Of the six training requests in fiscal year 1996, four staff were selected. In fiscal year 1997, US&FCS Spain made six requests but no employees were selected. This year, only one member of the staff has been selected from five requests. Although post did not recommend anyone for the administrative training taking place in Vienna this June, US&FCS management will follow up with the Office of Foreign Service Personnel to ensure that FSN training needs are given high priority for upcoming sessions. Post also has the ability to request in-country training for computer enhancement skills per notation below.

As for field training, post management has volunteered the use of its American Business and Information Center (ABIC) as a site for FSN training. The SCO has suggested that headquarters could use the Center to provide training to US&FCS Spain's FSNs as well as those from our regional posts. Furthermore, to ease the transition to the new software system, the SCO has requested and will receive \$6500 for local computer training.

**6. Develop global and post-specific strategies for controlling ICASS costs, including active local participation by the post.**

US&FCS Spain acknowledges that the switch from FAAS to ICASS has resulted in a larger than desired budget increase. However, as mentioned in the draft IG report, US&FCS Spain is an active participant in post's ICASS management and review. SCO Fermoselle is an engaged member of the ICASS Council and ACA Harry Tyner is a member of the ICASS Working Group. Their constant monitoring and review of ICASS cost centers led the Council to reduce US&FCS' fiscal year 1998 ICASS budget by \$17,437 or about five percent. Also, DAS/OIO Dolores Harrod personally has participated in sessions at the State Department in an effort to monitor and to reduce ICASS costs, as well as assigns various OIO staff in this same effort.

## **II. PROGRAM ACTIVITIES AND PERFORMANCE MEASUREMENT**

**1. Direct US&FCS Spain management to focus greater attention on program-related activities, including outreach, events, and market research reporting.**

Since fiscal year 1997, US&FCS Spain's staff has made a substantial number of outreach trips. Visits have been made to 12 of the 17 Spanish regions to promote American goods and services. As for program-related activities, each year the post works with a local contractor to publish a "Doing Business in Spain" guide (at no cost to the USG). The contractor distributes the guide throughout Spain and to many key multiplier organizations in the United States.

As for events, this fiscal year, US&FCS Madrid alone is scheduled to complete eight events in



Madrid, support numerous Showcase Europe Tier One events in Europe and the United States, and serve as coordinator for the Showcase Europe Franchise Sector.

Notwithstanding its heavy event schedule this year, US&FCS Madrid will complete the required ISAs, and a respectable number of IMIs. Also, by September 30, post will have completed detailed studies on most of the 17 Spanish regions. This latter research will be consolidated and sent to headquarters and to our domestic offices where staff can provide it to companies, including SMEs, interested in doing business in Spain. US&FCS management is pleased with the increased level of programmatic activity by the post, as acknowledged in the draft IG report, and recognizes now that SCO Fermoselle has remedied a number of management deficiencies. He and his staff have been able to focus more closely on an array of trade events and missions, several of which will prominently feature SMEs, i.e., the just completed Women in Trade Mission.

**2. Establish a goal to increase success stories to a level that meets (or exceeds) the average for a post the size of Spain.**

Post and US&FCS management recognize the importance of identifying and documenting success stories. We also concur with the IG's draft report that US&FCS Spain is on track to substantially increase the number of documented success stories in fiscal year 1998.

Since the arrival of SCO Fermoselle in 1996, documentation of success stories has increased each year. For example, as of April 22, 1998, the office has documented 44 (2.44 per person) successes compared to 20 in fiscal year 1997 and only 12 in fiscal year 1996. Many of last year's activities are now producing results. Furthermore, many of the successes harvested in the first half of fiscal year 1998 came from small and medium-sized companies that benefitted from post assistance in fiscal year 1997.

**3. Develop a strategy that increases international trade among small and medium-sized companies in accordance with the Department of Commerce strategic plan.**

This year one trade mission was canceled and another is questionable. According to trade event recruiters in Washington, companies would like to come on the missions but the cost is too high. In order to lower the cost to the companies, US&FCS Madrid is purchasing new furniture so that the configuration of the meeting area in the ABIC can be changed to accommodate seven to eight companies. The capability to host events in-house will reduce the cost and, hopefully, make the package more attractive to the companies. In early FY 99, Valencia, Spain also will be the host to a major EU-organized partnering event (Europartenariat), which will consist of hundreds of SMEs from around the world. Normally, a delegation of American SMEs participate and the post will be ready to assist them in this major SME endeavor.

**4. Provide the training and oversight necessary to ensure that market research reports represent high quality products, and ensure that industry coverage is consistent with the "best prospect" list, as required by US&FCS guidelines.**

Starting with fiscal year 1999, post will focus its ISAs on the "Best Prospects List" and those tasked under Showcase Europe, and will ensure that its current schedule of market research will be properly proofed for linguistic and factual accuracy.

- 5. Ensure that adequate resources in terms of equipment and administrative personnel are made available to accommodate the increased trade event activity.**

We are confident that the post has both the management expertise and resources to successfully complete its fiscal year 1998 event schedule and are pleased to report that the post's computer hardware and software will be upgraded this summer as part of the worldwide effort to upgrade US&FCS posts over the next two years.

- 6. Design a model to regularly perform a cost/revenue analysis of the Business Information Center to monitor costs associated with events held in the facility.**

In May 1997, US&FCS Madrid, FAS and the USIS library co-located to form the American Business and Information Center (ABIC). As the IG stated, the office is going to realize rent savings of about \$50,000 each year (at the current exchange rate). However, as the dollar increases in value so will the savings.

What the draft IG report refers to as the Business Information Center is a small shared space. On a day-to-day basis, USIS uses most of it to service the users of its library. The space is not a trade center, as in London or Mexico. However, the post does plan to use the space for single company promotions, seminars, and small trade missions. The current configuration is not appropriate for large missions. As a result, post is purchasing different furniture so that it can host small missions, which in many instances will be SMEs. When used, the office plans to charge appropriately for the space. A two-day meeting room (commercial space) in Madrid for 10 companies costs about \$750 or \$75 per company. However, given the low cost of commercial space rental, the post would only be able to charge a minimum fee if the cost to the companies is to be minimized.

- 7. Explicitly disclose the benefits that participants in the "You Brief Us" program can expect, and develop a pricing structure that clearly identifies the expenses covered by the participation fee.**

"You Brief Us" is an OIO-approved Showcase Europe initiative. The program held in Madrid as part of PowerGen was organized by the industry sector coordinator--US&FCS Hungary.

The "You Brief US" program is an integral part of many of the industry specific Showcase Europe events, but the point of the IG report is well taken. US&FCS management has developed some guidelines for posts to use in structuring and promoting the "You Brief US" programs, which many of the participating companies have applauded and even asked for repeat sessions. Efforts to recruit such participants will be transparent and open to large firms and to SMEs alike. Posts will be requested to structure these events on a cost recovery basis.

### III. INTERNAL CONTROL ENVIRONMENT

1. **Require US&FCS Spain to report on the quality and timeliness of financial and administrative services provided by the embassy and, if service standards are not met, take action to remedy the situation or identify alternative service providers.**

Through post's active involvement in ICASS, it closely monitors the quality and timeliness of the service providers. The post plans to report deviation from ICASS standards to the Council as well as to headquarters.

2. **Update the list of American officers who have authority to initiate procurement.**

Post has updated the list of American officers that have authority to initiate procurement.

3. **Redesign the vehicle log so that all kilometers driven are accounted for, and ensure that personal use of the vehicle is properly documented and appropriate costs are reimbursed to the government.**

Post has redesigned the vehicle log to ensure that it complies with US&FCS' requirements. Each time the staff members use the car, they must document kilometers at the start and end of each trip. The type of use (official or personal) is also noted. SCO Fermoselle has instructed the ACA to review the log quarterly. Note that the log was designed several years prior to the SCO's arrival in 1996.

4. **Require the SCO to submit all travel authorizations and reimbursement vouchers to an appropriate supervisor for review and approval.**

Our operations overseas are managed by a senior officer who is ultimately responsible for post management. In the absence of a higher USDOC authority at the post, the State Department has been contracted under ICASS to provide local management and fiscal oversight. All vouchers, including purchase orders, disbursements, travel request, travel vouchers, etc. are examined and require the approval of the Budget and Fiscal Officer (B&F), General Services Officer and/or the Administrative Counselor of the Embassy. USDOC pays the State Department under ICASS to perform this function. This relationship between the agencies represented at post and the Department of State is not unique to USDOC, but is also followed by the other agencies.

If there is a need to make improvements on management oversight or fiscal practices, these should be addressed system-wide and not on a post-by-post basis. Some of the practices identified in the IG report as deserving special attention and/or improvements are generic in nature because they are carried out throughout the world by all or many of our overseas posts.

For example, travel requests require three signatures. All travel vouchers require the signature of the State B&F officer for approval and certification that the funds are available and not in violation of anti-deficiency regulations. The Senior Commercial Officer is thus under the

supervision of State local management in this area. It would be impractical to require that a US&FCS headquarters officer approve the travel requests due to difference in time, long distance, etc. This is why State under ICASS and before under FAAS is paid to perform on-site supervision. SCOs in Europe, however, are required to receive OIO management's approval for any travel outside of their respective countries, but we do not require the same for internal travel given the volume of such travel. It is our understanding that no other region exercises this level of oversight.

Travel vouchers presented after travel has been completed are presented to post administrative authorities for review and approval. The B&F officer, or in his/her absence, the Administrative Counselor reviews and approves vouchers - all vouchers - not just the Senior Commercial Officer's for payment. The IG report fails to note that the travel requests and vouchers of the SCO are not only signed by him/her as the ultimate senior USDOC officer, but also by the State B&F and/or Administrative Counselor. The procedures followed by our post in Spain are standard and are followed world-wide by all our posts, and do not violate in any way the US&FCS Operations Manual or the Foreign Affairs Manual.

All vouchers related to purchases and/or disbursements for whatever reason are also signed by both the senior USDOC official at post and a State Department B&F and/or administrative officer. All contracting is done through the General Service Office.

If the OIG believes that further oversight is needed, this should be addressed as a system-wide need and a thorough cost-benefit analysis should be performed.

**5. Require invoices submitted for imprest fund reimbursement to clearly identify the vendor's business address and telephone number, include a detailed description of the service provided, and be promptly marked as paid.**

Invoices similar to those mentioned in the report were immediately adjusted to contain more details in accordance with the IG's recommendations. On the issue of original invoices, the reason that only invoice copies were on file at the time of the inspection is that original invoices are attached to the petty cash requests submitted to the cashier for payment. No petty cash payments prepared by US&FCS Spain are initiated without an original invoice.

**6. Implement procedures to ensure that appropriate records regarding all accounting transactions are maintained, including summaries by event along with running balances of collections and expenditures.**

A new system has been implemented to summarize collections for publications. Note, however, that all collections for publications are duly reported in the Weekly Collections Report. In the meantime, apart from the individual event collection logs already in place, the Event Expense Worksheets for the events have also been adjusted to reflect current status of collections.

**7. Ensure that internal records are periodically reconciled to B&F and State Department reports to ensure that all transactions generated at post are being captured in the RAMC reports.**

It appears that the problems within the B&F section are now under control and the new financial technician assigned to the US&FCS accounts is working much more closely with post's staff. US&FCS Madrid reconciles the internal records with the RAMC reports on a regular basis and queries any discrepancies immediately. To date, any discrepancies found have been due to the B&F internal reporting procedures over which the post has little control, e.g. the delay in petty cash payments being reflected in the RAMC reports or the delay in receiving copies of payments made through GSO on behalf of US&FCS.

**8. Implement procedures to ensure that unusual items, such as obligations that remain outstanding for more than 2 years, obligations occurring outside the year of expenditure authority, or disbursements occurring two or more years after the establishment of the obligation, are identified and investigated.**

The only 1995 outstanding travel obligation for \$4000 has been settled, with the support of US&FCS/OIO. The employee in question issued a check to cover a small outstanding balance and all amounts have now been liquidated.

As far as the post can tell, there were only four unliquidated 1996 obligations in the O&A account totaling approximately \$16,314, one of which has already been deobligated (an obligation for two maintenance and repair purchase orders -- \$1,000 each -- on the former PCO's residence in Barcelona). The other three unliquidated obligations deal with furniture for the SCO's residence. The order for this furniture which had been intended originally for another SCO assigned to Madrid, had been placed in the latter part of FY-96. In line with standard practice, the order was placed through Embassy/GSO to GSA suppliers in the U.S. Our office in Madrid has inquired on several occasions if anything can be done to expedite payment and has been advised by Embassy/GSO that charges of this nature can take an inordinate length of time and that GSO cannot do anything to speed up the billing process.

US&FCS Madrid will, however, adopt a more assertive role in the monitoring of unliquidated balances of prior-year funding.

**9. Implement procedures to ensure that post trade event collection and expenditure data are reconciled with OTEM's financial records.**

While it is true that collection -- as opposed to expense -- reports are rarely reconciled with other documentation, it should be noted that the post does not and never has received copies of OTEM reports held in Washington. Arrangements will be worked out with the appropriate office in ITA to have copies of the TEMS reports forwarded to US&FCS Madrid on a regular basis to ensure a timely monitoring of collections.

APPENDIX I

RECORD OF FSNs TRAVEL

Dates	1995 - PRESENT City/Country	Purpose
<b>MARIANA VEGA</b>		
09/09-11/97	Seville	Outreach Regional Visit
06/30 - 07/08/97	Palma de Mallorca	Presidential Visit/NATO
06/14-18/97	Paris, France	Paris Air Show
04/07/97	Palma de Mallorca	Security Seminar and Exhibition
11/6-12/95	Seville	TABD
10/26-27/95	Seville	TABD
10/19-20/95	Seville	TABD
10/11-12/95	Seville	TABD
<b>JOSE RAMON POSADA</b>		
10/18/95	Valencia	Valencia Franchise Fair
10/17/96	Valencia	Valencia Franchise Fair
11/19-23/96	Dusseldorf	Dusseldorf Medica
04/24-28/97	Washington, D.C.	Intl. Franchise EXPO
10/16/97	Valencia	Valencia Franchise Fair
<b>MA. CARMEN ADRADA</b>		
11/10-11/95	Seville	TABD
11/25/95	Murcia	Inauguration of Waste Management plant. (WM paid the air ticket Gift & Bequest authorized.)
03/17-21/97	Barcelona and Milan	Environmental MMR TM In Barcelona and TAU U.S. Pavilion (Environmental SCE Tier I event) in Milan.
04/29/97	Barcelona	Breakfast meeting with environmental firms in Barcelona and meeting with Barcelona's Textile Exhibition Center Director.

Ma. Dolores Baños

11/10-12/95 Seville TABD

Carmen Ribera

11/6-12/95 Seville TABD

DIEGO SANCHEZ

03/7-29/98 Washington, D.C. Training  
09/20-23/97 Canarias Outreach Regional Visit  
10/16-17/96 Valladolid Outreach Regional Visit  
11/9-12/95 Sevilla TABD  
10/26-27/95 Barcelona Fercom Trade Fair  
10/7-9/95 Geneva Telecom Trade Fair

JOSE RAMON CARBAJOSA

11/10-11/95 Seville TABD  
06/3-9/96 Budapest SCE Tier I Power Gen  
09/2-4/96 London SCE Tier 2 Farnborough Air Show  
10/9-18/96 USA Accompany AENA's I.V.P. Designates  
10/24-25/96 Vitoria PLC - Extrancheck  
12/1-8/96 Orlando SCE Tier 1 Power Gen Training Seminar  
02/10-11/97 Valencia PLC - Extrancheck  
06/27/97 Logroño Outreach with SCO  
08/18-19/97 Basque/Navarra Outreach with SCO  
02/13/98 Vitoria Attend Aerospace seminar  
04/07/98 Mirando de E. Market research on wind energy project.

JOSEFINA ORTEGA

11/10/11/95 Sevilla TABD  
06/24-28/96 Washington, D.C. Administrative training

**HELEN CROWLEY**

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10/16/98	Valencia	Valencia Franchise Fair
03/16-18/97	Barcelona	Environmental TM Admin Review
10/06/96	Sevilla	TABD
11/10/13/96	Sevilla	TABD
11/17-18/95	Lisbon	To receive briefing on New automated info system.
03/27-29/96	Barcelona	Review plans for new automated info system and CS Library operations/requirements
09/15/96	Washington, D.C.	Training.

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**ROSA MA. AGUILA**

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09/97	Madrid	Annual Meeting
06/97	Palma de Mallorca	Support President Clinton's Visit
04/97	Palma de Mallorca	Attend a conference And meetings with Official organizations
09/96	Madrid	Annual Meeting
10/95	Madrid/Seville	TABD

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**EMILIO ARRANZ**

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11/97	Madrid	Attend SIMO
09/97	Madrid	Annual meeting
06/97	Palma de Mallorca	Support President Clinton's Visit
09/96	Madrid	Annual meeting
03/96	Zaragoza	Attend SMAGUA

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**BEATRIZ BAZAN**

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09/97	Madrid	Annual Meeting
07/97	Palma de Mallorca	Support President Clinton's Visit
09/96	Madrid	Annual Meeting



**MONSERRAT CANELA**

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03/98	Berlin	Attend training session-T&T
02/98	Andorra	U.S. Trade Day
09/97	Andorra	Establish contact with Authorities and private sector
09/97	Madrid	Annual meeting
06/97	Palma de Mallorca	Support President Clinton's Visit
09/96	Madrid	Annual Meeting
10/95	Madrid/Seville	TABD