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*INTERNATIONAL TRADE  
ADMINISTRATION*

*US&FCS Brazil:  
Improvements Needed in Program  
Management and Internal Controls*

*Final Inspection Report No. IPE-10916/September 1999*

*Office of Inspections and Program Evaluations*



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## EXECUTIVE SUMMARY

Brazil has one of the largest economies in the world and is South America's dominant economic force. With an estimated population of 162 million and a gross domestic product of \$800 billion, Brazil represents the United States' third largest market in the Western Hemisphere, after Canada and Mexico. Economic reform and privatization of state-owned enterprises are opening new markets and resulting in unprecedented opportunities for U.S. business. The United States is the largest foreign investor in Brazil, accounting for almost 34 percent of total foreign direct investment. In 1997, Brazil was the 12<sup>th</sup> largest market for U.S. exports, totaling nearly \$16 billion. After many years of trade deficits, the United States ran trade surpluses with Brazil in 1995, 1996, and 1997. Unfortunately, the recent economic downturn in Brazil puts the currently favorable U.S. trade position in some jeopardy, at least for the short term.

The mission of the U.S. and Foreign Commercial Service (US&FCS) is to promote U.S. business interests abroad and to increase the number of U.S. firms, particularly small- and medium-sized firms, in the global market. Located in 78 countries and more than 220 cities worldwide, US&FCS helps U.S. firms recognize their export potential by providing counseling and advice, information on markets abroad, international business contacts, and advocacy services.

US&FCS Brazil is the fifth largest US&FCS overseas post, in terms of dollars and staff, with total fiscal year 1998 expenditures of \$3.1 million. The Clinton Administration designated Brazil as one of 11 Big Emerging Markets (BEMs) in 1994. The BEM strategy is designed to redirect resources from highly developed markets to developing markets with greater potential for economic growth.

The OIG conducted an on-site inspection of the US&FCS operation in Brazil from June 15 to July 2, 1998. We observed the post's operations and activities, located in the cities of São Paulo, Brasilia, Belo Horizonte, and Rio de Janeiro. We interviewed available staff members at each post, officials of other federal agencies located within the embassy and consulates, representatives of various U.S. and foreign companies conducting business in Brazil, and management and staff at ITA headquarters in Washington.

At the time of our review, US&FCS Brazil employed 57 personnel and about 22 interns (since that time, the post has opened an office in Porto Alegre with a contract employee and added an additional commercial officer in São Paulo). The staffing included the Senior Commercial Officer (SCO), the Deputy Senior Commercial Officer, 4 other commercial officers, and 51 foreign service nationals (FSNs) and personal service contractors (PSCs). The majority of personnel are located in São Paulo—the acknowledged business capital of Brazil. The total number of personnel in Brazil more than doubled in six years, increasing from 23 positions in 1993 to 57 in 1998. The majority of that increase has been in São Paulo, although all posts have experienced some growth.

The U.S. Commercial Center in São Paulo is the most significant feature of US&FCS Brazil operations. Title IV of the Jobs Through Exports Act of 1992 authorized the Department of Commerce to establish commercial centers in Africa, Asia, and Latin America. Utilizing this authority, US&FCS developed a commercial center program, designed to provide expanded, accessible trade promotion facilities located outside embassies and consulates and near the primary business districts of BEM countries. Additionally, US&FCS decided to leverage its presence in these markets by collocating with other executive branch departments, and state government and industry partners. This collocation is designed to achieve the coordination of U.S. trade promotion efforts, thereby leveraging trade promotion resources in a period of declining or stagnant resources, and to share some costs of operating the facility.

Overall, US&FCS Brazil is a very energetic and creative post and is meeting its mission to serve U.S. exporters successfully. In addition, we found that the São Paulo Commercial Center is an attractive and accessible facility and, while not meeting all the key mandates of the commercial center program, is being used creatively and actively to support US&FCS Brazil's programs and the needs of U.S. exporters and Brazilian importers. We had many other positive observations about this operation, including (1) an improved program since the SCO has been in Brazil; (2) frequent and extensive communication between management and staff, and US&FCS Brazil headquarters and constituent posts; (3) impressive marketing and outreach; and (4) implementation of new, innovative programs to promote U.S. products. The SCO has been commended by US&FCS for turning around an operation that was in chaos under the previous management team. However, we have concerns in a number of financial, program, and management areas that need to be addressed. Our most significant observations are as follows:

### **Performance Tracking System Needs to Be Reconsidered in Scope and Usage**

While US&FCS Brazil has designed and implemented an effective work and performance tracking system for its operations, the system itself appears to be determining individual priorities and undermining teamwork and cooperation among staff. While we commend management for instituting such a comprehensive system, we believe that there have been negative side effects from its implementation, particularly in the areas of staff morale, priorities, and teamwork. We recommend that management rethink this concept and make appropriate adjustments to the system to counter these side effects. We also suggest that US&FCS headquarters evaluate the system and determine its appropriateness for other US&FCS posts (see page 10).

### **The São Paulo Commercial Center Needs to Be Refocused and More Effectively Managed**

The São Paulo Commercial Center is an attractive and accessible facility. It brings greater visibility and useful services to support the promotion of U.S. exports. The commercial center is primarily being used to house personnel related to the post's innovative "import pull" services, which have

been very successful and have accounted for a very large percentage of the success stories of US&FCS Brazil. We believe that these programs are a positive step for the post. However, we have a number of concerns about the management, priorities, and direction of the commercial center.

While we recognize that each commercial center must evolve and adapt to the unique needs of its market, we, nevertheless, have concerns about whether the appropriate priorities have been set for the São Paulo Commercial Center and whether the center may be missing opportunities to fully implement the commercial center program. Specifically, we found that (1) collocated partners are not adequately integrated into operations; (2) short-term rental space and related business services are not heavily used and may not be necessary; and (3) important planning documents are missing and the cost recovery status is not adequately justified or tracked.

We believe that the problems are caused by (1) US&FCS Brazil's priorities for its commercial center differing from those set by US&FCS headquarters for the commercial center program, and (2) the lack of adequate ongoing oversight and support from US&FCS headquarters to help ensure that the commercial center program is successful and complies with the requirements as outlined in the legislation. We noted that some of these problems may be the result of the fact that there no longer is a central headquarters contact in charge of overseeing the commercial center program. US&FCS Brazil needs to establish priorities that are more closely aligned with the program as it was designed by US&FCS and take certain management and operational steps to implement the new priorities (see page 23).

### **Further Refinement and Proven Results Are Needed for the Newly Developed Minority Business Position**

The minority business development commercial assistant position established by US&FCS Brazil in February 1998 is not well integrated into the Department's minority business activities, has overlapping responsibilities with other trade specialists at the post, and has inadequately defined responsibilities. We also question whether São Paulo was the appropriate place for such a position and whether there is sufficient market potential and results to justify continuing it. We believe that while this idea may have some merit, post management did not analyze the position adequately or set up the necessary mechanisms to measure the performance and evaluate whether the position was needed (see page 17).

### **Improved Coordination Between Post and Other Elements is Needed**

Opportunities for good working relationships between US&FCS Brazil and other federal and ITA components, as well as with some host country organizations, are not being fully exploited and appear to be highly dependent upon personal relationships. We noted good working relationships

between the deputy senior commercial officer and principal commercial officers and other U.S. embassy officials. Conversely, relations between the SCO and the previous Ambassador were strained, and other officials commented negatively on working relationships with the SCO. The post is working well with a number of multipliers. However, we are concerned that these positive relationships might become compromised if the post's promise to install computers at partner sites, as part of a new initiative, is not fulfilled. In addition, while the constituent posts have productive working relationships with many multipliers, improvements are needed in working relationships with the São Paulo and Rio de Janeiro American Chambers of Commerce.

We also noted very uneven and some unproductive relationships between US&FCS Brazil and various ITA components. While coordination has probably improved within ITA with its implementation of domestic "teams," we noted that US&FCS Brazil has the most uncooperative relationships with the domestic offices that we have ever witnessed. We noted that there were overwhelmingly negative comments from domestic office staff concerning the responsiveness of US&FCS Brazil to their client requests. Relations between the post and the domestic offices were further aggravated by US&FCS Brazil's unilateral decision to issue a "protocol" to domestic offices for requesting services, which is lengthy and complicated. Significant "fence-mending" should be undertaken immediately by US&FCS Brazil officials (see page 32).

### **Market Research and Product Timeliness Need to Be Made Higher Priorities**

In our review of Brazil's products and services we identified issues concerning two important core US&FCS products that merit discussion. First, the post is not producing timely responses to Agent/Distributor Service (ADS) requests and there is some question about the overall quality of ADS responses by the post. Second, the post is not consistently producing high-quality market research reports and is significantly behind schedule. We believe that these problems are caused by inadequate emphasis on these products by some officers and staff. Post management should pay increased attention to these areas (see page 48).

### **US&FCS Brazil's Financial Management, Procurement, and Internal Controls Need Significant Attention**

We observed a pervasive lack of adequate financial management practices and internal controls in US&FCS Brazil operations. The weakest controls were found at the administrative center in São Paulo, while the posts in Rio de Janeiro, Belo Horizonte, and Brasilia had markedly better controls. During our inspection, we noted significant management control weaknesses in the handling of cash, use of purchase orders, inventory and management of government personal property, credit card transactions, the handling of a large information technology contract, and documentation of the use of government vehicles. We attribute these shortcomings to a general inattentiveness to administrative matters.

Historically, financial management and internal control problems have plagued US&FCS Brazil. Two reviews by US&FCS in 1992 and 1996 uncovered significant and pervasive financial and internal control problems. While headquarters officials have recently reported improvement under the current SCO, we noted significant lapses in attention to financial and internal control matters (see page 53).



In response to our draft report (see page 86), US&FCS stated that it appreciated and agreed with the positive observations about Brazil's operation, especially in regard to the improvements made since the current SCO's arrival in Brazil and the recognition of new programs that have been developed to promote U.S. products. US&FCS also noted that serious administrative and financial problems exist in Brazil that needed to be addressed quickly.

While US&FCS agreed with a vast majority of our observations and recommendations, noting areas where changes and improvements have been made since our visit in June 1998, the response also included a number of areas where US&FCS disagreed with the analysis and recommendations. The areas of disagreement are addressed in the report. In addition, US&FCS noted that although the report delves into many specific issues, e.g. staffing at constituent posts, the co-locators, ADSs, relations with Export Assistance Centers, and market research, US&FCS would also like a statement that gives the agency "a general reading on whether Brazil is meeting the needs of U.S. exporters, and tells us if the São Paulo Commercial Center is effective and provides benefits to US&FCS's overall mission." Where appropriate, we have modified our report to more specifically address these issues.

The report includes the written response from US&FCS. A copy of the response is included in its entirety as an attachment to the report. We request that US&FCS provide an action plan addressing any outstanding issues noted in the report.

On page 79, we offer recommendations to address our concerns.



## INTRODUCTION

Pursuant to the authority of the Inspector General Act of 1978, as amended, and the requirements of the Omnibus Trade and Competitiveness Act of 1988 and the Export Enhancement Act of 1992, the Office of Inspector General conducted an inspection of U.S. and Foreign Commercial Service (US&FCS) operations in Brazil.

Inspections are special reviews that the OIG undertakes to provide agency managers with information about operational issues. One of the main goals of an inspection is to eliminate waste in federal government programs by encouraging effective and efficient operations. By asking questions, identifying problems, and suggesting solutions, the OIG hopes to help managers move quickly to address problems identified during the inspection. Inspections may also highlight effective programs or operations, particularly if they may be useful or adaptable for agency managers or program operations elsewhere. This inspection was conducted in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency. Our field work was conducted from June 15 to July 2, 1998. We discussed our findings with the US&FCS Office of International Operations on July 24, 1998 and with the Senior Commercial Officer (SCO) in Brazil on July 30, 1998. The Director General was briefed on February 19, 1999. The agency response to our March 19, 1999 draft report was received on July 17, 1999.

## PURPOSE AND SCOPE

The purpose of this inspection was to evaluate the effectiveness of US&FCS's operations in Brazil. More specifically, we sought to determine whether (1) US&FCS Brazil is effectively managed; (2) the post is operating effectively and meeting the needs of U.S. exporters; (3) internal control systems have been established and good financial management practices are being followed; and (4) the São Paulo Commercial Center is effective and provides benefits to US&FCS's overall mission.

In conducting the inspection, we (1) reviewed the organizational structure and operating approaches used in administering activities at the posts; (2) interviewed appropriate officials of ITA, the State Department, and other agencies and organizations relevant to US&FCS operations in Brazil; (3) examined pertinent files and records relating to the post's operations; (4) interviewed clients, multipliers, and partners of the post and reviewed selected products and services to determine customer satisfaction, product quality, and post effectiveness; and (5) interviewed management and personnel in US&FCS Brazil offices in São Paulo, Belo Horizonte, Brasilia, and Rio de Janeiro on a wide variety of management, programmatic, administrative, and financial topics.

## BACKGROUND

Latin American markets are among the fastest growing in the world, and economic forecasters expect the region to grow nearly 5 percent annually through the year 2000, although a recent economic downturn in Brazil may have some effect on this prediction. In 1997, U.S. exports to the Western Hemisphere accounted for almost 40 percent of total U.S. exports and nearly 50 percent of the total increase in U.S. exports. Economic reform, market opening, and privatization of state-owned enterprises—the major issues in Latin America—have resulted in unprecedented opportunities for U.S. business. U.S. exports to the Western Hemisphere are growing at about triple the rate of U.S. exports to the rest of the world.

With an estimated 162 million inhabitants, Brazil has the largest population in Latin America and fifth largest population in the world. The majority of the populace lives in the south-central states of São Paulo, Rio de Janeiro, and Minas Gerais, which include the cities of São Paulo, Rio de Janeiro, and Belo Horizonte, respectively. Brazil is the eighth largest economy in the world, with a gross domestic product of over \$800 billion in 1997. The state of São Paulo alone has a larger economy than all of Argentina, and if the state of Rio de Janeiro were an independent country, its economy would rank fourth in Latin America.

Figure 1

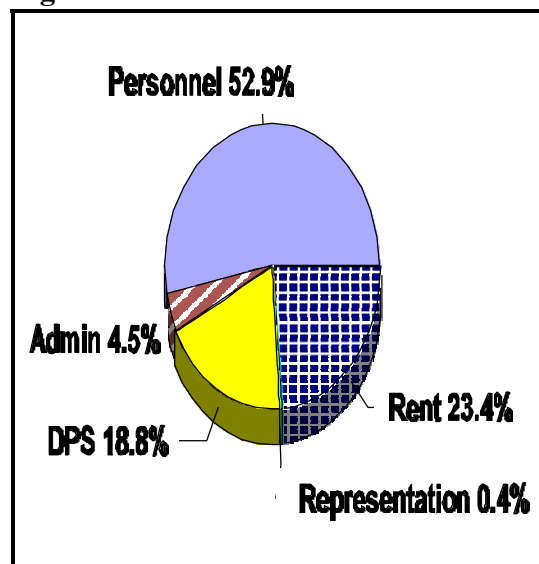


With the largest economy in South America, Brazil is a country with immense export opportunities for U.S. businesses. Market liberalization and economic stabilization have significantly enhanced Brazil's growth prospects. Brazil's trade has more than doubled since 1990, from \$50 billion to an estimated \$114 billion in 1997. The Brazilian government is emphasizing increased economic opportunities for the private sector through privatization, deregulation, and the removal of impediments to competition. U.S. exporters are now able to expand and participate in new business opportunities that contribute to making Brazil the United States' third largest trading partner in the

Western Hemisphere. Unfortunately, a recent economic downturn in Brazil puts the currently favorable U.S. trade position in some jeopardy, at least for the short term.

The United States has growing economic, political, and cultural ties with Brazil. Brazil was the United States' 12<sup>th</sup> largest export market in 1997, with U.S. exports to Brazil totaling nearly \$16 billion, a 28 percent increase from 1996. The United States ran trade surpluses with Brazil in 1995, 1996, and 1997 after many years of deficits. The President of the United States made an official visit to Brazil in 1997, and recent polls indicated that Brazilians have an overwhelmingly positive impression of the United States. In addition, the United States is the largest foreign investor in Brazil, accounting for almost \$20 billion, or 34 percent of total foreign investment. Ongoing and upcoming privatization in Brazil's telecommunication, energy, and mining sectors, planned for 1998 and 1999, is of major interest to U.S. companies.

**Figure 2: US&FCS Brazil**



**Figure 3: FY 1999 US&FCS Brazil Staffing**



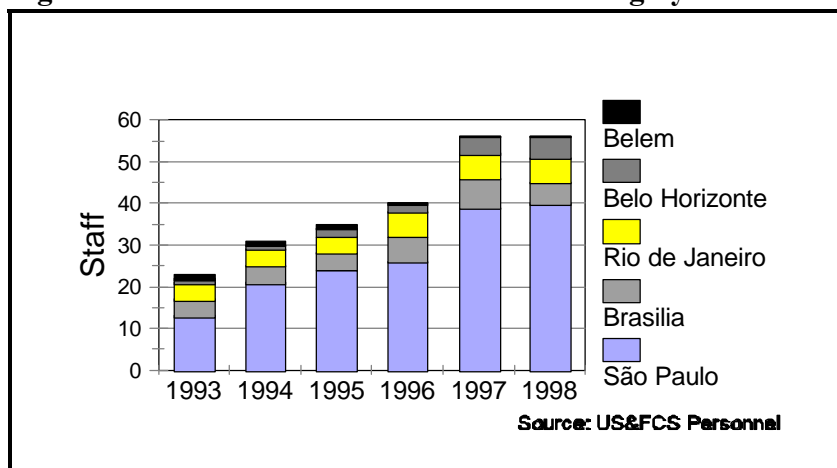
US&FCS Brazil is the fifth largest US&FCS overseas post, in terms of dollars and staff. Total fiscal year 1998 expenditures were estimated to be \$3.1 million, with over one half of that budget covering personnel costs (see Figure 2). The Clinton Administration designated Brazil as one of several Big Emerging Markets (BEMs), a strategy designed to redirect resources from highly developed markets to developing markets with greater economic growth potential.

At the time of our review, US&FCS Brazil employed 57 personnel and approximately 22 interns. After our review, US&FCS Brazil opened an office in Porto Alegre, staffed by one contract employee, assigned an additional commercial officer to São Paulo, and assigned a second commercial officer and another staff person to work on standards issues in Brasilia. These

additions are reflected in Figure 3. During our review, staffing included the Senior Commercial Officer (SCO), the Deputy Senior Commercial Officer, 4 other commercial officers, and 51 foreign service nationals (FSNs) and personal service contractors (PSCs).

As shown in Figure 3, the majority of personnel are located in São Paulo—the acknowledged business capital of Brazil. US&FCS Brazil has experienced extraordinary growth over the past several years. As shown in Figure 4, the total number of US&FCS Brazil staff has more than doubled in six years, increasing from 23 positions in fiscal year 1993 to 57 in fiscal year 1998 (these figures do not include interns). Most of that increase has been in São Paulo, although all posts have experienced some growth. In 1996, a single FSN position in Belem was eliminated in order to place the position in a higher growth market elsewhere in Brazil.

**Figure 4: 1993 - 1998 US&FCS Brazil Staffing by Post**



Operations in São Paulo and Belo Horizonte are located in commercial space leased from private entities, while operations in Brasilia and Rio de Janeiro are located in the U.S. embassy and U.S. consulate, respectively. Particularly significant is the U.S. Commercial Center located in São Paulo in a four-story building, leased by US&FCS, that houses all São Paulo personnel and has space designated for collocated partners and rentable business facilities as mandated by legislation. The commercial center is designed to provide an expanded, accessible trade promotion facility located in an important business district of São Paulo. Title IV of the Jobs Through Exports Act of 1992 authorized the Department of Commerce to establish commercial centers in Africa, Asia, and Latin America.<sup>1</sup>

<sup>1</sup> Public Law 102-549. The bill also authorized \$22 million to establish and operate the centers during fiscal years 1993-97, although funds were never appropriated for this purpose.

**Figure 5: The US&FCS Post and Commercial Center in São Paulo**



In general, US&FCS, using the legislation as a base, defined the commercial centers as expanded commercial posts, located outside of embassies and consulates near the primary business districts in BEM countries, and more accessible to the general public. US&FCS decided to leverage its presence in these markets by collocating with other executive branch departments, state government representatives, U.S. industry representatives, and ITA Market Development Coordinator Program grantees.<sup>2</sup>

There is a similarity between commercial center services and those offered by private and non-profit business centers, such as can be found in the American Chamber of Commerce (AmCham) in São Paulo<sup>3</sup> or most major hotels worldwide that offer business-support services. In addition, the commercial centers are similar to ITA's American Business Centers, which are located in Russia

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<sup>2</sup> The Market Development Cooperator Program provides competitive matching grants to states, trade associations, chambers of commerce, world trade centers, and other non-profit industry organizations. Grants are used to help underwrite the startup cost of new export market ventures.

<sup>3</sup> The São Paulo AmCham's mission is to serve its members by constructively influencing public policy in Brazil and the United States and promoting trade and investment. In addition to advocacy, the AmCham provides a wide range of business support services, such as a commercial library, rental space, networking committees, and trade events.

and throughout the Newly Independent States,<sup>4</sup> in terms of providing additional business support services for U.S. companies. Commercial centers also differ from traditional US&FCS “trade centers,” which primarily provide space for trade events. Figure 6 compares the commercial centers to other US&FCS and private-sector operations.

**Figure 6: Comparison of Commercial Centers with Other ITA and Private-Sector Centers**

	Commercial Center	American Business Center (ABC)	Standard US&FCS Post	US&FCS Trade Center	Private Sector Business Center
US&FCS core programs	U	U	U		
Business Information Center/commercial library	U	U	U		U
Short-term rental offices	U	U			U
Collocated trade partners	U		**		
Product display/exhibit areas	U	U	U*	U	U
Meeting facilities for rent	U	U	U*		U
Other multipurpose space	U	U	U*		U

\*Certain US&FCS posts—such as in South Korea, Vietnam, or US&FCS-funded American Institute of Taiwan —have obtained facilities that can be used for display, exhibits or meetings, although this is not a mandated or standard service provided by all US&FCS posts.

\*\*We noted that US&FCS Spain and US&FCS Thailand are collocated with other federal partners, though they are not acting as landlords, as with

Using the legislation as a base, US&FCS expanded the commercial center concept to include collocation with federal, state, and private sector partners with US&FCS personnel. Collocation is designed to share costs of acquiring and operating the facility with its partners as well as to gain advantages by coordinating U.S. trade promotion efforts with state, federal, and private industry partners collocated with US&FCS.

The commercial centers are designed for long-term, collocated partners, but according to US&FCS and the commercial center legislation, also to be a temporary “home away from home” for U.S. exporters. The commercial centers are to provide a full range of business facilities and services that enable U.S. exporters to achieve an affordable presence in these markets for a stay as brief as one day or as long as a year or more. US&FCS states that the centers should offer, on a user-fee basis, (1) fully-equipped offices, including “high quality” telecommunications equipment; (2) small meeting and conference facilities; (3) exhibit and reception areas; (4) business services, such as translation services, clerical assistance, and a comprehensive commercial library; and (5) commercial law information on the host country and its markets. US&FCS has established four commercial

<sup>4</sup> *International Trade Administration: Mid-Term Review of US&FCS American Business Centers Shows Mixed Results*; IRM-6831, U.S. Department of Commerce, Office of Inspector General, September 1995.

centers—in São Paulo and Jakarta (Indonesia) in 1994, Shanghai (China) in 1996, and Johannesburg (South Africa) in 1998.

US&FCS Brazil has had its program and administrative performance reviewed internally several times since the last OIG visit in 1991. In 1994, an internal program review by US&FCS revealed significant programmatic, administrative, and financial management weaknesses. In 1996, US&FCS concluded that the overall management of the Brazil post had improved significantly since the 1994 review. The team noted, in particular, the SCO's attention to priorities in terms of implementing information technology-related systems. However, the 1996 review also noted issues related to the processing of Agent/Distributor Service (ADS) requests,<sup>5</sup> the post's intern program, training, and domestic office relations. In addition, problems were noted in certain financial management areas, including fund fungibility, collections, imprest fund management, inventory, and contract hires.

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<sup>5</sup> ADSs are designed to provide U.S. firms with names and addresses of up to six pre-qualified potential representatives or agents per market.

## OBSERVATIONS AND CONCLUSIONS

### I. Post Program Initiatives Are Noteworthy, but Need Improvements

Programmatically, US&FCS Brazil more closely monitors its activities than most posts we have recently visited. We have many positive observations about this operation, including (1) an improved program since the current SCO has been in Brazil; (2) frequent and extensive communication between management and staff, and São Paulo and constituent posts; (3) impressive marketing and outreach efforts; and (4) implementation of new, innovative programs to promote U.S. products.

The SCO has a “hands-on” management style. There are regular communications with the constituent posts. Telephone conference calls between the SCO, American officers, and regional management at US&FCS headquarters occur weekly, and all action items are noted and sent to the posts for follow-up. Monthly staff meetings in São Paulo are videotaped and shared with all the constituent posts. “Walkabouts,” in which the SCO meets with each member of the staff to review activities and accomplishments, are conducted periodically.

The SCO has done an excellent job of directing and implementing his vision and priorities for US&FCS Brazil. Under the SCO’s guidance, a unique performance tracking and assignment system has been developed and is used to identify and monitor staff performance and activities. US&FCS Brazil has also focused its resources on 37 “active” industry sectors (instead of trying to cover all possible industries). In addition, the SCO has implemented a “team” concept to manage requests, activities, and market research in each sector.

US&FCS Brazil has also instituted an aggressive outreach program in Brazil. The SCO has made contact with a number of Brazilian states that have historically been inadequately covered by US&FCS. The Principal Commercial Officers are pursuing improved working relationships with private sector multipliers in their regional areas of responsibility. This effort is providing innumerable new contacts and opportunities for U.S. firms. Furthermore, the SCO has made marketing and information dissemination one of his top priorities. The post has developed products for both U.S. firms interested in exporting to Brazil and for potential Brazilian importers. These products include:

- A CD-ROM in English and Portuguese that includes market reports and other useful information about exporting to Brazil.
- A US&FCS Brazil Internet home page that contains information identical to that found on the CD-ROM.
- A videotape that explains the facilities and services of the commercial center.



Also during his tenure, the SCO has developed a number of innovative approaches for offering core services, such as:

- The Twin Libraries initiative, which will provide informational computer workstations to institutional partners around the country to provide Brazilian firms with the same information (e.g., databases that contain commercial and marketing information) that is available at the post. This program is currently on hold due to the lack of authority to properly dispose of the government's surplus computers (see Chapter III, Section B).
- The Commercial Information Research Service (CIRS), a fee-based subscription program that provides Brazilian companies with a number of mailings, including 12 issues of *Commercial News* magazine, and the ability to make 50 commercial searches (for U.S. export partners).
- Gateway, Gateway Plus, and "Inovatec"<sup>6</sup> programs, which provide Brazilian companies with U.S. business contact information.
- The automated performance tracking system.
- An intern program that allowed Brazilian students to train at US&FCS for a minimal cost to the program. The program has since been terminated because US&FCS Brazil did not have the legal authority to pay the students stipends, which are required under Brazilian law.

The SCO has done a very good job of addressing serious problems that existed under a previous management group, and has set a new standard for US&FCS posts in terms of innovation. We note however, that while the SCO has successfully introduced and implemented a number of initiatives, he has at times done so at such a rapid pace that the initiatives have not always been thoroughly thought through, developed, or pilot tested before being implemented. As a consequence, programs have been stalled or terminated because proper authority was not sought ahead of time. In addition, post staff have complained that the regular workload has been disrupted because of constant modifications to new programs and/or post-implemented systems.

However, despite these innovations, we found many areas of US&FCS Brazil's program and management that need improvement, including the implementation of innovative programs and systems. In particular, we believe that improvements need to be made in the areas of tracking work and performance, measuring client satisfaction, executing strategic planning, expanding coverage of minority business interests, and promoting travel and tourism to the United States.

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<sup>6</sup> Gateway, a fee-based service for Brazilian importers, that provides, for \$200, lists of American products and services. Gateway Plus provides arranged meetings with U.S. exporters to Brazilian importers. Inovatec is a post-initiated program whereby American firms can express their interest in being matched with potential Brazilian partners by filling out a form and sending it to US&FCS São Paulo. Completed forms are sent to individual Brazilian firms for potential "matches" for U.S. exporters' products.

**A. New performance tracking system is a good idea, but its scope and usage need to be reconsidered**

While US&FCS Brazil has designed and implemented an elaborate work and performance tracking system for its operations, the system itself appears to be determining individual priorities and undermining teamwork and cooperation among staff. While we commend management for instituting such a comprehensive system, we believe that there have been negative side effects from its implementation, particularly in the areas of staff morale, priorities, and teamwork. We recommend that management rethink this concept and make appropriate adjustments to the system to ameliorate these side effects. We also suggest that US&FCS headquarters evaluate the system and determine its appropriateness for other US&FCS posts.

US&FCS Brazil's new tracking system may be one of the most comprehensive work tracking systems anywhere among US&FCS's worldwide network. The system allows post management to track and capture most work activities, results, costs, and benefits associated with its efforts. The system uses workload data (for example, clients counseled or market research reports completed) fed by individual staff members into the system. The system uses the data to produce performance reports which are able to identify costs, both direct and indirect, and sources of funds associated with each product and service provided. The result is a cost-benefit quotient for products, and the services produced by the post, and for individual staff members and for each office. This system, while modified a number of times, has essentially been in operation since the beginning of fiscal year 1998.

While acknowledging the tremendous effort put into the system, and its many features that could be adapted for replication elsewhere, we also believe that the effect of the system upon the work habits, work atmosphere, and priorities of US&FCS Brazil has not been entirely positive. In fact, most staff indicated that the system is skewing and, in part, determining priorities and undermining cooperation, as well as perhaps contributing to poor relations with US&FCS domestic offices, a problem discussed in Chapter III, Section D. We believe that the system needs to be improved before being used by other posts, given the problems we have identified.

Many FSNs and PSCs indicated that the system undermines office teamwork, including the country-wide "team" approach to key industries, because staff are tracked individually by the amount of fees collected, services provided, and success stories generated. As a result, staff have a disincentive to assist or work with colleagues. Working with other staff results in a "shared" success story, something the staff admits will dilute their accomplishments as reflected in their performance report. The smaller posts, in particular, indicated that teamwork and sharing of information between offices is not occurring consistently. For example, because São Paulo, with the largest staff, has the lead on the highest number of key industry sectors, the constituent posts do not want to "give" São Paulo fees earned or potential success stories. We also learned of numerous

instances of US&FCS Brazil staff being reticent to allow their colleagues to use their resources (such as phones, copying machines, rental facilities, or fax machines) because they did not want to incur costs that would negatively impact their personal cost-benefit ratios.

Quarterly reports generated from the system provide a bottom-line cost-benefit figure for individual staff and for offices as a whole. Believing that this is the primary vehicle to support their future evaluations, staff have adjusted their work priorities accordingly. The system designates many of the São Paulo staff as individual “cost centers,” where costs are accrued and allocated to the staff person. The message to the staff is clear: focus on generating fees and keeping your costs down. For example, non-fee-generating activities are considered lower priorities or de-emphasized by staff, despite statements by management to the contrary. According to staff and some officers, higher-fee services (such as Gold Keys<sup>7</sup>) are encouraged as compared to no-fee activities (some types of market research) or lower fee activities. Some US&FCS domestic offices commented upon this phenomenon, stating that, in their opinion, US&FCS Brazil tends to emphasize fee-generating services for their clients. In addition, in an effort to keep costs down, some staff indicated a reluctance to return phone calls to US&FCS domestic offices, preferring to wait for a second call, in order to not be charged with making a long-distance call.

The SCO stated that through the extensive documentation provided to staff about the system, his personal meetings with each staff member, and country-wide conference calls and meetings, he has indicated what the work priorities are and what the role of the performance tracking system is. We acknowledge that such communications have occurred. Nevertheless, the system’s components, the reports from the system that are shared with staff, and statements made by the SCO clearly lead the staff—rightly or wrongly—to reach a different conclusion about the system’s purpose and its role in their evaluations. Such a conclusion about the system is shared by many of the post’s other officers as well. Clearly, mixed messages are being received. We believe that the system has many good features, but that the post must avoid sending a message that fee-generating services are preferred. US&FCS Brazil is provided with an appropriation and is therefore obligated to serve clients with core US&FCS products and services, whether fees are generated or not.

US&FCS Brazil should undertake a study of its performance tracking system to determine to what extent the system is determining work priorities and what modifications might be made to make the system more useful to post management. In addition, and after resolving the system’s problems, US&FCS headquarters should evaluate the system for potential replication at other US&FCS posts.

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<sup>7</sup> A “Gold Key” is a custom-tailored service provided by US&FCS posts worldwide that is designed to combine orientation briefings, market research, appointments with potential partners, interpreter services for meetings and assistance in developing follow-up strategies.



In response to our draft report, US&FCS agreed with our recommendation that US&FCS headquarters study Brazil's program initiatives, and stated that the Twin Libraries Program, Gateway, CIRS, and Inovatec, among others, have been turned over to US&FCS Export Promotion Services and the Innovation 2003 team for study and possible inclusion (or modification of) in US&FCS worldwide programs.

Specifically, US&FCS agreed with our recommendation that the performance tracking system be studied to determine what should be modified to make the system more useful. US&FCS indicated that the Brazil staff may not have fully understood the purpose of the system, which is still undergoing "extensive refinement." Management indicated that the post will undertake a study of the effectiveness of the system by the end of 1999. We request that US&FCS provide us with the conclusions of this study in its action plan to address our recommendations.

**B. Post's client satisfaction survey program needs to be redesigned**

US&FCS Brazil has a customer satisfaction survey program that is poorly implemented and controlled, is not coordinated with the US&FCS headquarters division responsible for customer surveys, and lacks proper documentation. While recognizing the need to implement a customer satisfaction survey, US&FCS Brazil management did so without making it a high priority, instituting proper controls, or consulting and coordinating with appropriate headquarters components. As a result, the survey program has had poor results, is not providing reliable information on US&FCS Brazil operations to management, and is not in compliance with the Paperwork Reduction Act.

Measuring customer satisfaction is not only important as a feedback mechanism to make appropriate adjustments to any organization's operations, but it is also becoming a more important requirement for all federal government programs with implementation of the Government Performance and Results Act and its linkage of performance results and budget allocations. Customer satisfaction is also emphasized in the National Performance Review initiative. In addition, in September 1993, President Clinton issued an executive order requesting agencies to establish customer standards and measure customer satisfaction.<sup>8</sup>

Measuring client satisfaction is also an important initiative within US&FCS. US&FCS/Export Promotion Services (EPS), a headquarters-based unit, is already responsible for collecting some client feedback on product satisfaction for all overseas and domestic operations. However,

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<sup>8</sup> Executive Order 12862: *Setting Customer Service Standards*. September 11, 1993.

US&FCS Brazil believes, and as we have stated in past reports,<sup>9</sup> the EPS quality assurance survey program does not meet the post's needs, due to low response rates and the lack of a country-specific feedback mechanism.<sup>10</sup> In response to a perceived need for more and better client feedback, in January 1998, US&FCS Brazil instituted its own client satisfaction survey program.

However, our analysis of this new initiative indicates that the program is poorly designed and will not yield the type of information that management needs in order to make decisions about resource allocation and products and services. Under the post's client satisfaction survey program, each trade specialist is responsible for sending the appropriate form to Brazilian and U.S. firms that have been counseled or provided a service. The questionnaires, when distributed, are either given to the customer immediately after a consultation or sent out by fax, electronic mail, or regular mail. However, to date, the number of returned questionnaires has been low, according to our discussions with trade specialists. We also found that trade specialists are often too busy to send the questionnaire forms out, indicating that the survey program is a low priority for the specialists despite the fact that the SCO has linked the program to trade specialists' and commercial officers' performance evaluations.

In addition, there are inadequate controls over the collection and dissemination of the client satisfaction information. Information is requested, collected, and provided to management by the employee who is being evaluated by the customer. There are no controls in place to prohibit employees from discarding poor evaluations, although we found no evidence that this was occurring. Given that the point of contact for the returned questionnaire is a trade specialist who will be evaluated, in part, with the form, it would be easy for specialists to eliminate poor evaluations, and alter the results of customer surveys, thereby eliminating important feedback on the quality of the post's products and services. This problem could be eliminated by assigning the responsibility for sending, receiving, and compiling questionnaire data to an officer at each post in Brazil.

Also, US&FCS Brazil is not coordinating its efforts in this area with key headquarters components—particularly EPS. An EPS representative knew nothing about US&FCS Brazil's survey program. The Paperwork Reduction Act of 1995 requires agencies to seek and obtain approval from the Office of Management and Budget before obtaining or soliciting identical information from 10 or more persons. The purpose of the act is to minimize the burden placed on individuals by federal information collection efforts. By implementing the survey program without

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<sup>9</sup> *US&FCS Germany: While Generally Productive, Its Priorities, Resources, and Activities Require Reassessment*, IPE-9287, July 1997.

<sup>10</sup> EPS officials stated that reports on survey results are not compiled by country nor are the results distributed to US&FCS posts.

consulting EPS, US&FCS Brazil management could potentially overburden U.S. firms with multiple questionnaires. Moreover, the post bypassed the opportunity to take advantage of EPS's expertise. While agreeing that a post-implemented survey program was a good idea, EPS was concerned about the methodology, stating for example that the appropriate length of time between providing the product or service and sending out a customer satisfaction survey is heavily dependent on the types of service provided and information collected.

Finally, US&FCS Brazil is not using an ITA-approved questionnaire and has not included the information that is required to be on a government questionnaire that is sent out to the public. As a result, US&FCS Brazil is using questionnaires that are not part of ITA's OMB-approved family of "User Satisfaction Surveys." The Paperwork Reduction Act of 1995 requires agencies to submit questionnaires for approval. Once approved, OMB provides a valid control number and expiration date that is to be placed on the form. Agencies are not allowed to make substantive or material modifications to the approved questionnaire unless the modifications have been resubmitted to OMB. In addition, agencies are required to inform the respondent, either on the form itself or in a cover letter attached to the survey, of why the information is being collected, how it will be used, how long on average it will take to complete the questionnaire, and whether a response is voluntary.

The US&FCS Brazil survey has made substantial changes to the ITA forms. The US&FCS Client Counseling questionnaire (form ITA 735P) is a blind survey, while the US&FCS Brazil counseling survey requests company information. The approved ITA form asks multiple choice questions, while the US&FCS Brazil survey is open-ended; consequently the estimated time to respond to the US&FCS Brazil form most likely differs from the OMB approved form. Finally, the US&FCS Brazil form does not contain the OMB control number and other required information. In fact, the only information provided to the respondent on a US&FCS Brazil questionnaire is the following statement: "The information on this form is going to be used for USCS [U.S. Commercial Service] statistical use only." As a consequence, US&FCS Brazil is not in compliance with the Act.

We agree with US&FCS Brazil that customer feedback is essential to running an effective program and assessing performance. However, we believe that adjustments need to be made to this process to bring it into compliance with the federal law and regulations and to make it more useful and worth the effort expended.



In response to our draft report, US&FCS headquarters has asked Brazil to discontinue using its survey process for the time being. The agency stated that EPS is being asked to review Brazil's satisfaction survey process in order to determine if aspects of the survey could be incorporated worldwide, or whether it should be discontinued or replaced with a hybrid option. The agency

stated that future surveys will be treated as limited pilot programs and submitted to headquarters for approval before general use by a post. The agency also agreed that client satisfaction surveys need to be submitted to OMB prior to use.

We believe that the agency has agreed with our observations and endorse the actions already taken and those planned. However, since all actions have not yet been completed, we request that US&FC specifically address the status of the recommendation in its action plan.

### **C. Improvements are needed in post's strategic planning**

US&FCS Brazil does not possess an adequate strategic planning process to identify its priorities and provide milestones to be used in measuring its performance. Although the SCO has a strong vision for his operation, and there are strong links between the performance plans and each staff member's results, the SCO's priorities are not being transmitted adequately to his managers and staff in Brazil and to Washington. Without adequate strategic planning that specifically defines the organization's long-term objectives, identifies quantifiable goals, and develops strategies to link goals and objectives, as well as allocating resources to carry them out, managing the organization becomes more difficult.

A good strategic plan would increase the efficiency of the organization and create a unified vision of goals and strategies—including the resources needed for them—between the post and headquarters and also among the post's employees and managers. In addition, a strategic plan would create realistic, results-oriented performance measures, as well as specifying a process for feeding back data into the plan and making appropriate adjustments to post activities.

Post management advised us that their usual "strategic plan," formerly required for the Department of State's Mission Program Plan, was no longer required. As a result, US&FCS Brazil did not have a strategic until after we inquired about one in May 1998, during preparations for our review. At that point, US&FCS Brazil prepared a strategic plan. Although this plan expressed a concise mission, included performance indicators, and expressed an overall mission strategy, it lacked a number of the elements critical to an effective strategic plan, namely:

- **Achievable and measurable performance indicators:** Measuring the post's performance in terms of increases in U.S. exports and investment is an inappropriate measure. U.S. exports and investment are affected far more by the elements of the Brazilian economy and supply and demand, than by the relatively modest efforts of US&FCS Brazil. Furthermore, dates to achieve specific goals are not provided, thus making it more difficult to measure progress.

- **Not sufficiently inclusive or comprehensive:** Not all the important features and programs of US&FCS Brazil are expressed in the document. For example, there are no goals or performance objectives noted for the commercial center specifically or for its partners or business support services and facilities. Similarly, an important internal strategy is the promotion of “import-pull” programs (e.g., CIRS and Gateway). Despite significant resources devoted to these programs, no goals are provided for them.
- **Objectives not distinguished or weighted:** The plan makes no distinction between short- and long-term goals. All goals are expressed in equal weight. Therefore, every objective or activity is effectively given the same priority.
- **Lack of a stated feedback mechanism:** The plan does not state how performance goals will be measured, who will measure them, how often they will be measured, and by what process the plan will be changed, when necessary.
- **Relative roles in issues not discussed:** While not currently a problem in Brazil, our overseas inspections often find a conflict of roles between US&FCS posts and Department of State elements in promoting U.S. business interests. In US&FCS Brazil’s strategic plan, while advocacy efforts are discussed at length, how this important role will be split between US&FCS and State is not mentioned.
- **Lack of an external/internal needs assessment:** An important aspect of any strategic plan is an appraisal of the key forces—inside and outside the operation—that will affect the achievement of an organization’s mission and goals. These could be changes in economic conditions, technology, government policy, client needs or concerns, laws or statutes, organizational needs, or the post’s strengths and weaknesses. Such analysis does not exist in US&FCS Brazil’s plan.

The lack of an adequate strategic planning process probably accounts for the widely disparate views among staff, post management, and US&FCS headquarters management about what the post’s goals, objectives, and priorities are. While the SCO stated that he has a very clear set of priorities, there is no agreement among his staff and other key players as to what these priorities are. The danger is that without such an explicit vision, post efforts and resources will not be efficiently applied to achieve the post’s highest priority objectives. We believe that a more dynamic, effective strategic plan would be a good first step in establishing a more unified, focused operation. US&FCS Brazil needs to improve its strategic plan by having greater involvement of post staff and US&FCS headquarters in the development of goals and objectives, and including more specific information and achievable objectives in the resulting plan.





US&FCS did not agree with our observations and recommendation for improving US&FCS Brazil's strategic planning process. The agency stated that headquarters no longer requires strategic plans from posts but, instead, uses various reports to determine and track each post's mission and performance. The agency noted that all required information can be found in the post's (1) Mission Program Plan, (2) (Industry) Sector Work Plans, (3) Country Commercial Guide, (4) Officer Work Plans, (5) Quarterly Reports, (6) The "Brazil Commercial Overview" report, (7) Brazil's "Focus Brazil" CD-ROM, which is a marketing tool, and (8) SCO reports, which are distributed to management and staff and enunciate the SCO's strategic vision for the organization.

However, in reply to another recommendation in the report, the agency proposes writing a "joint strategic plan" with its partners located in the commercial center. We agree that this would be a positive step and suggest that the strategic plan include all operations, activities, products, and services throughout US&FCS Brazil.

In other posts, we have noted that effective strategic plans increase the efficiency of the organization and provide a unified vision of goals and strategies—including the resources needed for them—between the post and headquarters and also among the post's employees and managers. Given that a new management team is set to arrive in Brazil beginning in the fall of 1999, we are suggesting that creating and utilizing a strategic plan as we have suggested would have some benefits to this large, complex operation.

**D. Further refinement and proven results are needed for the newly developed minority business development position**

The minority business development commercial assistant position established by US&FCS Brazil in February 1998 is not well integrated into the Department's minority business activities, has overlapping responsibilities with other trade specialists at the post, and has inadequately defined responsibilities. We also question whether São Paulo was the appropriate place for such a position and whether there is sufficient market potential and results to justify continuing it. We believe that while this idea may have some merit, post management did not analyze the position adequately or set up the necessary mechanisms to measure the performance and evaluate whether the position was needed.

Brazilians of African descent account for roughly 45 percent of Brazil's population. In response to this market base, US&FCS Brazil management created a team coordinator for minority business development in São Paulo to "develop a well researched and coordinated effort to assist U.S. minority-owned companies to enhance their participation in this important market." The incumbent has country-wide team leader responsibilities for researching trends in the Afro-Brazilian business and consumer markets, identifying markets of opportunity, and promoting the export of U.S.

minority-owned business goods to Brazil. The incumbent in this position is on a personal services contract, which was renewed in October 1998.

The minority development specialist's responsibilities overlap with other industry sector specialists' responsibilities. In reviewing the position description and speaking with the incumbent, we learned that although the position has been defined as an industry sector trade specialist, it is not. Minority businesses span a wide variety of industry sectors. As a consequence, U.S. minority-owned firms whose product or service falls into one of the 37 active sectors are given to the team leader of that sector and, thus, only requests falling in lower priority sectors are handled by the minority business specialist. In addition, the incumbent is responsible for analyzing and reporting on all markets of opportunities in Brazil that hold promise for products and services developed for persons of African heritage. Again, this broad charge overlaps the responsibilities of existing industry sector trade specialists. As a result, the incumbent is left providing services and analyzing and reporting on markets of opportunity in relatively inactive sectors.

The post's designation of this position as an industry trade specialist, and the overlap of industry responsibilities between the minority business development specialist and other trade specialists, have the potential of creating friction and providing disincentives for teamwork. Given the competition for success stories and collecting fees, there is no incentive for the industry sector teams to work with the minority business specialist. In addition, as for identifying potential markets of opportunity, according to the Department's Minority Business Development Agency's (MBDA) staff, their experience at a minority business trade mission showed that a majority of African-American business products were already being competitively produced in Brazil. MBDA stated that it might make more sense to have such a position in the Caribbean because there are fewer local products there that would compete with African-American products.

We also found that the minority business specialist is not well integrated into the Department's minority business activities. Not only did the Brazil post or US&FCS fail to consult with MBDA about the creation and placement of the new position, but the specialist, like all of ITA, does not have access to MBDA's database of minority-owned businesses. Although the specialist has been made a member of the domestic minority business team, there is no frequent and regular communication between the US&FCS domestic offices (Export Assistance Centers) and the minority business specialist in Brazil regarding business leads that may result in eventual success stories. It should be noted however, that both MBDA and the domestic offices' minority business team supported having a point-of-contact in Brazil, who would be familiar with U.S. minority-owned firm needs.

Finally, São Paulo did not solicit opinions from the posts within Brazil or address why the position was to be located in São Paulo, and not in Rio de Janeiro. Rio de Janeiro, along with the states of

Pernambuco and Bahia, which fall within US&FCS Rio de Janeiro's jurisdiction, has the highest concentration of Afro-Brazilians and perhaps might have been a better site for such a position.

Given that the Department already has a bureau, MBDA, to promote minority business interests, and a minority business development "team" within its ITA domestic office structure, it would seem to be questionable whether a full-time minority business development position is needed in São Paulo.

We believe US&FCS Brazil has not adequately demonstrated the need for this position. Furthermore, we are not convinced that there are enough markets of opportunity in Brazil to warrant devoting a full-time employee to this area. Consequently, unless significant results can be produced by the end of 1999, we believe the position should be eliminated at the end of the incumbent's current contract. In addition, US&FCS Brazil should immediately clarify the responsibilities and activities of its minority business development position and set specific performance goals to be reached that justify resources expended on this position.



In response to our draft report, US&FCS did not disagree with our finding or recommendation, but stated that the duties and responsibilities of the minority business development position, at the time of our review, were still evolving. US&FCS also stated that, since our field work, a database of more than 400 minority-owned Brazilian firms has been developed, and a better defined work program for the specialist has since been put into place. US&FCS agreed with our recommendation, and stated that, by the end of 1999, a decision will be made about continuation of the position, based on the costs and benefits of the position's performance.

**E. Increased travel and tourism effort by the post is required**

US&FCS Brazil is not meeting its basic tourism industry sector responsibilities, such as reporting on market conditions and facilitating the U.S. travel industry's interests. We believe this is occurring because the tourism industry sector, and consequently the responsibilities of the travel and tourism sector specialist, have never been fully defined and integrated into US&FCS operations. Given that the United States is one of the top destinations for traveling Brazilians, this is surprising. As a result, US&FCS Brazil may be missing opportunities to promote U.S. travel, and potential U.S.-bound Brazilian travelers may be going elsewhere. We believe that US&FCS Brazil could do more to promote the U.S. travel and tourism industry.

Brazil is an important market for promoting tourism, because it ranks fifth in the number of inbound overseas visitors to the United States. In 1997, 941,000 Brazilians visited the United States, an 11 percent increase over 1996. Seventy percent came to the United States for a vacation, stayed about two weeks, and spent an estimated \$172 per day.

The World Tourism Organization<sup>11</sup> reports that international tourism is the world's largest export industry and research shows that job creation in tourism is growing 1½ times faster than any of the industrial sectors. However, we believe that US&FCS Brazil may be missing opportunities to promote U.S. travel. For example, Brazil is not preparing travel and tourism market reports. Market reports provide valuable opportunities and insights for U.S. businesses, such as the in-depth Industry Sector Analysis report (ISA)<sup>12</sup> prepared by US&FCS South Korea that discusses the market potential of Korean newlyweds who like to honeymoon overseas.<sup>13</sup>

US&FCS Brazil's four existing market reports, found on its Internet home page under the travel/tourism industry sector, are all International Market Insight reports (IMIs).<sup>14</sup> The four IMIs, which report on specific foreign market conditions and upcoming opportunities for U.S. business, are all produced by the transportation industry specialist and cover transportation-related topics. Most likely the IMIs were misplaced under travel/tourism because of incorrect industry coding.

The travel sector specialist's major duties and responsibilities are planning a tourism trade show, developing and maintaining contacts in the tourism industry, promoting U.S.-based travel shows, and business counseling.<sup>15</sup> Thus, the problem may be that producing market reports is not in the travel sector specialist's fiscal year 1998 work plan or position description. Yet, according to both the US&FCS Western Hemisphere Regional Director and the tourism industry trade specialist in Trade Development (TD),<sup>16</sup> research is one of the post's travel and tourism responsibilities. Clearly,

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<sup>11</sup> The World Tourism Organization is an inter-governmental organization that helps nations promote and develop tourism (<http://www.world-tourism.org>).

<sup>12</sup> ISAs are in-depth, structured reports on a broad range of industries that include information on market potential, demand trends, market size, import statistics, competition, market access, regulations, standards, and best sales prospects.

<sup>13</sup> *Korea-Outbound Travel Market/Honeymoon Travel*; US&FCS South Korea, ISA-970501, May 1, 1997.

<sup>14</sup> IMIs are brief reports on specific foreign market conditions and upcoming opportunities for U.S. business. They cover a variety of topics, such as competition, trade laws, regulations, trade show opportunities, recent market developments, upcoming major projects and purchases, and economic/trade statistics.

<sup>15</sup> This position was converted from a funded position from the now-defunct U.S. Travel and Tourism Administration. The trade specialist works on travel and tourism as an industry full-time. Most US&FCS posts do not have this position. A position exists in Brazil due to the importance of Brazilian visitors to the United States.

<sup>16</sup> TD is a sub-unit within ITA that provides information to U.S. exporters, policy makers, and trade negotiators by industry sector specialists.

this indicates a lack of adequate coordination with TD and perhaps a basic misunderstanding of the travel sector specialist's role.

Another responsibility of US&FCS Brazil, according to both the Regional Director and TD, is facilitating the U.S. tourism industry. We found, however, that Brazil does not have a Visit USA Committee.<sup>17</sup> According to the Travel Industry Association of America (TIA), US&FCS Brazil is supposed to play a major role in establishing a Visit USA committee but has failed twice. A third attempt was recently made to start the committee, but it is too soon to evaluate its success. The lack of a Visit USA Committee means that there is no formal mechanism in Brazil to distribute U.S. tourism information or coordinate competing U.S. tourism interests. We were also surprised to find that the US&FCS Brazil homepage has no tourism information, particularly links to other related sites (such as TIA's).

US&FCS Brazil states that it has received little or no guidance from ITA on travel and tourism. When the Congress eliminated the Department's U.S. Travel and Tourism Administration in 1996, its basic tourism functions were transferred to ITA. We believe that US&FCS Brazil is not fulfilling its responsibilities in the travel and tourism industry sector because the responsibilities have not been clearly defined by ITA nor fully integrated into US&FCS operations. US&FCS Brazil should work with ITA and US&FCS headquarters to better define the travel and tourism industry sector responsibilities. The post should also help develop and actively work with the Visit USA Committee. In addition, US&FCS Brazil should provide information (in both English and Portuguese) about travel to the United States on its Internet homepage along with relevant website links to U.S. travel information sites.



US&FCS, in its response to our draft report, did not agree with most our recommendations in this area. The agency stated that travel and tourism should be treated as any other "best prospect" industry, including the amount of time devoted to the industry. The post's focus has been on promoting the provision of travel and tourism services, which primarily includes organizing, recruiting and attending events, not producing market reports. According to the response, tourism sector research is performed by TD's Tourism Industries section.

While the post is very effective and thorough in providing access to the market and working with distributors, we do not believe that market reports containing in-market intelligence, such as country trends and contacts, can be produced with the same quality in Washington by the TD section. Realistically, that knowledge can best be obtained by the sector specialist within a country. In

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<sup>17</sup> Visit USA Committees are composed of individuals who represent U.S.-based tourism interests within a particular country and are sponsored by the Travel Industry Association of America, a non-profit association that serves as the unifying organization for the U.S. travel industry.

addition, as with any “best prospects” industry, the mechanism used to disseminate information from the post to the US&FCS network of domestic offices and to the public is through products such as IMIs and ISAs. We stand by our recommendation that US&FCS Brazil should be preparing and disseminating market information about the travel and tourism sector.

Regarding the Visit USA Committee, US&FCS stated that the SCO’s participation in the committees is left to the discretion and judgment of the SCO based on local conditions. We concur and point out that the recommendation in our report was based on conversations with TIA regarding Brazil, and was not intended to be a US&FCS-wide mandate. That said, US&FCS stated that a Visit USA Committee has recently been formed. Once the committee is running smoothly, the amount of time devoted to the Visit USA Committee should be comparable to that of any other “best prospects” industry multiplier. The intent of our recommendation regarding the establishment of the committee and adding a U.S. travel and tourism section on the website have been fulfilled.

## II. São Paulo Commercial Center Needs to Be Refocused and More Effectively Managed

Pursuant to Title IV of the Jobs Through Exports act of 1992, US&FCS opened the U.S. Commercial Center in São Paulo, Brazil in July 1994.<sup>18</sup> According to Section 401 of the Act, the purpose of the commercial centers is to provide additional resources for the promotion of exports of U.S. goods and services to the host country, by familiarizing U.S. exporters with the industries, markets, and the customs of the host countries, thus facilitating commercial ties and trade. To carry out its objectives, each center is supposed to make available the following:

- business facilities (including exhibition space, conference rooms, office space);
- business services (including language translation services, clerical services, and a commercial library); and
- commercial law information services (including a clearinghouse for information regarding the relevant commercial laws, practices, and regulations of the host country).

In addition, the legislation directs that staffing should include participants of the Department's Market Development Coordinator Program. Using the legislation as a base, US&FCS expanded the commercial center concept to include collocation of federal, state, and private sector partners with US&FCS personnel. Collocation is designed to share US&FCS's costs of acquiring and operating the facility with its partners as well as to gain advantages by coordinating U.S. trade promotion efforts with state, federal, and private industry partners collocated with US&FCS. The commercial centers are not just designed for long-term, collocated partners, but also to offer clients a "home away from home" base, a range of facilities available on a short-term basis, such as offices, multi-function rooms, secretarial services, and small meeting rooms.

The São Paulo Commercial Center is an attractive and accessible facility. It brings greater visibility and useful services to support the promotion of U.S. exports. The commercial center is primarily being used to house personnel related to the post's innovative "import pull" services, which have been very successful and have accounted for a very large number of the success stories of US&FCS Brazil. We believe that these programs are a positive step for the post. However, we have a number of concerns about the management, priorities, and direction of the commercial center.

While we recognize that each commercial center must evolve and adapt to the unique needs of its market, we, nevertheless, have concerns about whether the appropriate priorities have been set for the São Paulo Commercial Center and whether the center may be missing opportunities to fully implement the commercial center program. Specifically, we found that (1) collocated partners are

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<sup>18</sup> Public Law 102-549. US&FCS also has opened centers in Jakarta, Indonesia; Johannesburg, South Africa; and Shanghai, China.

not adequately integrated into operations; (2) short-term rental space and related business services are not heavily used and may not be necessary; and (3) important planning documents are missing and the cost recovery status is not adequately justified or tracked.

We believe that the problems are caused by (1) US&FCS Brazil's priorities for its commercial center differing from those set by US&FCS headquarters for the commercial center program, and (2) the lack of adequate ongoing oversight and support from US&FCS headquarters to help ensure that the commercial center program is successful and complies with the requirements as outlined in the legislation. We noted that some of these problems may be the result of the fact that there no longer is a central headquarters contact in charge of overseeing the commercial center program. US&FCS Brazil needs to establish priorities that are more closely aligned with the program as it was designed by US&FCS and take certain management and operational steps to implement the new priorities.

Collocated partners are not adequately integrated into operations

Although collocation of trade promotion partners within the commercial center is an important and central concept in the commercial center program, partners currently located in the commercial center have not been adequately integrated into the São Paulo operations, in terms of planning, operations, and the physical layout of partner space.<sup>19</sup> While the commercial center does provide the basics as outlined in the legislation—a commercial library, extensive business facilities and services—the commercial center's focus is on items either not specifically part of the legislation or the commercial center program as defined by US&FCS headquarters.

Instead of being one of the “models of private-public sector partnership” as advertised by US&FCS for all its commercial centers, the São Paulo Commercial Center is not working as closely with its collocated partners as it could and may be missing opportunities that could be gained from working more cooperatively with organizations located on its premises that have complementary goals. From the beginning, US&FCS has recognized that the collocation concept is intended to result in more than sharing space and costs. As one US&FCS document stated, “...the long-term presence of partners gives us an opportunity to share some costs, expand the resources available to clients at one site and multiply the number of clients served....partnering is exactly what we should be doing more of overseas.” Figure 7 below illustrates the differences between statements by headquarters

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<sup>19</sup> At the time of our review, three different partners, representing five U.S.-based organizations, were collocated with US&FCS in São Paulo. One represents the Council of Great Lakes Governors (which represents the interests of Wisconsin, Indiana, New York, Ohio, and Pennsylvania). Another partner represents the Telecommunications Industry Association. The third partner represents three trade organizations: the Motor Equipment Manufacturers Association, the Specialty Equipment Manufacturing Association, and the Association for Manufacturing Technologies.



on the commercial center program and mission, and the US&FCS Brazil mission statement about the commercial center's purposes.

**Figure 7: Comparison of Commercial Center Mission Statements**

Source	Mission Statement
US&FCS/HQ statement on commercial centers (1996)	<i>“Commercial Centers are expanded trade promotion facilities that are <b>physically designed and legally structured to house the Commercial Section and their strategic partners in one location.</b> They are also designed to serve as a “home away from home” for U.S. exporters...Our purpose for establishing Commercial Centers is to enable U.S. companies and trade promotion organizations...to have an <b>affordable base in a priority market for one day to as long as a year.</b>”</i>
US&FCS São Paulo Commercial Center Mission Statement, May 1997	<i>“The Commercial Center is ...where a potential U.S. exporter can quickly learn Brazil’s specific markets of opportunity and immediately initiate a market development strategy either in conjunction with USCS/Brazil’s <b>business counseling</b> or based upon the market knowledge that they have developed by reading USCS/Brazil market reports...<b>The Commercial Center in Brazil is the best place in Brazil for Brazilian companies seeking information on U.S. suppliers or business partners ....Information...is the greatest resource of the Commercial Center in São Paulo.</b>”</i>

Clearly, US&FCS headquarters is emphasizing trade partner collocation and/or short-term business services for U.S. exporters in the commercial centers. In contrast, the US&FCS Brazil mission statement emphasizes core US&FCS programs (business counseling, market research) and other information resources (presumably, this is a reference to on-site databases and the commercial library that are part of the commercial center). In fact, nowhere in the May 1997 commercial center mission statement prepared by US&FCS Brazil are collocated partners or rental facilities and services even mentioned.

Rather than focusing on partners and rental facilities for U.S. exporters, US&FCS Brazil has concentrated on introducing new, innovative approaches to core US&FCS services (e.g., counseling and market research, electronic access to data, and service to Brazilian importers). We do not mean to suggest that these are inappropriate programs, but that the emphasis is quite different from the program as defined by US&FCS headquarters. US&FCS Brazil management includes a number of programs and functions within the commercial center concept that are not part of the legislation or the headquarters definition of the commercial center program, such as minority business development, customized business services, and programs and services specifically designed for Brazilian importers.

We believe the US&FCS Brazil emphasis on new services has resulted in the collocated partners being given lower priority than US&FCS management intended. As a consequence of offering these new core services, albeit in an innovative way, and de-emphasizing the partner program, the commercial center concept is difficult to distinguish from other US&FCS posts. There is also a danger of each SCO (and successive managers) defining the commercial center concept in his/her own way, a situation that could lead to the constantly changing, inconsistent offering of services. This would inevitably have a negative affect on customer service and in-country

relationships. In addition, without a real focus on what the commercial center is or should be, measuring its success will be problematic for both management and headquarters officials.

Furthermore, while we found evidence of some coordination between the partners and US&FCS, we noted that the relationship was not particularly close and mutually supportive. Only a few events have been conducted jointly, and the partners' operations appear to be generally distinct and separate, with only infrequent coordination with US&FCS staff and management. Neither the collocated partners nor their headquarters components are mentioned or linked to US&FCS Brazil's homepage or on any web page maintained by US&FCS headquarters. A multi-media "slide show" about the commercial center on the US&FCS Brazil website barely mentions the existence of collocated partners and only names one of the three partners with no explanation of the partner's role or how it can be contacted.

Clearly, the relations between the partners and US&FCS Brazil management could be closer and more mutually supportive. Interviews with partners, with both on-site and U.S.-based headquarters representatives, indicate that while they are generally pleased to be in the commercial center and in Brazil, they are dissatisfied with their interactions with US&FCS Brazil management and staff. Interaction with US&FCS staff (such as trade specialists) was characterized primarily as minimal and uneven. One headquarters representative termed the relationship with US&FCS Brazil management as akin to "going to war" and a "clash of personalities," and a feeling among the partners that they are viewed, at best, as "tenants" and at worst, as "second-class citizens."

For example, problems concerning access to the facility were handled in such a way as to erode relations between post management and the partners. For a time, the collocated partners were not allowed into the commercial center in the evenings or on weekends without an escort. We were told that at least one of the partners was escorted out of the building one weekend as a consequence. Although US&FCS Brazil reversed itself on this issue, it has left some lingering resentments and has hurt what could be a more collaborative effort. The SCO commented that US&FCS Brazil works jointly with many trade associations in the United States and Brazil and the collocated partners are not treated any differently. He primarily deals with the collocated partners on an administrative level. We noted that one of the other officers at the post is responsible for day-to-day interactions with the partners. Since our review, the officer has told us that he is working more closely with them than in the past.

And although the commercial center has been open since 1994, it was not until the beginning of FY 1999 that the partners were part of the overall reporting of the operation. It was only recently that their activities and successes were captured in the post's performance reporting, after this was incorporated in the memorandums of understanding between US&FCS Brazil and its partners, although it has long been recognized by US&FCS management as important to the continuation of this program. We agree that the successes of the partners should be captured and reported to

headquarters, if US&FCS wishes to measure the performance of or value-added by the commercial center against the significant funds spent on acquiring and modifying the facility and continuing center operations.

Physically, the partners' space in the commercial center leaves much to be desired. The partners are located in four small offices off a corner hallway on the main floor of the facility. The partners' small offices barely accommodate two visitors. The rooms are not sound-proofed and have little privacy. Promised telephones have proven to be inadequate, as the telephone system in the building was unable to provide needed functions. At least one partner felt compelled to purchase its own telephone and Internet access line. In addition, we were told that the air conditioning in that part of the building is inadequate during the hot Brazilian summers (although we were told that many of these problems have recently been addressed by US&FCS Brazil). Delays in implementing the Public Access Information Platform database system (which, when completed, will contain marketing information on Brazil, discussed further in Chapter VI, Section B) has limited partner access to the US&FCS Brazil databases that made collocation more attractive.

Finally, the commercial center does not have a sign at the main entrance or near the collocated offices to direct visitors to the partners' location. It is unlikely that most visitors will even realize that the hallway door leads to occupied office space as there is only a "no smoking" sign over the door. When one partner placed a state seal near the door, it was removed by US&FCS management with little explanation according to the partner. The SCO later told us that the seal was inappropriate and he wanted something more suitable and attractive and had challenged the partners to come up with such a sign. We question both the appropriateness of the decision and the way it was handled. Accordingly, we believe that US&FCS Brazil should take steps to more adequately integrate its collocated partners into the post's operations.

*Short-term rental space and related business services are not heavily used and perhaps unnecessary*

Short-term rental facilities in the commercial center are inadequate, little-used, and perhaps unnecessary, given the availability of other short-term facilities in São Paulo. While the commercial center legislation requires that the commercial center provide these facilities and services, there does not appear to be a demand for all of them or, perhaps, they have not been marketed sufficiently. In addition, the space provided is not as attractive as other rental facilities in the city, and given the availability of similar facilities in the area (such as in hotels), there may or may not be a demand for it in this part of the city. We believe that US&FCS should consider discontinuing some of these facilities and services if and when it leaves the current leased building, and should make no further investments in this short-term space until it can provide evidence that there is sufficient need and demand for the space.

One of the primary purposes of a commercial center program, as defined by US&FCS headquarters, is to provide “home away from home” space for U.S. companies, thereby allowing U.S. firms to have an affordable presence in a BEM country. The space includes temporary office space, as well as conference and exhibit facilities. Other than the auditorium space at the commercial center, the rental space and related business support services have been little used. During FY 1998, only one rental occurred for the short-term office space, and relatively little use has been made of the rentable conference rooms. During the same time period, there were no clients for equipment rental or secretarial, translation, and catering services.

Moreover, in comparison to other available rental space in the city, such as that of the São Paulo American Chamber of Commerce, and in contrast to US&FCS statements about the facility, we did not find the space to be “state-of-the-art.” As shown in Figure 8, the rental offices at the commercial center are unenclosed, tucked into a back corner and lack privacy. The work space includes a desk and chair, with a telephone and computer. In contrast, the AmCham facility has private offices for secure negotiations and meetings and, just to name a few of the options offered, video conference rooms, electronic blackboards, fax machines, computers, access to a multiple projection system, a wireless microphone system, and recording equipment. Commercial center management recognizes that the space could be improved and told us that upgrades (such as enclosing the rental space for privacy) are forthcoming.

**Figure 8: Commercial Center Short-term Rental Facilities**



We believe the underutilization of these facilities is the result of a lack of marketing, and perhaps a lack of customer demand for the facilities and services. However at this point, eliminating short-term rental space and business services from the menu of the commercial center options offered to US exporters would be pointless, as the facilities have been built and the space cannot be turned back to the lessor, because US&FCS Brazil rents the entire building. Since the investment has been made and no

savings accrue by no longer providing these business services in the short term, we do not believe that the commercial center should discontinue making them available at this time.

However, we were told that significant improvements were to be made to both the auditorium area as well as the short-term rental spaces. Before any further investment is made in this property, we

recommend that US&FCS reassess the demand for such services at the commercial center as well as whether US&FCS should continue to occupy this facility. (Further discussion of our concerns about the facility can be found in Chapter VI, beginning on page 74.)

Important planning documents missing and cost recovery status not adequately justified or tracked

In the four years since the commercial center's opening, successive US&FCS Brazil managers have not effectively managed the center. We found that important documents that provide the basis for managing and marketing the operation do not exist or have not been updated. Specifically, the commercial center does not have a model for, and as a consequence cannot track, cost-recovery—a legislative requirement for all commercial centers. Without such tracking, US&FCS management, both at post and headquarters, does not know whether costs are being recovered or whether partners are being charged appropriately. In addition, post management does not have a business or marketing plan to guide and promote the center's operations.

US&FCS management requires that the amount charged to the partners be based on an equitable proportion of operating and start-up costs—both direct and indirect—that is attributable to the partners, over and above those costs US&FCS incurs for its own purposes. According to US&FCS guidelines, this is to be expressed as a “per square meter” charge for partner space and services based on annualized start-up costs and recurring operating expenses, with amortization for furniture and equipment.

During our visit, US&FCS Brazil management indicated that it charged \$15,000 per year to each partner for use of its space, equipment, and services.<sup>20</sup> However, management stated that it did not know if this cost was appropriate, what assumptions or figures were used for the original calculation, or whether partners were over- or under-paying for collocating in the commercial center. The director of the commercial center stated that the figure had been calculated by previous US&FCS Brazil managers, but acknowledged that the figure needed to be reviewed for appropriateness.

We also believe that it is important that the commercial center develop a business or marketing plan. Without a business plan, priorities for the commercial center's current direction and future course are not clear and cannot be adequately expressed to US&FCS management and potential partners,

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<sup>20</sup> Partners who sign a memorandum of understanding with the Department of Commerce to occupy the office space in the commercial center do so pursuant to the Department's *Joint Project Authority*, 15 U.S.C. Section 1525. The *Joint Project Authority* authorizes the Secretary to enter into joint projects of mutual interest with nonprofit organizations, research organizations, or public organizations or agencies. The cost of such projects should be apportioned equitably, as determined by the Secretary, who may, however, waive payment of any portion of such costs by others, when authorized to do so under regulations approved by the Office of Management and Budget.

nor can performance against milestones for the commercial center be measured. Furthermore, a good business plan should clearly establish operating and budget plans for the commercial center operation, explain and justify user fees and other fees associated with the operation, and forecast performance.

A marketing plan would enable US&FCS Brazil management to focus its efforts and, again, provide goals and milestones for its marketing efforts. This could help increase use of the underutilized commercial center facilities and services. We noted that the commercial center had a marketing strategy more than three years ago, although that plan is not being used because it is vague and out of date, and contains broad, unrealistic goals. We believe that an updated marketing plan for the post could feed into a larger, headquarters-driven marketing effort for all the commercial centers.

Headquarters has acknowledged the importance of each commercial center developing a marketing plan. Given that the commercial center concept is still being piloted, “product identity” is an important component to the maturation of the concept. Marketing would assist in attracting both clients to the operation and partners to collocate. We believe that US&FCS Brazil should prepare an updated marketing and business plan for its commercial center operation.

*Lack of central authority and support for the program hurts marketing and continuity*

The commercial center program—based on the legislation, but further defined by a group of top managers who have since left US&FCS—no longer has top-level support in US&FCS headquarters. Current headquarters officials state that the concept was forced upon them for political reasons by the previous management group, and implemented too quickly and without clear justification for most of the sites. They doubt whether collocated partners add significant value to post operations. Officials in headquarters also question whether the program has been worth the cost and wonder whether certain key aspects of the legislation—collocated partners and rental facilities—should be maintained.

We believe that aspects of the concept appear valid and worthwhile. We have frequently endorsed or suggested that US&FCS move its overseas operations outside of embassy or chancery locations and into central business districts, whenever practical. Furthermore, we believe that partnering is important not only from a cost-sharing standpoint, but also to gain synergies that can result from US&FCS locating with other organizations who seek to assist U.S. exporters. At this point, five years into the program and four years since the establishment of the first commercial center, significant funds have been spent on renovating the facilities to accommodate this program and to market it. We will be discussing this issue in more detail in a follow-up report, which will discuss ‘cross-cutting’ issues that are common to most or all of the four commercial centers.



US&FCS, in response to our draft report, generally agreed with our analysis and recommendations concerning the São Paulo Commercial Center's operations. US&FCS agreed that an increased effort to integrate its collocated partners into US&FCS Brazil's operations will be made, and has proposed to do a joint strategic plan with the partners. The agency also agreed and has taken actions to visually market and improve the air-conditioning and sound-proofing characteristics of the collocator office space. The agency concurs that no further investments in the little-used short-term commercial center rental space should be made, in part because the Department of State is currently reviewing options to consolidate all U.S. government offices in São Paulo into a single compound, which in turn would require that US&FCS vacate its current facility. In response to our recommendation, US&FCS Brazil also conducted an in-depth review of its cost recovery rates for commercial center products, services, and space. We request that US&FCS provide us with a copy of this review in its action plan to implement our recommendations. US&FCS stated that an overall management strategy for all the commercial centers, São Paulo included, will be developed in FY 2000 as part of its Innovation 2003 initiative.

US&FCS deferred comments on the overall commercial center program and direction following completion of the remaining reports on the other commercial center posts and the cross-cutting report that the OIG is currently preparing.

We commend US&FCS for the actions taken to date to address our concerns, and reaffirm our recommendations related to the São Paulo Commercial Center.

### **III. Embassy Relations Are Excellent, but Improved Coordination Is Needed with American Chambers of Commerce, BXA, and ITA Domestic Offices**

Opportunities for good working relationships between US&FCS Brazil and other federal and ITA components, as well as with some host country organizations, are not being fully exploited and appear to be highly dependent upon personal relationships. These uneven and not always productive relationships can mean the loss of trade opportunities for U.S. exporters.

We noted good working relationships between the Deputy Senior Commercial Officer and principal commercial officers (PCOs) and other U.S. embassy officials. Conversely, relations between the SCO and the previous Ambassador were strained, and some officials from other agencies commented negatively on working relationships with the SCO. The post is working well with a number of multipliers; however, we are concerned that the positive relationships might become compromised if US&FCS Brazil's promise to install computers at partner sites, as part of a new initiative, is not fulfilled. In addition, while the constituent posts have productive working relationships with many multipliers, improvements are needed in working relationships with the São Paulo and Rio de Janeiro AmChams.

We also noted very uneven and some unproductive relationships between US&FCS Brazil and various ITA components. While coordination has probably improved within ITA with its implementation of domestic "teams," we noted that US&FCS Brazil has the most uncooperative relationships with the domestic offices that we have ever witnessed. As a result, significant "fence-mending" should be undertaken immediately by US&FCS Brazil management.

Finally, improvements in supporting the Bureau of Export Administration's licensing needs are called for. More attention needs to be paid to this important function by US&FCS Brazil.

#### **A. Relations between PCOs and other agencies are excellent, although communication between the SCO and Ambassador needs improvement**

We found excellent working relationships between the PCOs and the U.S. embassy and consulate staff. There are many examples where the PCOs coordinate extremely well with representatives from the other U.S. federal agencies in Brazil. This has resulted in more efficient operations and increased trade opportunities. For example, the PCO in São Paulo helps determine themes and suggests possible attendees for monthly business round tables that are hosted by the Consul General. In Brasilia, the Deputy Senior Commercial Officer, the primary US&FCS contact with the embassy, is highly regarded and has an excellent working relationship with the Ambassador. The Consul General in Rio de Janeiro was grateful to the PCO for assisting with a recent speech, and finally, with no consulate in Belo Horizonte, the embassy relies on US&FCS to assist embassy staff on visits to that region.



Relations between the SCO and the Ambassador have not been as good, due in part to the SCO's posting in São Paulo and not the capital city of Brasilia. US&FCS's internal management review of Brazil's operations in 1996, while noting that embassy and consulate relations were improving, recommended that the SCO "begin to call on the Ambassador more frequently and bring the Ambassador in on US&FCS Brazil operations." This has not happened. According to travel records, the SCO traveled to Brasilia four times during fiscal year 1997 and only twice in fiscal year 1998.<sup>21</sup> The former Ambassador stated that if it were not for a strong and capable deputy SCO, and personality differences between the SCO and himself, he would not have tolerated the lack of communication.

We believe that close contact with the embassy has not been a priority for the SCO. The arrival of a new Ambassador in Brazil should provide an opportunity to develop better relations. The SCO should schedule more frequent meetings with the new Ambassador. In addition, US&FCS headquarters should monitor this relationship closely, particularly since this is one of the few countries where the SCO and the Ambassador are not located in the same city.

**B. Relations with multipliers could be jeopardized  
without rapid implementation of new library initiative**

US&FCS Brazil has an aggressive and innovative outreach program and excellent relations with a number of Brazilian associations and other multipliers. A number of joint events have been well received by the Brazilian associations and companies and a number of future events are proposed. For example, US&FCS Rio de Janeiro enlisted the Ambassador to speak at an event hosted by a local association, and a São Paulo association is very enthusiastic about working with US&FCS and hopes to hold meetings modeled after the "business roundtable" meetings with US&FCS's European counterparts. US&FCS Brazil has made it a priority to meet and work with many institutional partners beyond the four constituent posts and has done a good job of establishing formal relations with many institutions in the northeast, southern, and central-western states of Brazil. Outreach is clearly a priority within the office.

However, some of these positive relationships could be jeopardized by a stalled initiative designed to benefit US&FCS Brazil and its partners. The Twin Libraries initiative is designed to provide certain multipliers in Brazil with the same information available to walk-in visitors at the commercial center by placing reference books and information about potential U.S. exporters at the multipliers' sites. In addition, the program calls for the multipliers to provide staff to orient the first-time visitor to the computer equipment, software, and information available in the libraries. US&FCS Brazil's intention is to provide its surplus computers that resulted from a recent system-wide upgrade to the

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<sup>21</sup> Although the travel records are only through August 1998, any travel conducted by the SCO upon returning from his home-leave in September occurred after the Ambassador's departure from the country.

Twin Libraries program. Verbal agreements have been made with 13 multipliers. However, according to State Department regulations, the donation of the property at overseas posts occurs only when it cannot be redistributed within the government.<sup>22</sup> Relationships with the multipliers may be damaged because US&FCS Brazil did not take into consideration the regulations regarding the disposal of surplus government computers before making commitments to its partners for the Twin Libraries program.

We fully support this excellent outreach effort and hope that a solution can be found that will permit the Twin Libraries project to go forward. Placing information about US&FCS Brazil and U.S. exporters at the multipliers' sites will potentially increase the number of contacts and the number of U.S. exports. There may be other ways to authorize the transfer of property for this project. US&FCS should work closely and expeditiously with the Department's Office of General Counsel to implement this program.

Exactly how the Twin Libraries initiative can be implemented needs to be resolved as soon as possible, since commitments to the multipliers have been made and estimated donation/installation dates have passed. In addition, the initiative should not be completed without a written instrument addressing legal and practical considerations. These considerations include the U.S. government's rights and responsibilities for the equipment, such as who would be responsible for shipping and installation, maintenance, and technical upgrades in the future, if any, as the old equipment becomes obsolete.

US&FCS should only dispose of its surplus equipment in full accordance with established regulations and procedures, and then only after receiving authorization from headquarters. In addition, US&FCS Brazil should work to quickly resolve the legal questions surrounding this initiative and realistically estimate whether and when promised equipment can be donated to its partner organizations. In the meantime, US&FCS Brazil should provide partners with an update on the status of the project.



The agency stated that US&FCS Brazil has requested and received authorization from headquarters and has, since our visit, donated its surplus computer equipment in accordance with the Department of States *Foreign Affairs Manual*. This addresses our recommendation and no further action is necessary.

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<sup>22</sup> *Foreign Affairs Manual* 06-0227.3 b(5).

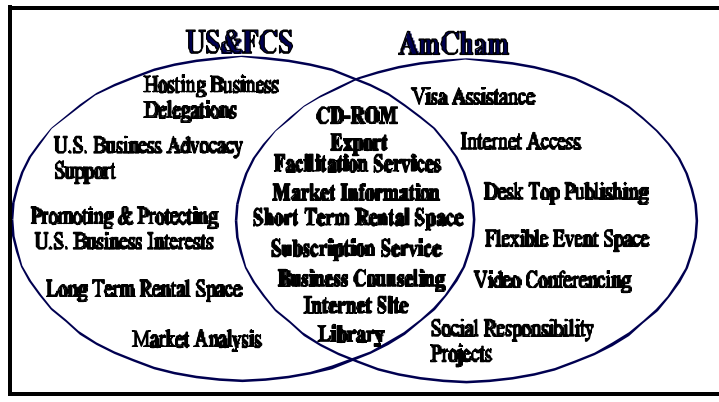
**C. US&FCS Brazil should work more closely with the American Chambers of Commerce in São Paulo and Rio de Janeiro**

Although the American Chambers of Commerce in São Paulo and Rio de Janeiro made a number of positive comments about relations with US&FCS Brazil, we believe US&FCS is not working as well with these organizations as it could. A perception by São Paulo AmCham officials that US&FCS São Paulo is providing competing services, as well as a poor personal relationship between the head of the São Paulo AmCham and the SCO, has resulted in a fairly detached and distant relationship. In Rio de Janeiro, US&FCS has given up working with the AmCham and has, instead, focused on relations with a different multiplier organization. As a result, U.S. firms may be missing opportunities to export to Brazil and Brazilian firms may be missing opportunities to become a supplier for a U.S. firm. In addition, US&FCS Brazil and the AmChams are potentially foregoing opportunities to leverage mutual facilities, client lists, and resources.

AmCham and US&FCS relations in São Paulo should be improved

In São Paulo, the AmCham and US&FCS work together on a limited basis. However, these organizations do not have a fully integrated, positive working relationship that we have observed at other US&FCS posts. The PCO and trade specialists in São Paulo participate in AmCham committee and subcommittee meetings and attend events. However, by US&FCS’s choice, it is not represented on the AmCham board, AmCham and US&FCS do not have literature about each other’s organizations to share with their customers, and neither has a “link” in its Internet site to the other’s site. The relationship has apparently become distant due to personal differences between the head of the AmCham and the SCO, the geographical distance (about a one hour ride) between the offices of the two organizations, and a perception by the AmCham that US&FCS São Paulo is competing for the same client base.

**Figure 9: Comparison of US&FCS and AmCham Services in São Paulo**



AmCham officials believe that US&FCS is inappropriately offering services in direct competition with the AmCham. The São Paulo AmCham is a dynamic 2,600-member organization with a 140-person staff and extensive business support facilities. Both the AmCham and US&FCS provide services, many that are similar, to U.S. exporters and Brazilian suppliers. Figure 9 shows both the unique and similar services that US&FCS São Paulo and the AmCham provide. AmCham gave the

Commercial Information Research Service subscription offered to Brazilian suppliers as an example of a new service being offered by US&FCS that competes directly with AmCham. On the other hand, the AmCham primarily represents and provides services to its members, many that represent Brazilian companies or firms from other countries, whose objective is to export goods to the United States. In spite of the differences between AmCham and US&FCS, the AmCham's perception of competition suggests that a full, cooperative working relationship does not exist between the two organizations.

The cool relationship means that the two organizations do not share information about each other with their clients and that US&FCS Brazil has not considered the São Paulo AmCham as a potential site for a Twin Library, even though US&FCS and the AmCham are in different parts of the city and cater to different organizations. As a consequence of the limited cooperation, potential U.S. exporters or importers of U.S. products may not know about services that could benefit them.

When we asked the SCO about his decision not to participate on the AmCham board, he stated that the PCOs at all the constituent posts were responsible for AmCham relations. Thus, he declined the invitation and assigned another member of his staff to sit on the board. AmCham officials stated that it was not the SCO's prerogative to assign a representative to the AmCham board in his place and noted that other board members are primarily presidents or directors of their companies (such as Kodak Brasileria Comércio & Indústria Ltda., General Electric do Brazil, National Semicondutores da América do Sul Ltda., and Compaq Computer). We believe the SCO's participation on the board would strengthen US&FCS's relationship with the AmCham and the other companies represented on the board, help to eliminate the perception of competition between the organizations, and provide a forum for sharing information.

*AmCham and US&FCS relations in Rio de Janeiro need to be improved*

In Rio de Janeiro, we found that the relationship between US&FCS and the local AmCham was not considered to be a priority of the PCO. US&FCS was not invited to be on the board, and it participates in AmCham events only on a limited basis. The Rio de Janeiro AmCham is smaller than the São Paulo AmCham and primarily hosts weekly luncheons and speaking events. The head of the AmCham indicated that the organization principally works with the Consul General, who is a member of the board, not the US&FCS PCO. As a consequence, US&FCS Rio de Janeiro is not working with AmCham at any significant level. The PCO has, instead, devoted most of her attention to other local multiplier organizations, such as the Federation of Industries of the State of Rio de Janeiro, the Commercial Association of the State of Rio de Janeiro, and the Center for International Business. US&FCS Rio de Janeiro has done an excellent job in building relationships with these multipliers; however, we believe that it is important to also work with AmCham, an organization that traditionally represents U.S. trade interests.

The problem is not entirely US&FCS Rio de Janeiro's fault. The Rio de Janeiro AmCham only provides one free ticket to the U.S. Consulate for AmCham events and, unlike most AmChams who support the commercial officer, the ticket is given to the Consul General. As a consequence, US&FCS Rio de Janeiro has to pay the approximately \$30 fee, per event, out of its discretionary funds. It is unfortunate that the Rio de Janeiro AmCham only provides one ticket to the embassy for its events, but we believe that US&FCS attendance could be beneficial. Working with an organization whose mission and members, for the most part, parallels US&FCS, makes this an important relationship. Thus, in this instance, we believe the post should explore ways to increase its participation at AmCham events. We also believe that there are other areas in which US&FCS Rio de Janeiro could improve the relationship with the AmCham, and perhaps provide additional opportunities for mutual resource leveraging, such as providing materials to AmCham on US&FCS products and services and asking AmCham to serve on one of its committees or joint US&FCS initiatives.



US&FCS, in its response to our draft report, stated that relations with the São Paulo AmCham have been unproductive in the past but that efforts have been made, and will continue to be made with the arrival of the new SCO, to promote a sound and mutually cooperative relationship with the AmCham. The post's recent efforts and joint activities appear to satisfy the intent of this recommendation.

US&FCS reports that the AmCham in Rio de Janeiro has declined numerous invitations to engage in joint activities and further states that expending excessive time and resources is not in the best interest of US exporters. We believe that as long as US&FCS continues to offer opportunities to the Rio AmCham, it is fulfilling the intent of the recommendation and have modified the recommendation accordingly.

With regard to AmCham participation in the Twin Libraries program, in its response to the São Paulo AmCham relationship, US&FCS states that because AmCham offers its services to members only, the reach of the Twin Library program would be limited. We would like to note that if public access is to be a criteria for selecting organizations and associations for participation in this program, it should be applied consistently across all partners.

**D. Coordination between post and other ITA elements needs attention**

We found that relations between US&FCS Brazil and many ITA components were, at best, uneven. Linkages and working relationships with ITA's domestic offices were particularly poor and unproductive, perhaps the worst relations we have seen between domestic offices and an overseas post. Any mention of a good working relationship with US&FCS Brazil made by a domestic office was usually followed by the name of an individual. One domestic office reported that working

relations with the DSCO were excellent, but that the SCO was very difficult to work with. The lack of institutionalized relationships between US&FCS Brazil and the domestic offices could potentially have a negative effect on the post's trade promotion efforts.

The various ITA headquarters components, such as Trade Development, the Advocacy Center, and Market Access and Compliance, report mixed relations with US&FCS Brazil. Market Access and Compliance reported good working relations, but said the quality of US&FCS Brazil work could be improved. Specifically, we were told that market reports lack analysis and need more editing by post commercial officers and seem to favor a newspaper format of discussing what has already happened, rather than providing commercial leads or suggesting future country trends. (For additional discussion about the quality of market research, see page 48.) In addition, US&FCS Brazil was criticized for requesting 11th-hour assistance in obtaining headquarters clearance on key advocacy requests, without regard to the time it takes to obtain headquarters clearance.

US&FCS Brazil reported that cooperation with TD was uneven and dependent upon personal relationships. While some trade specialists reported excellent working relationships with a specific individual in TD and the industry sector teams<sup>23</sup>; others stated they have little or no contact with TD. One TD specialist was, reportedly, unwilling to meet with a trade specialist when she was in Washington, D.C., for training, thereby generating ill will with the specialist and, as a consequence, some of her colleagues.

Although domestic offices and overseas posts are supposed to work together to assist U.S. firms, US&FCS Brazil, historically, has not had a good relationship with the ITA domestic offices. A 1996 internal ITA review indicated that US&FCS Brazil tended to work directly with a U.S. firm without advising the appropriate domestic office and would not willingly accept requests for services, particularly Agent/Distributor Service requests, from the domestic offices. It further stated that "a great deal of antagonism and resentment (between US&FCS Brazil and the ITA domestic offices)" was developing.<sup>24</sup> This statement accurately predicted and continues to describe the poor level of relations.

Inadequate domestic office relations were recognized by the SCO in a January 17, 1997, e-mail notice to US&FCS Brazil staff, that stated:

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<sup>23</sup> Industry Sector Teams were designed by US&FCS to be a vehicle for leveraging country and industry expertise within the domestic offices, the worldwide posts, and headquarters and integrating these resources for the benefit of particular initiatives or U.S. exporters.

<sup>24</sup> *Management and Program Review Report: Final CS Brazil Follow-up Report*; US&FCS Office of Planning, November 7, 1996.

“Relationships with our EAC (e.g., Export Assistance Centers otherwise known as ITA’s domestic offices) colleagues need to be improved. This is not a ‘break-down’ issue that needs to be repaired as much as how can we work even better. I stated our position which is to work with them as closely as possible and that we were fortunate to have on our staff [a Commercial Officer] who has an intimate knowledge of the EAC system and an affinity for the domestic side staff.”

Apparently the SCO did not follow up on the e-mail with his staff, because, according to a number of domestic trade specialists we interviewed, relations have not improved since the SCO’s e-mail. One domestic trade specialist that we spoke to stated that she cringes when a client expresses interest about Brazil because US&FCS Brazil is a “black hole” where multiple e-mail messages and faxes are sent without response. Another trade specialist stated that she sent two e-mail messages and two faxes asking simply whether US&FCS Brazil was working on a specific trade show, yet US&FCS Brazil never responded. Another domestic office trade specialist admitted that when a client expresses interest in exporting to Brazil, and as a consequence will need services or information from US&FCS Brazil, she will advise the client either “not to do it or to expect it to take forever to get information back.” The few domestic offices that cited favorable experiences generally mentioned a positive working relationship with a specific US&FCS Brazil employee as the reason. Many specialists pointed to US&FCS Argentina as being the opposite of US&FCS Brazil in terms of responsiveness and service.

We believe that the post’s reputation for unresponsiveness among the domestic staff, whether valid or not, is caused by (1) the post’s focus on fee-generating services that do not always meet domestic office customer needs; (2) issuance of a protocol for requesting services that alienated domestic office staff; and (3) a poor telecommunications infrastructure.

US&FCS Brazil’s emphasis on fee-generating services often conflicts with a domestic office’s goal of satisfying its customers. One domestic office trade specialist stated that with US&FCS Brazil, “it is trying to fit a square peg in a round hole” and that the post’s attitude is that it has to be a “Gold Key or nothing.” For example, one domestic office sent an e-mail request to 10 countries, asking if they would provide “a few names simply taken from a business directory or telephone yellow page” for a specific industry. Rather than fulfill that simple request, the US&FCS Brazil response was to recommend a Silver Key, where, for \$60, the U.S. company would receive a customized list of eight to ten companies with confirmed contact name, address, phone, and fax numbers.

In addition, many domestic offices found US&FCS Brazil’s unilateral decision regarding a “protocol for requesting services” lengthy and complicated. For example, the domestic offices are instructed to work with the clients using certain US&FCS Brazil products before sending a request. Then, rather than contacting a person at US&FCS Brazil that the domestic office has worked with

before, domestic offices are to send the request to US&FCS São Paulo, which in turn sends it to the team leader if the request is in an active sector. The team leader then assigns the request to a trade specialist. If the request falls into an inactive sector, it is sent to the customized business service to determine the viability of the request and the fee. When consulting with a client about Brazil, the domestic office is required to know if the client product or service is in one of Brazil's active or non-active sectors when determining what services and applicable fees apply. Interestingly, the SCO is fully aware that the domestic offices find the protocol a problem, but believes that it is the answer to speed up the response time. In a January 17, 1997, e-mail message to US&FCS Brazil staff, the SCO stated:

“I also make clear that we are structured in Brazil to respond expeditiously to all queries from the United States no matter their provenance... and that we can make that statement because of our response ‘protocols’ re queries from institutions and individuals. Some EACs stated that it was becoming increasingly difficult to keep track of each post’s ‘protocols’. I responded that the world IS a complex place... and that the ‘protocols’ are really meant to REDUCE their burden as an intermediary between exporters they counsel and market opportunities here in Brazil.”

The US&FCS Brazil protocol was put in place without regard to consultation with those who were expected to follow it. It seems to be unduly burdensome and more likely to slow the responsiveness to US&FCS's clients. Furthermore, given that there are multiple posts in 70 different countries, the domestic offices have a valid concern that each country will begin issuing different rules on how they are to be contacted.

Some of US&FCS's lack of responsiveness may also be related to an inadequate telecommunications infrastructure in Brazil. As a consequence, e-mail is often not working and telephone lines are insufficient. US&FCS Brazil reports, and we actually experienced, problems with e-mail, such as messages sent but not received and disconnection from the network while using the e-mail program.

Nevertheless, in order to provide the best possible service to U.S. exporters, a productive and cooperative relationship between the domestic offices and US&FCS Brazil is crucial. US&FCS states that its “domestic and international offices are directly linked through a worldwide communications and information network, which offers a unique and seamless service to U.S. exporters.” U.S. firms are not receiving the benefits of the US&FCS global network, and trade opportunities may be lost, unless US&FCS Brazil can repair its relations with the domestic offices.

It will not suffice for the SCO to simply remind US&FCS Brazil staff of the importance of coordinating with the domestic offices, as he did again in a November 10, 1997, message, where he



stated that he "...will continue to emphasize the importance of a close working relationship with EAC [export assistance center] offices and Teams." Given that much of what drives the trade specialists in Brazil is generating fees and garnering success stories, it is not surprising that domestic office requests may be ignored. We believe that the SCO needs to incorporate domestic office coordination into staff performance evaluations.

In addition, if US&FCS Brazil is unable to deliver certain products and services, then alternative sources, such as AmCham and a list of consultants, should be provided to the EAC to meet customer needs. US&FCS Brazil should work with the EACs to develop a protocol that is acceptable to the domestic offices, yet also meets US&FCS Brazil's requirements. Finally, the US&FCS regional office in Washington, D.C., should develop a method, such as a sending a broadcast e-mail message to domestic offices, alerting the EAC's to the fact that US&FCS Brazil is experiencing system problems. In doing so, it would indicate that US&FCS Brazil's lack of responsiveness is, at least sometimes, unintentional and that an alternative means to communicate must be used. US&FCS Brazil would then be responsible for alerting the domestic offices when systems are back to normal.



In their response to our draft report, US&FCS agreed with the majority of our findings and recommendations concerning domestic office interaction. However, since all actions have not been completed, we request that US&FCS address the status of the recommendations in its action plan.

Specifically, the response stated that US&FCS agrees that the post should incorporate domestic office cooperation into its staff performance evaluations. However, the agency disagrees that US&FCS Brazil has not provided lists of additional sources for services it cannot provide, stating that such service providers are listed on the post's "Focus Brazil" CD-ROM, website, and in its Country Commercial Guide and stated that it would be pleased to consider additional sources as suggested by the OIG.

We believe more can be done. For example, to assist U.S. exporters considerations should be given to having the post add, to its homepage and CD-ROM, a separate section listing additional resources with websites and telephone numbers. Such a list would not endorse the organizations listed, rather it would direct the enquirer to additional export-related information sources. Given that the purpose is to assist U.S. exporters, the links would be in English and could possibly include, but are not limited to, the U.S. Department of State (<http://www.state.gov>), the São Paulo American Chamber of Commerce (<http://www.amcham.com.br>), Brazil Infonet (<http://www.brazilinfo.net>), and Brazilian-American Chamber of Commerce - New York at (<http://www.brazilcham.com>) . With regard to domestic office requests, if US&FCS Brazil is unable to assist with viable requests,

contractor names, particularly former US&FCS employees who have started their own consulting business, could be provided to the domestic office as an alternative source.

US&FCS agrees with the recommendation that US&FCS Brazil solicit input from the domestic offices to develop an acceptable protocol for requesting services from the post. US&FCS stated that the protocol has already been revised and simplified and that response from the domestic offices to these changes has been “unanimously positive.” US&FCS also agrees that a method for alerting domestic offices when US&FCS Brazil is experiencing significant system problems must be developed by US&FCS headquarters regional management.

**E. BXA is not being supported in a timely manner by the post**

We found that US&FCS Brazil is not following all required procedures in its role of supporting the Bureau of Export Administration’s requirements for Pre-License Checks (PLCs) and Post-Shipment Verifications (PSVs). Timeliness of support needs to be improved. BXA relies on US&FCS posts to assist it in the issuance of export licenses and fulfilling its export control activities. BXA requests the posts to perform PLCs and PSVs to verify the legitimacy of certain export transactions. If this work is not done in a timely fashion, legitimate U.S. business transactions could be delayed or lost (for PLCs), or an untimely response to a PSV request could prevent BXA from taking action to prevent diversion or stop violations of U.S. export control laws.

During fiscal years 1997 and 1998, a high percentage of requests for PLCs were not completed and transmitted from US&FCS Brazil to BXA within the specified time frames. We found that 60 percent of the PLCs sampled (15) were not completed within 28 calendar days. In addition, we found that none of the PSVs sampled (5) were completed within 60 calendar days, as required. However, we found no other problems with US&FCS Brazil’s conduct of PLCs and PSVs, as we noted that visits were made and completed by a commercial officer, as required. In addition, we noted no problems with the quality of the PLC or PSV responses from US&FCS Brazil. We are concerned that the timeliness of PSVs and PLCs is not a priority in US&FCS Brazil and believe that increased management attention is needed to track the timeliness of these responses.



US&FCS, in response to our draft report, indicated that part of the problem causing delays in timely responses to BXA on PLCs and PSVs is the amount of time it takes BXA to respond to queries from post about further input on individual cases. In addition, US&FCS questioned whether it is reasonable to conduct checks within the proscribed time frames, given the vastness of Brazil, which makes some of these checks time-consuming and expensive. US&FCS also noted that, in general, the agencies are working together to improve PLC/PSV effectiveness.

We agree that PLCs and PSVs often need additional input and clarification from BXA to be completed and that it is not always reasonable to conduct a check in a remote area of Brazil and still complete it on time. We also endorse the agencies communicating better, both on the process as a whole as well as on individual PLCs and PSVs. We would, however, note that we found few requests for extensions or cables suggesting that a PLC or PSV was unduly expensive or difficult to complete on time from the post in either BXA's or US&FCS Brazil's files. This was confirmed by BXA officials, who stated they could not recall any such requests from the post. We are modifying our recommendation to note that, if an extension is needed on a PLC or PSV, the post needs to cable BXA and request it, according to the agency's regulations.

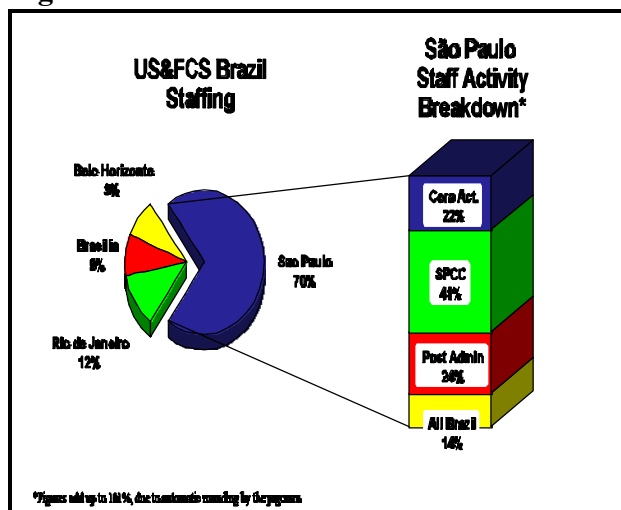
#### IV. Post Needs to Reconsider Current Allocation of Personnel Within Country

US&FCS Brazil needs to do an analysis to support its current internal resource allocation, both for personnel and between traditional US&FCS activities and post-initiated products and services. The apparent imbalance in terms of customer demand and relative productivity presents a strong justification for reconsidering the current in-country allocation of staffing resources to more effectively deliver products and services. In addition, with new initiatives in place at each post for nearly a year (such as Gateway and CIRS), effects on relative workloads should be more apparent and easier to measure and may indicate the need for resource reallocation.

##### US&FCS São Paulo's product and service mix needs to be reconsidered

We question whether São Paulo is devoting adequate resources to US&FCS's traditional products and services. Workload statistics provided to us indicate that US&FCS São Paulo is expending less than one-quarter of its resources on traditional US&FCS activities.<sup>25</sup> The breakdown of personnel responsibilities in São Paulo, not including those of the commercial officers, is shown in Figure 10.

**Figure 10**



Approximately 14 percent of the US&FCS São Paulo staff have Brazil-wide administrative responsibilities, such as the SCO's support staff, the US&FCS Brazil administrative manager, and the performance tracking system administrator; almost 24 percent work on post-related administrative operations, such as the post's maintenance personnel; 41 percent work on new initiatives that fall under the commercial center, such as the Twin Libraries program, CIRS, and non-active sector services; and 22 percent work on core activities in active sectors.

The large staff devoted to the commercial center and new initiatives are not producing traditional, core US&FCS products, such as International Market Insights, Industry Sector Analyses, and Agent/Distributor Services, and only a limited number of the staff are responsible for

<sup>25</sup> Traditional US&FCS products and services are those that are conducted by all overseas posts. A listing of these products and services can be found in Appendix A.

conducting Gold and Silver Keys. This compares to other offices, such as Rio de Janeiro, where 66 percent of resources are devoted to core products and services.

We note in later sections of this report that core services provided by São Paulo, such as ADSs and ISAs, have timeliness and quality problems and need increased attention and a higher priority. This may be a result of resources being devoted to non-traditional programs. We believe that as more trade barriers are phased out, the core activity workload will likely increase, requiring more resources to provide efficient, effective service to U.S. exporters. Consequently, the allocation of staff devoted to core activities versus commercial center initiatives within São Paulo should be reviewed as part of an overall determination of what the appropriate amount of resources is for the post.

*Work imbalances may indicate need for resource reallocation between constituent offices*

Workload imbalances between US&FCS Brazil constituent offices indicate a possible resource imbalance. Specifically, we question whether Rio de Janeiro staffing is adequate, and whether Belo Horizonte and São Paulo are overstaffed. US&FCS Brazil needs to conduct an analysis of workload data and resources devoted to them.

With two new positions, Brasilia staffing appears to be adequate. Brasilia is the capital of Brazil and the site of the U.S. embassy. The workload priority is driven by the Ambassador and embassy-related demands, which is not captured in the performance tracking system. In spite of the heavy political and diplomatic workload, and despite the fact that Brasilia is not the site of significant commercial and industrial activity, US&FCS Brasilia produces an appropriate level of work in the energy, environment, telecommunications, and defense industry sectors. A National Institute of Standards and Technology standards expert is going to be transferred to US&FCS Brasilia, from US&FCS Argentina. Once that position is filled, and an additional commercial officer is in place, the staffing and resources for the Brasilia office appear to be adequate for its demand and responsibilities and thus are not discussed further in this section.

Although only one of the three constituent posts in Brazil, Rio de Janeiro is a major port and often the first point of contact for people entering the country. As a consequence, the post is often responsible for coordinating initial contact with U.S. government officials and businesses coming to Brazil. At the time of our review, this office had one officer, two FSNs, and four PSCs, and was devoting 66 percent of its resources to core activities.

Belo Horizonte is a fairly new US&FCS post whose outputs and productivity, although lower than those of other posts, are increasing. Belo Horizonte, the third largest city in Brazil, was established as a post in the early 1990's with a single FSN. The first PCO, at the post in 1995, spent most of his time securing appropriate facilities and launching the office. Staffing in Belo Horizonte includes the

newly arrived PCO, one FSN, and three PSCs. Not including the PCO, 75 percent of the staff work is on core-related activities, and 25 percent on post-related administrative activities.

Analysis of workload of both demand factors (such as trade events and missions, Gold Keys, and trade facilitation and counseling) and productivity factors (such as IMIs and ISAs) indicate a possible workload and resource imbalance between these posts. For the first three quarters of fiscal year 1998, Rio de Janeiro had 18 trade events compared to none in Belo Horizonte (and São Paulo's seven and Brasilia's one). We also found that Rio de Janeiro was relatively more productive in market research products (IMIs and ISAs), and had a relatively greater demand for services (in terms of Gold Keys and trade facilitation and counseling sessions) than Belo Horizonte.

**Figure 11: Fiscal Year 1998 Outputs (First Three Quarters)**

<b>Products</b>	<b>Brasilia</b> <i>(3 FSN/PSCs)*</i>	<b>Rio de Janeiro</b> <i>(4 FSN/PSCs)*</i>	<b>Belo Horizonte</b> <i>(3 FSN/PSCs)*</i>	<b>São Paulo</b> <i>(20 FSN/PSCs)*</i>
<b>Int'l Market Insights</b>	16	32	16	9
<b>Industry Sector Analyses</b>	1	7	2	6
<b>Success Stories</b>	12	17	13	98
<b>Gold Keys</b>	5	20	4	58
<b>Trade Facilitation</b>	129	554	243	782
<b>Firms Counseled</b>	394	236	129	719
<b>Trade Missions</b>	1	7	2	20
<b>Trade Events</b>	1	18	0	7

\*Non-administrative

However, we found it difficult to gauge whether the staffing for Belo Horizonte is appropriate because outreach efforts have just begun in the last year and, as a consequence, the post's potential has not been fully realized. Therefore, productivity and demand statistics could be misleading and warrant additional data and further analysis by the post. For example, we found that in the first three quarters of fiscal year 1998, more firms were counseled; more Silver Keys, ISAs, and IMIs produced; and more success stories were reported than all of fiscal year 1997. This post probably needs at least one more year to establish itself before the allocation of staff can be reviewed.

A case can be made for reviewing resources countrywide, rather than merely transferring resources between the Rio de Janeiro and Belo Horizonte posts. As discussed previously, we question the amount of resources in São Paulo devoted to post-initiated services and, perhaps, some of these resources may be put to better use at one of the other offices, especially as São Paulo accounts for about 70 percent of the resources available. We believe that US&FCS São Paulo needs to balance

adequate staffing for core activities with staffing for post initiatives. Such an analysis has not been done by US&FCS Brazil management. A resource allocation study of personnel, among the constituent posts and within São Paulo, should be conducted and a new allocation plan should be developed. Specifically, in São Paulo, the very large staff should be reviewed in terms of core activities versus new initiatives, and the potential understaffing in Rio de Janeiro should be examined. The plan should include justification for the total number and mix of staff per site, including the number of staff devoted to US&FCS core activities versus post-implemented activities. Any decisions regarding Belo Horizonte should be delayed for one year to provide enough time to determine US&FCS staff needs at this new post.



In response to our draft report, US&FCS stated that São Paulo's role as the head office, administrative office, and site of the commercial center, and as the location where a bulk of the activity occurs, were not adequately taken into consideration. However, our primary concern regarding São Paulo staffing is that a significant number (41%) of the staff are devoted to new initiatives while a relatively small number (22%) are devoted to core program activities, as Figure 10 illustrates. Yet, an ongoing theme in this report has to do with the problems of timeliness, quality, and overall priorities of core program activities such as ADSs, IMIs, ISAs, and BXA end-use checks. We stand by our recommendation that the distribution of staff in São Paulo should be reviewed.

US&FCS also notes the importance of Belo Horizonte, a state that makes up 7 percent of the Brazilian territory and has an annual state economy of \$70 billion. We request that US&FCS provide us a copy of the resource allocation assessment it has agreed to do with its action plan.

## **V. Market Research and Product Timeliness Need to Be Made Higher Priorities**

In our review of Brazil's products and services, we identified issues concerning two important core US&FCS products, that merit discussion. First, the post is not producing timely responses to Agent/Distributor Service requests, and there is some question about the overall quality of ADS responses by the post. Second, the post is not consistently producing high-quality ISAs and is significantly behind schedule. We believe that these problems are caused by inadequate emphasis by some officers and staff. Post management should pay increased attention to these areas.

### **A. Agent/Distributor Services are not timely and are of uneven quality**

ADS responses from US&FCS Brazil are not completed in a timely manner and are of uneven quality. The tracking of ADS requests is done post-wide, and the tracking system as implemented is inadequate. In addition, post management has placed a relatively low priority on addressing ADS requests. As a result, U.S. exporters who request an ADS from Brazil may be receiving an inadequate or incomplete product that may also not be timely. In addition, relations with ITA's domestic offices may be harmed, as they are generally the broker for this product between the customer and the overseas post. We noted that some domestic office trade specialists we interviewed had particularly negative comments about US&FCS Brazil's administration of ADS requests. While we recognize post's desire to focus on other initiatives, we believe that post must place more emphasis on providing quality and timely responses to ADS requests.

The ADS is designed to help U.S. exporters locate qualified agents and distributors for their products in targeted overseas locations. US&FCS posts, after requests are received (through US&FCS domestic offices), are supposed to conduct a personalized search to select the most promising agents and distributors and report back to the client within 45 calendar days. The fee for an ADS is \$250.

US&FCS Brazil receives a substantial number of ADS requests; for example, 116 in fiscal year 1997. The post assigns most of the ADS requests to its interns. Post managers stated that this was the only way to cost-effectively produce ADSs, which, in their opinion, generate too low of a fee for the substantial work involved. Each office in Brazil tracks its ADSs differently, although all ADSs are tracked centrally by the US&FCS São Paulo headquarters office, which has an automated tracking system.

Our analysis of US&FCS Brazil's central tracking system noted that many ADSs were not processed within 45 calendar days, although some improvement was noted in the first half of fiscal year 1998. Our sample noted that, in fiscal year 1997, the average processing time was 70 days, ranging from 2 to 127 days late, with almost 66 percent of all requests being answered after 45 calendar days from receipt. In fiscal year 1998, we noted that the average processing time had



improved to 56 days, ranging from 1 to 268 days late. For those in which we could calculate a timeliness quotient, a total of 36 percent were answered more than 45 days after receipt.

Problems with the timeliness of ADS responses may be partly the result of inadequacies in US&FCS Brazil's tracking system, which is used to monitor the status of ADSs. We noted that more than one-third of ADSs listed in this system had data missing, either the date received, date completed, or both for fiscal year 1998. Furthermore, the printout of the ADS tracking system provided to us did not maintain a column for total days to complete, which would make it difficult for a manager to easily pinpoint the timeliness of any individual response, or the post's overall responsiveness for ADSs. In addition, the tracking system did not provide for noting when the post had requested an extension from the customer (and if and when it was granted) when the original deadline could not be met. Furthermore, very few ADSs noted whether a customer satisfaction survey had been sent to the ADS recipient or if any success stories had resulted. For example, in fiscal year 1998, out of the 71 ADSs in the sample, none noted a survey being sent or a success story resulting. Only a handful noted this for fiscal year 1997. Without complete data, it is difficult for US&FCS Brazil management to get a full picture of the timeliness and quality of the ADS service.

In addition, customer feedback on ADS processing in US&FCS Brazil was sometimes negative. While the sample was low (US&FCS/EPF was able to provide us with only six returned customer satisfaction surveys related to ADSs produced by US&FCS Brazil), many of the surveys included negative comments about ADSs in Brazil. Some clients complained that the agent contacts provided were inappropriate or unresponsive to the request, which perhaps indicates a quality control problem with US&FCS Brazil's screening of agents and distributors. Others complained that the report took too long to receive. One customer stated,

*"I would give the ADS an "F". It was absolutely terrible. You gave me one name of a potential distributor and this company was out of our market segment. I don't think... distributors would be difficult to identify but obviously the US&FCS does not know anything about the market."*

There were also a number of negative comments from US&FCS domestic offices about ADSs produced by US&FCS Brazil. For example, several domestic trade specialists noted that ADSs seemed to be given little attention by US&FCS Brazil due to other priorities, causing some ADSs to be untimely or even canceled. Other specialists noted that ADSs were discouraged by US&FCS Brazil trade specialists, who instead pushed for Gold Keys, which carry a higher fee (\$500).

We did not find the poor customer feedback surprising, considering the attitude of both trade specialists and post management concerning this product. Post management stated that ADSs were not "worthwhile" due to its low fee. As a result, interns were doing most of the work in the post's

largest office, São Paulo. Some trade specialists believed this practice hurt the quality of the responses, stating that only a trade specialist can really do an adequate job on ADSs, because of the industry expertise needed to properly respond to ADS requests. Some trade specialists stated that they de-emphasize ADSs products, in part due to the drive to generate products with higher fees, such as Gold Keys. Therefore, it is clear that ADS timeliness and quality are suffering due to inadequate attention and its lower priority relative to other work.

Nevertheless, ADSs are still a US&FCS core product and need to have appropriate resources and attention devoted to them, despite the relatively low fees they generate. Receiving a fee that does not cover its cost does not excuse the post from doing the best possible job. We note that US&FCS is currently reviewing the pricing of its products and services agency-wide, which will likely have some impact on this issue for Brazil. Nevertheless, we believe that US&FCS Brazil should pay more attention to and provide better quality controls for its ADS product.



In US&FCS's response to our draft report, the agency agreed that there were significant weaknesses in US&FCS Brazil's ADS service. The agency noted that the ADS, as a product of the agency worldwide, is being reviewed as part of its "Centers of Innovation" program. US&FCS seems to believe that the lack of quality of the products on the fact that ADSs have a low fee, but a high cost to conduct them, thereby justifying the use of students to conduct most of the ADS work. US&FCS also suggested that EPS has not provided the post with sufficient feedback based on customer surveys. Finally, US&FCS agreed that there was a timeliness problem in US&FCS Brazil for this product, but noted recent improvement.

While we applaud US&FCS's review of all products and services, including the ADS, it is important that the products, while being marketed and sold to U.S. exporters, maintain both timeliness and quality, regardless of the fee charged. We reaffirm our recommendation.

We also agree that EPS should provide the Brazil post (and all posts worldwide) with copies of feedback from their customer surveys and have added that recommendation to our report.

## **B. Industry Sector Analyses need improved quality and timeliness**

Similar to the problems we found with the ADS product, we also found that US&FCS Brazil's Industry Sector Analyses<sup>26</sup> need improvement in both quality and timeliness. While ISAs are considered an important US&FCS product worldwide and are viewed as a high priority by management, most officers and staff in Brazil indicated to us that market research is a lower priority

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<sup>26</sup> See footnote on page 20 for a description of ISAs.

than other products and services. We were told that this was mainly because ISAs generate no apparent success stories, and no fees are paid to US&FCS for this product.<sup>27</sup> Staff said that they do not emphasize products and services that do not benefit their personal cost-benefit ratios, as measured by the post's performance tracking system. This view is supported by the post's time management statistics. During a recent quarter, we noted that US&FCS Brazil overall spent only 0.4 percent of its staff time on ISAs. During that period, US&FCS São Paulo spent only 1.51 percent of total staff time on ISAs (this figure does not include commercial center staff, who are not responsible for producing ISAs), and three offices that spent no time whatsoever on ISAs. Within these figures, we noted that the vast majority of trade specialists spent less than 3.5 percent of their time (many, none at all) on ISAs. In comparison, trade specialists spent as much as 12.9 percent of their total time on Gold Keys, which generate fees.

Post management stated that market research is the "cornerstone" of trade-related counseling and an effective method to ensure that staff maintain current information on their assigned industrial sectors. In fact, ISAs are important enough to US&FCS headquarters that they are produced by each post on an agreed-upon schedule, spaced out throughout the fiscal year, in order to ensure a smooth flow of documents from posts to headquarters. Post management is responsible for the timeliness and quality of the products submitted. ISAs are reviewed by headquarters and sent to the National Trade Data Bank (NTDB) to be made available to U.S. exporters, as well as used by individual trade specialists, headquarters units, and domestic offices for export counseling purposes.<sup>28</sup>

However, our review of ITA records on timeliness found that US&FCS Brazil is not providing ISAs to headquarters according to its predetermined schedule. Statistics by EPS, which oversees the ISA program worldwide, indicate that US&FCS Brazil was significantly late on a number of ISAs in fiscal year 1998. Statistics provided by US&FCS/EPS indicated that of the 29 ISAs due by August 30, 1998, 26 (or nearly 90 percent) were at least 30 days late, ranging from 1.5 to 10 months past the agreed-upon due date.<sup>29</sup> We also noted that 7 of the 29 had yet to be submitted, although in some cases many months had elapsed since the due date.

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<sup>27</sup> Since ISAs are free and widely disseminated, the impact of them upon U.S. exports is unknown.

<sup>28</sup> NTDB is a source for international trade data and export promotion information. Types of information on NTDB include international market research; export opportunities; indices of foreign and domestic companies; how-to market guides; and reports on demographic, political, and socioeconomic conditions for hundreds of countries. (<http://www.stat-usa.gov/BEN/Services/ntdbhome.html>)

<sup>29</sup> There were no specific ITA guidelines as to what was late and what was not except the due date. Therefore, an ISA that is even one day late is considered "untimely." However, for the purposes of our review, we defined "late" as being more than 30 calendar days from the agreed-upon submission date.

In addition, the market research produced by US&FCS Brazil was of uneven content and quality. Complaints about quality have come from customers, other embassy components that use and review these reports, as well as some ITA components that review or use ISAs. The former U.S. Ambassador to Brazil commented to us that U.S. clients had told him of the poor quality of the market research produced by US&FCS Brazil. Our own review of a sample of recent reports produced by US&FCS Brazil indicated that, while we found the quality of the ISAs to be generally adequate in terms of content, we noted a number of examples of awkward writing, inconsistent use of format and terms, and typographical errors. We believe that these problems reflect the low priority placed upon ISAs and urge post management to become more actively involved in reviewing these products.

We believe that the uneven quality and the untimely production of ISAs deprive both industry and trade specialists throughout ITA, as well as users of NTDB, of accurate, up-to-date information. Exporter counseling may not be as effective, not just at post, but also at ITA domestic offices and other ITA components, if staff lack accurate, up-to-date information on important market opportunities. We noted that post management has recognized this problem and has both hosted training and sent individuals for training on this topic. Nevertheless, increased attention on the importance of ISAs to operations needs to be restated and reflected in staff and officer performance evaluations.



In its response to our draft report, US&FCS basically agreed with our analysis, and stated that, as with all its products and services, the ISA product is being reviewed under its “Centers of Innovation” initiative. Regarding U.S. client comments made to the former U.S. Ambassador to Brazil about the poor quality of the market research produced by US&FCS Brazil, US&FCS noted that there was recent praise for some of Brazil’s market research reports. The agency did not challenge statistics that show a significant timeliness problem, other than to state that US&FCS submitted 30 ISAs to the Department in FY 1998. We reaffirm our recommendation on this issue.

## **VI. US&FCS Brazil's Financial Management, Procurement, and Internal Controls Need Significant Attention**

We observed a pervasive lack of adequate financial management practices and internal controls in US&FCS Brazil operations. The weakest controls were found at the administrative center in São Paulo, while the outlying posts in Rio de Janeiro, Belo Horizonte, and Brasilia had markedly better controls. During our inspection, we noted significant management control weaknesses in the handling of cash, use of purchase orders, inventory and management of government personal property, credit card transactions, the handling of a large information technology contract, and documentation of the use of government vehicles. We attribute these shortcomings to a general inattentiveness to administrative matters.

Historically, financial management and internal control problems have plagued US&FCS Brazil. Two reviews by US&FCS in 1992 and 1996 uncovered significant, pervasive financial and internal control problems. We also have serious concerns about the US&FCS São Paulo's leased facility and question whether it is a cost effective, long-term solution to housing US&FCS outside the U.S. Consulate.

### **A. Numerous internal control weaknesses must be remedied**

US&FCS's management controls are inadequate for the handling of cash, fund fungibility, proper inventorying of government property, documentation of credit card purchases, and controls over the use of official government vehicles. More problems were found at the administrative center in São Paulo than at the outlying posts.

Management controls are important to prevent the waste, misuse, and even embezzlement of government resources. Office of Management and Budget regulations require that agency managers establish and maintain management controls to safeguard the government's programs and resources from waste, fraud, and mismanagement.<sup>30</sup> We believe that most of the management problems are the result of a general inattentiveness to administrative matters by the SCO. To correct the problems we observed, US&FCS needs to strengthen and consistently enforce its management controls as a preventive measure against the misuse and waste of government resources.

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<sup>30</sup> OMB Circular A-123, revised June 21, 1995.



Failure to follow established procedures for cash deposits places government funds at risk of loss through theft, embezzlement, or misuse. US&FCS Brazil needs to strengthen procedures and practices in this area in order to safeguard its assets.

2. Unannounced cash counts are not made

The commercial officer supervising the cashier in São Paulo did not conduct required periodic unannounced cash verifications. Such verifications are necessary to ensure that reported cash on hand is correct and are an indispensable tool for ensuring internal controls.

Commercial officers are required to perform a periodic unannounced cash verification.<sup>32</sup> US&FCS commercial officers in São Paulo typically perform this audit monthly. The cash verification responsibilities are shared between the cashier's supervisor and another commercial officer who is not in the cashier's chain of command. However, the cash verifications in São Paulo are rarely a surprise event, and the cashier's schedule is often coordinated in advance with the verifying commercial officer. US&FCS São Paulo should conduct surprise cash verifications on a regular basis in accordance with government regulations.

3. Administrative funds have been inappropriately spent

We observed an instance of inappropriate use of Operations and Administration (O&A) funds in March 1998 when US&FCS São Paulo O&A funds were used to pay for a trade event. Trade events are supposed to be funded using trust, or deposit, funds. When deposit funds are received from individuals, firms, agencies, or other sources in the United States for payment of trade events overseas, the monies are deposited into a trust fund. ITA then authorizes posts by cable to disburse these funds to designated parties in support of a specific trade event.<sup>33</sup> To ensure the integrity and viability of both the trust funds and US&FCS's budgeting and financial controls, trust funds and O&A funds may not be commingled.

In this instance, O&A funds were used along with trust funds to support a 1998 trade event. US&FCS Brazil was authorized to spend \$40,000 to promote the event. As with other trade events, this event was to have been supported through trust fund collections from the U.S. corporate attendees. However, according to US&FCS records, receipts totaled only \$25,360,

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<sup>32</sup> *Treasury Fiscal Requirements Manual for Guidance of Departments and Agencies*, Part 4, Chapter 3000, Section 3040.90 (TFM 4-3040.90), "Verification of Cash and Audit of Imprest Fund" (June 1994).

<sup>33</sup> 4 FAH-3 H-322.1, "Deposit and Trust Funds, Deposits Made at the Department in Washington."

far below the amount of \$39,172 spent on the event. The shortfall of some \$13,812 was taken from the O&A budget without the knowledge or approval of US&FCS headquarters, an improper use of trust funds with O&A funds. The requirement that US&FCS segregate event trust funds from O&A funds produces the dual benefits of ensuring that trade events are self-sufficient and preventing mismanagement of O&A funds. US&FCS headquarters became aware of the problem with this event only after the fact and later ratified the transfer.

In this case, the improper use of O&A funds resulted from the poor management of this trade event. Due to a lack of planning, US&FCS Brazil overestimated the anticipated receipts and underestimated the cost of the event. This may have been due to the fact that potential U.S. corporate participants were not notified in time to ensure their attendance. US&FCS Brazil needs to strengthen controls to ensure that improper use of funds does not occur in the future, and to dedicate sufficient time and resources to adequately plan its trade events to reduce the risk of costs exceeding receipts.

Management controls over government property are inadequate

We observed inadequate controls over and inconsistent treatment of government-owned personal property located at the various US&FCS Brazil posts. Specifically, neither ITA nor US&FCS Brazil has developed or followed an inventory control plan since ITA opted out of the State Department's ICASS<sup>34</sup> system for inventory control. In its place, ITA decided to develop its own procedures for inventory management and control. A draft personal property inventory procedure, issued by ITA in October 1997, requires that only personal property assets in excess of \$2,500 be inventoried, with a few exceptions such as cameras, facsimile machines, cellular telephones, and other equipment that could easily be lost or stolen. As of January 1999, a final procedure had yet to be issued, and no firm target date has been set for its issuance.

We compared the very detailed inventory schedules prepared by the State Department at various times before US&FCS Brazil's 1997 departure from ICASS to those prepared by US&FCS. We found that the current US&FCS Brazil inventory was incomplete and did not include all appropriate inventory items as required by the State Department's *Foreign Affairs Manual*.<sup>35</sup> Since US&FCS Brazil had departed from ICASS inventory coverage, the scope and detail of the inventories have declined. In January 1998, an ITA representative visited each of the US&FCS Brazil posts to

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<sup>34</sup> The International Cooperative Administrative Support Services system was designed as a replacement for the "FAAS" system, used by the State Department to allocate costs for services it provides to overseas agencies.

<sup>35</sup> 6 FAM 224.1-1, "Criteria for Accountability."



conduct an inventory. During the inventory, only the computer equipment and other items such as mobile phones were counted. As a result, many expensive assets have dropped off the tracking system. Examples of the types of assets that have disappeared from the system are air conditioners (window units intended for post and commercial officers' residences); stoves, microwaves, and refrigerators in the US&FCS São Paulo kitchen; and expensive pieces of office furniture.

During our inspection, we reviewed a sample of inventoried items in the US&FCS São Paulo office to ensure that all items could be accounted for. We compared the current US&FCS inventory with the prior State Department ICASS inventory. We were able to account for all items in the sample. However, we remain very concerned that the relaxation of inventory thresholds to \$2,500, coupled with the observed inattentiveness to management controls, will invite future waste of government assets. For instance, in conjunction with our review of credit card purchases, we noted that since December 1996, three air conditioners, averaging \$1,088 in cost, have not been logged onto the post inventory records and were not available at post for examination. At least one of these air conditioners is located at an officer's residence and could easily be mistaken as the officer's private property. None of the three air conditioners appear on the asset listings because they are valued at less than \$2,500.

In response to our review, the SCO in São Paulo stated that he did not agree with the \$2,500 inventory threshold established by ITA, saying that it was too high and would not cover many valuable assets. The SCO said that he supports a stricter \$750 threshold.

Since opting out of the ICASS inventory in 1996, US&FCS Brazil has conducted one annual inventory, and this was completed to the \$2,500 threshold. In addition, the São Paulo inventory was not taken and submitted by March 1, 1998, as required by the ITA schedule. Instead, only the office equipment was inventoried in May 1998, just before our arrival. The government-owned personal property in the officers' residences has still not been inventoried. According to the records we reviewed, no inventory of the officers' residences has occurred since 1996. US&FCS Brazil officials have responded that because the value of the officers' government-owned residential property does not exceed \$2,500, that property is not covered by the inventories.

The inventory records at US&FCS Brazil constituent posts were in better condition, although improvements are still needed. The records from Belo Horizonte and Brasilia were in better order than those in São Paulo, but were nonetheless based on the relaxed threshold required by ITA's draft property procedures. In addition, a considerable amount of government-owned personal property, such as furniture, has dropped off the inventory system. US&FCS Rio de Janeiro still uses ICASS, at least in part, for personal property inventory management, including inventories of the officer's residence. Because of the detail and consistency of the ICASS inventory, we regard the Rio de Janeiro inventory listing to be the most accurate.

Although the policy instituted by US&FCS headquarters is generally in accordance with Department of Commerce guidelines, it is not in compliance with the *Foreign Affairs Manual*, which sets forth property management requirements for personal property at overseas posts. The manual requires posts to track property with an acquisition cost of \$1,000 or more, as well as all residential furniture and equipment, regardless of cost.<sup>36</sup> Because US&FCS is a foreign affairs agency, the *Foreign Affairs Manual* takes precedence over the Department of Commerce guidelines. In addition, adherence to these regulations ultimately protect US&FCS commercial officers.

Adhering to the *Foreign Affairs Manual* would (1) protect officers accused of inappropriately holding government property, (2) prevent the State Department from claiming possession of property that US&FCS has purchased, and (3) allow incoming officers to use furniture and other property that US&FCS has already purchased. We recommend that US&FCS headquarters immediately issue a revised personal property management policy for its overseas posts that is in full compliance with the requirements set forth in the *Foreign Affairs Manual*. Furthermore, we recommend that US&FCS Brazil comply with such revised ITA property control procedures.

*Weak controls over government credit card purchases must be remedied*

We observed poor and inconsistent record-keeping for credit card transactions at most of the US&FCS Brazil posts. Each individual holding a government credit card is responsible for the use of that card, and US&FCS is responsible for ensuring that proper records of credit card transactions are maintained. However, transaction records were not maintained in some cases, obscuring the purpose for the transactions and preventing appropriate oversight. In addition, records that were maintained were inconsistent from one constituent post to the next, with the poorest records maintained by US&FCS São Paulo.

The quality of credit card transaction records maintained by São Paulo was generally so poor that the purpose for most transactions could not be identified, and accountability for funds expended could not be determined. Rarely were invoices or shipping documents retained in the files. These instances of missing supporting documents are serious shortcomings of basic internal control principles and need to be resolved immediately.

Supporting documents were most frequently missing for the trade event deposit fund account. Because adequate records, such as authorization logs documenting Washington's approval for disbursements and receiving documents were unavailable, we were unable to confirm the purpose for some transactions or ensure that full value was received by the government. For instance, São Paulo has done an excellent job of ordering office supplies through stateside suppliers with delivery

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<sup>36</sup> 6 FAM 224.1-1.

completed through the Army Post system.<sup>37</sup> However, for the 26 purchases of office supplies totaling some \$4,989 in fiscal year 1998—deposit fund and O&A charges alike—the files included no details. Not explained were the purposes for the items purchased or the specific items and quantities purchased.

In addition, charges against the deposit fund account—meant to support trade events—are disproportionately used for office supplies. Usually, the deposit fund credit card transactions are used for such things as renting exhibition space or equipment to support an event. However, since the start of fiscal year 1996, over \$9,000 has been spent on supplies and computer equipment to support trade events, from primarily one supplier. Of this total, \$6,673 was incurred in fiscal year 1997 alone. By comparison, total deposit fund card charges for the three-year period were \$10,617. In addition, the June 1997 deposit fund statement showed that charges exceeded the \$5,000 monthly limit. The lack of records in the credit card files prevented us from identifying how these charges benefitted individual trade shows. As a result, we are unable to determine that the government charge cards were used to purchase items appropriately.

The Office of Management and Budget requires that agency managers establish and maintain management controls to safeguard the government's programs and resources from waste, fraud, and mismanagement.<sup>38</sup> Given the lack of documentation over the credit card transactions, we believe that management controls at US&FCS Brazil are not adequate to safeguard government resources.

As stated previously, the quality of record-keeping of transactions varied from post to post, and was much better at the constituent posts than in São Paulo. In Belo Horizonte, credit card transactions for fiscal year 1998 were well organized, although not completely up to date. The fiscal year 1998 records detailed the items, the quantities purchased, and the purpose of the purchases. However, all records from fiscal year 1997 were destroyed by the office clerk when the card holder, a commercial officer, was reassigned out of the country. Therefore, we were unable to evaluate any transactions prior to fiscal year 1998 for Belo Horizonte.

Likewise, the credit card transaction records in Rio de Janeiro were reasonably well maintained for fiscal year 1998. However, the fiscal year 1997 records from the prior commercial officer card holder were incomplete, unorganized, and lacking sufficient detail. The credit card records for the cards in Brasilia were the best maintained. Details from transactions dating back two years were readily available, and transactions that could have been considered questionable were fully justified. US&FCS needs to take action to ensure that US&FCS Brazil follows record retention requirements

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<sup>37</sup> The Army Post is the overseas mail system used by the State Department.

<sup>38</sup> OMB Circular A-123.

and that government funds used for government credit card transactions are made only for appropriate purchases.

Regulations concerning the use of government vehicles must be consistently enforced

US&FCS Brazil records for the use of government vehicles are inadequate and do not comply with departmental regulations, which require appropriate internal control techniques and asset management. Records for the use of vehicles were totally lacking at some posts or were inconsistently maintained. Again, the worst records were maintained by US&FCS São Paulo. The lack of records calls into question whether the vehicles are being used appropriately and whether commercial officers are reimbursing the government for personal use of official vehicles.

Vehicle usage records were completely lacking at São Paulo prior to April 1998 and in Rio de Janeiro for fiscal year 1997. Official vehicle records were kept in hard cover logbooks at Belo Horizonte and in Rio de Janeiro, after the arrival of the new officer in fiscal year 1998. Only in Brasilia were the official vehicle logs maintained on the proper State Department forms, as described below.

We observed that the officers in Belo Horizonte, Rio de Janeiro, and Brasilia did reimburse the government, through deposits to the Department of State cashier, for personal use of government vehicles.<sup>39</sup> The most consistent records for such reimbursements were found in Brasilia. We noted that there were no reimbursements for private use of São Paulo government vehicles by any of the three commercial officers assigned to that post from fiscal year 1996 to the present. It would seem unlikely that the SCO, and presumably other officers in US&FCS São Paulo, have not put the two official vehicles to some personal use—as has occurred at other posts. Upon questioning, the São Paulo commercial officers could not explain to us the lack of proper documentation and evidence of appropriate reimbursement.

Overseas, US&FCS operates under State Department regulations for local transportation matters. The use of government vehicles is restricted to official purposes or “other authorized use.” Other authorized use includes transportation of U.S. government employees when public transportation is unsafe or not available or because the use is advantageous to the U.S. government.<sup>40</sup> The time of departure, destination, time of arrival, and actual mileage for every use of a government vehicle should be entered on a State Department “Daily Vehicle Use Record” form.<sup>41</sup> In this fashion, the

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<sup>39</sup> 6 FAM 228.2-4, “Charges for Other Authorized Use of Official Vehicles.”

<sup>40</sup> 6 FAM 228.2-3.

<sup>41</sup> 6 FAM 228.6-1, “Daily Use Record (OF-108).”



successes with such events. Post stated that for six other trade events, US&FCS Brazil returned trust funds in excess of \$70,000 in fiscal year 1998.

US&FCS did not fully address our recommendations concerning inventory. In its response, US&FCS stated that the post's property records were prepared using Department of Commerce guidelines for accountable and sensitive property, although it did acknowledge that such property should be tracked more carefully in the future. Because US&FCS is a foreign affairs agency, the *Foreign Affairs Manual* takes precedence over the Department of Commerce guidelines. As noted in the draft report, the manual (6 FAM 224 "Control of Personal Property") requires foreign affairs agencies to track residential furniture regardless of cost. US&FCS has ignored this regulation to date and has not officially required posts to account for residential furniture and equipment it purchases overseas.

We reiterate our recommendation that US&FCS headquarters establish an official policy requiring all overseas posts to track residential furniture and equipment purchased with government funds. One way to easily accomplish this is with an outgoing cable to all overseas posts stating that residential property be officially tracked regardless of cost.

US&FCS Brazil has agreed with our recommendation to strengthen controls over government credit cards and has taken action to implement these controls. US&FCS reports that a new commercial officer with administrative responsibilities in São Paulo began implementing these changes shortly after the officer's arrival in September 1998. We are requesting that US&FCS submit a copy of the new credit card guidelines with their action plan.

With regard to the use of official government vehicles by commercial officers, US&FCS agrees that the records of three of the five vehicles had not been maintained in accordance with State Department guidelines. The response also provided information that two of the vehicle logs were maintained on Lotus Notes from May to June 1998, just prior to the arrival of the inspection team. Subsequent information from US&FCS São Paulo indicates that the vehicle logs have been properly maintained since our inspection.

In response to reconstructing the São Paulo vehicle logs from fiscal years 1996 through 1998 and reimbursing the government for personal use, US&FCS Brazil stated that although it will attempt to, few entries will result. According to the post, this is because three of the four commercial officers walk to the São Paulo Commercial Center and the fourth drives a personally owned vehicle. Further, US&FCS São Paulo stated that post was aware of only three instances of personal use of the government vehicles since 1996, which have been documented and for which reimbursement has been made. We are requesting that US&FCS submit a copy of the reconstructed vehicle logs with a copy of OF-158 receipts showing reimbursement of payment with the action plan.

## **B. US&FCS Brazil did not adequately plan and execute the PAIP procurement**

We noted several examples of poor judgement related to the procurement of US&FCS Brazil's Public Access Information Platform (PAIP), a database system intended to disseminate information to assist U.S. exporters and Brazilian importers. The procurement of PAIP was flawed in both concept and management by US&FCS Brazil, causing delays, a significant dispute concerning the overall cost to the government, unsecured advance payments to the contractor, and the misuse of government resources. The lack of competition for development and implementation of the system perhaps resulted in the government paying more for this system than might have been necessary if it had been competed. The eventual expected cost of the PAIP system is \$276,364, but as of our June 1998 review, US&FCS Brazil still did not have the system in place and operating, although the original concept was first considered in March 1996.

### *Procurement of the PAIP system was flawed*

Our review of the PAIP procurement effort has revealed serious problems with the design and implementation of the procurement, and the overall administration of the effort. As a result, the PAIP project was delayed, and a dispute arose between US&FCS and the contractor over payment for its completion. Specifically, US&FCS Brazil approved this procurement based only on an informal presentation, by one contractor, without competition; split it into separate purchase orders which complicated its administration; and inadequately defined the contract specifications, which led to delays, and disputes with the contractor, and may have increased the cost to the government.

First and foremost, the PAIP procurement effort was not competed. The PAIP procurement was based on an informal presentation made on March 13, 1996, by a single contractor, that included a price list totaling \$289,220. Multiple bids were not sought by US&FCS Brazil and, instead, the SCO accepted the single, informal presentation as a proposal, and made an unjustified sole-source award to the contractor. This error was compounded by initially authorizing the PAIP project through three separate purchase orders for an amount less than the proposed amount. The three purchase orders totaled only \$168,055 and were issued to the contractor through the General Services Officer at the U.S. Consulate in São Paulo. The description of the work provided with the purchase orders was inadequate to technically define the PAIP system and the contract requirements, and did not define the project's total cost. Nonetheless, the SCO authorized work to proceed without a proper definition of the final cost.

Not competing the contract and splitting the PAIP contract into separate purchase orders had a number of negative consequences for both the management and cost of the project. Because the original \$289,220 proposed price was not arrived at through competitive bidding—or even a formal proposal—it could not be considered a fair and reasonable price. Because there was no

mutually agreed upon contract, US&FCS Brazil had no way of knowing what the project's final cost would be or of holding the contractor to the terms contained in its bid.

Splitting the procurement into separate purchase orders circumvented competition requirements and made oversight of the contract by US&FCS management difficult. The SCO allowed the larger PAIP effort to be split into three smaller orders such that they could be managed, inappropriately, through the simplified acquisition process. Purchase orders issued through simplified acquisition procedures may be made to a single source if the cost does not exceed \$50,000<sup>42</sup> and the contracting officer determines that the circumstances of the contract action deem only one source reasonably available.<sup>43</sup> In the case of PAIP, not only did the sum of the three initial purchase orders exceed \$50,000, but one exceeded \$50,000 by itself. Finally, the PAIP contractor was located in the continental United States, but was nevertheless selected as a sole-source supplier for this in-country procurement. This contract action should have been open to other domestic prospective offerors in accordance with the procurement laws and regulations, which include a requirement for an announcement in the *Commerce Business Daily*.<sup>44</sup> It does not appear that a justification for other than full and open competition could not have been legitimately prepared because of the availability of other contractors that could do this type of work.<sup>45</sup>

The cost of the PAIP system grew haphazardly. The system was incrementally funded and authorized through 14 separate purchase orders and credit card transactions totaling \$212,364 issued between October 1996 and May 1997, a period of 8 months. By July 1997, the contractor disabled the system and made various claims for additional funds he believed owed him. In June 1998, US&FCS made an additional \$64,000 available to complete the PAIP system and settle the contractor's claim.

The PAIP purchase order documents should have been consolidated into a single contract with a comprehensive statement of work. This lack of contractual formalities ultimately jeopardized the project and wasted government resources. Moreover, the purchase orders used to award the PAIP project lacked critical definitions of fundamental contract terms, including a schedule of hardware and software deliverables, delivery dates, statement of work, and system specifications. In addition, other critical requirements and functional constraints of the São Paulo facility were not considered, such as the condition of phone and other communications lines and electrical outlets.

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<sup>42</sup> 6 FAM 216.8(a).

<sup>43</sup> FAR 13.106-1(b).

<sup>44</sup> FAR 5.101(a)(1).

<sup>45</sup> 41 U.S.C. § 253 (c) and (f).



As a result of PAIP's undefined specifications and contract terms, the work could not be controlled such that a fully developed and operational system was created. The project was seriously delayed, and the final cost to the government may have been higher than had it been with a full and open competitive procurement. For example, the contractor claimed that shipping costs were not included in his "proposal," resulting in delays and added costs of \$4,935. At one point, the contractor claimed that the system could not be turned on without virus protection software, uninterrupted power supply hardware, and a system recovery plan—items that he claimed were not within the scope of his original presentation proposal. Receipt of hardware, custody, ownership, and security over equipment created additional problems. Finally, the extent of PAIP system assembly—since it was built up from components on site in São Paulo—surprised US&FCS personnel and disrupted São Paulo's building renovation and trade operations.

Federal procurement law requires that agencies define acquisition specifications based upon agency needs and the market availability of goods and services to satisfy those needs.<sup>46</sup> In addition, advance planning and market research are essential for the development of adequate specifications that will ensure that the government receives the goods and services required.

US&FCS must adhere to the procurement laws and regulations when entering into contracts. This includes ensuring that all contract actions are competed. Further, US&FCS should avoid sole-source contracts, especially with stateside contractors. When a requirement is expected to be met by using a stateside contractor, the procurement action must be competed and be managed through the Department's procurement system. In addition, any such contract must articulate the combined procurement requirements and should not be split between purchase orders or smaller contracts. Finally, any such contract should articulate the procurement requirements through a statement of work, specifications, and a delivery schedule so that the requirement can be adequately defined and the work effort controlled through the contract.

US&FCS made unauthorized advance payments to the PAIP contractor

We also found that US&FCS made substantial advance payments to the PAIP contractor in violation of federal procurement laws. As a result, project completion was delayed. Advance payments are monies paid to a contractor in advance of its actually performing against its contract requirements. Advance payments are rarely allowed on government contracts because the government loses its ability to ensure that the contractor will follow through with its commitments.

The three initial purchase orders, dated October 16, 1996, were valued at a total of \$168,055. The contractor invoiced US&FCS Brazil for \$28,545 in partial advance payments against these orders on the next day, October 17. US&FCS authorized partial advance payments against these invoices

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<sup>46</sup> 41 U.S.C. § 253a(a)(1) through (3).

totaling \$24,170 between October 24 and December 19, 1996. The contractor also received advance payments on subsequent purchase orders.

In July 1997, US&FCS and the PAIP contractor disagreed over the system's technical specifications. The contractor claimed that the system could not be turned on without virus protection software, uninterrupted power supply hardware, and a system recovery plan. The contractor stated in writing that in order to protect the system from a possible virus attack, he disabled it and simply walked off the job, departing São Paulo. Since the contractor had received substantial advance payments without having completed PAIP, he was not subject to a loss for discontinuing work. Without a contract containing an adequate technical description, US&FCS personnel could not refute his claims regarding the requirements included in the contract.

Although an agency has some flexibility in making advance payments for commercial items, in order to make such payments, the agency must determine that they are in the best interest of the government. In addition, such payments can only be made upon receipt by the government of adequate security and must be for amounts not to exceed 15 percent of the contract price.<sup>47</sup> Further, such payments should be based on definable work packages—performance-based payments against which progress can be measured. Overseas procurement actions may qualify for a narrow exclusion to the rules listed above against advance payments. Advance payments may be permissible where the laws and regulations of the foreign nation require an advance payment, and such payment does not exceed \$10,000.<sup>48</sup>

However, advance payments to the PAIP contractor were improper because the payments violated most of the criteria described above. Neither US&FCS personnel nor the State Department's General Services Officer made a determination that the payments were in the best interest of the government. The purchase orders describing the work did not require that the contractor put up security to protect the government's interests and did not adequately describe the performance-based work packages against which payments could be made. Finally, since the PAIP contractor was a domestic U.S. contractor shipping U.S. goods into Brazil, all U.S. government procurement regulations should have applied.

US&FCS should curtail its use of advance payments. In instances when US&FCS determines that an advance payment is in the best interest of the government, the bureau must prepare and maintain proper documentation justifying the advance payment in accordance with the procurement laws and regulations described above.

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<sup>47</sup> 41 U.S.C. § 255(d) and (f).

<sup>48</sup> FAR 32.404 (a)(7).

US&FCS personnel issued verbal authorizations for PAIP work

Senior US&FCS personnel worked outside of contract formalities by authorizing PAIP support work orally. The work authorizations were not cited in purchase order records and were evidenced by facsimile transmissions. All federal government contracts must be supported by written documentation to properly memorialize the transaction. Agencies may forgo the use of written solicitations for certain small purchases below \$25,000, but the actual authorizing contract award or modification must be in writing.<sup>49</sup>

The additional work that was verbally requested involved developing an initial system design and supporting a demonstration of the PAIP system to Secretary Daley during an official visit to the São Paulo facility. As a result of the verbal work authorizations, and the lack of specificity and enforceable contract terms, the government was exposed to additional cost as the contractor eventually submitted contract claims for the work.

The contractor claimed \$12,500 for the initial design work in March 1996 and \$23,940 for supporting the PAIP demonstration. The SCO has maintained that the initial design study was actually proposal preparation costs, which the government does not typically pay. In addition, US&FCS claims that the PAIP support effort for Secretary Daley's visit was included in the scope of the initial purchase orders. However, since these work authorizations were conveyed orally and took place outside the formal contract arena, we are unable to determine whether they constituted new work outside the scope of formally issued purchase orders. As of May 21, 1998, ITA agreed to authorize an additional \$64,000 to settle the contractor's various claims, including work scope and verbal authorization claims, and to secure the contractor's services to complete the PAIP project.

US&FCS Brazil should follow standard, formal contracting procedures whereby all communications directing contractor performance are placed in writing. Changes can then be made to the contract upon mutual agreement of the parties.

US&FCS took other improper administrative actions related to the PAIP project

We also observed improper administrative steps taken by the US&FCS officers during the PAIP project, including the use of government resources to provide travel for the PAIP contractor and the improper use of trust funds for work on the project.

The early stages of the PAIP development required work to be done in São Paulo, only. However, US&FCS purchased an airline ticket for the PAIP contractor to travel from São Paulo to Rio de

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<sup>49</sup> FAR 4.803(a) and (b) and FAR 13.106-1(c).

Janeiro and return. None of the 11 PAIP purchase orders nor the contractor's March 13, 1996, "proposal" indicate that travel to Rio de Janeiro was necessary for the PAIP project. The airline ticket was issued on May 16, 1997, just after Secretary Daley's visit to São Paulo. The airline ticket cost \$267 and was charged to the same account as the PAIP system.

If necessary for the completion of PAIP, the various purchase orders should have already provided for travel within Brazil as part of the scope of work. If the travel represented new work scope, then a separate purchase order or contract change order should have been used to compensate the contractor for travel. Since there are no contract requirements for PAIP development activity in Rio de Janeiro, the government's payment for this trip appears to be improper.

In another example, US&FCS Brazil awarded a purchase order for \$6,000 to the PAIP contractor on March 10, 1997, for "additional consulting services, application software development pursuant to a retainer agreement." We found that the funds for this purchase order came from the Business Facilitation Services account, which is accumulated from fees collected from U.S. exporting firms seeking US&FCS assistance. Disbursements from this account are intended to assist U.S. exporters in completing their local transactions by providing basic office, secretarial, and interpreter services. Since the PAIP contractor was not involved in business facilitation activities, the charging of PAIP contractor costs to the account results in improper use of funds.<sup>50</sup> US&FCS should strengthen its internal control procedures to ensure that the State Department's *Foreign Affairs Handbook* regulations to preclude the improper use of funds are enforced.



We made several recommendations regarding the procurement practices at US&FCS São Paulo, including problems we observed relative to the procurement of the PAIP information technology system. In response to our recommendation that US&FCS Brazil use formal contracting procedures, including ensuring competition, developing specifications, and properly defining the effort, US&FCS Brazil responded that it is taking measures to ensure that all officers, and as many foreign service nationals as possible, receive simplified acquisition training. The post advises that this training is to occur in São Paulo this year as part of the post's regional administrative training. While we welcome all procurement training that the post might conduct, we would like to remind US&FCS that the nature of our concerns with regard to the PAIP system was the apparent splitting of a larger procurement project among such "streamlined" small purchase orders. We reiterate our recommendation that such training include the preparation of formal specifications and statements of work so that contractor performance can be measured and the project adequately controlled.

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<sup>50</sup> 4 FAH-3 H-322.1, *Deposits Made at the Department in Washington*.

US&FCS did not adequately respond to the recommendation that US&FCS notify the appropriate Commerce Department procurement office when U.S. contractors are used for overseas work. Rather, US&FCS disagrees with the example cited in the draft, stating that supporting documentation exists demonstrating that competitive procedures were employed and that three different bidders won five different contracts. To support this, US&FCS provided a comparative cost analysis of three potential offerors. Although not indicative of competitive bidding—because the cost analysis does not include firm offers inclusive of all terms and delivery requirements—such information does demonstrate advance planning. Other than the worksheet price comparison, US&FCS Brazil did not provide additional information that would support its assertion that: (1) a solicitation was used to formally describe the PAIP system requirements, (2) formal offers were received from competing bidders, and (3) there was more than one contractor who performed work on the PAIP project. At the time of our review in Sao Paulo, these records were unavailable to us. US&FCS Brazil did provide one example of competing offers where three bidders submitted price quotes for one desktop computer. The PAIP contractor apparently won this contract, worth \$1,095, against two Brazilian firms. We reiterate that in cases where U.S. contractors are utilized overseas, the selection and competition should be conducted through the appropriate domestic Department procurement office.

US&FCS Brazil agreed with the recommendation to curtail the use of advance payments to contractors, but suggested that the recommendation also address State Department contracting and/or financial management authorities. While we agree that the State Department plays an important role in the contracting and financial management process, our concern lies with US&FCS personnel making inappropriate or unreasonable requests. The proposed procurement training should satisfy the intent of the recommendation. We request that US&FCS submit, with the action plan, the training outline for the procurement section.

In its response, US&FCS Brazil also agreed to follow standard, formal procurement and contract management procedures whereby all communications directing contractor performance are in writing.

**C. US&FCS Brazil procurement system used for inappropriate purchase authorizations**

We observed that a US&FCS Brazil commercial officer has received inappropriate purchase authorizations through purchase orders before official travel and uses these funds for purchases that cannot be easily accounted for in US&FCS Brazil's records. This practice is a violation of basic internal controls over the use of government funds. US&FCS should substantiate the commercial officer's purchases made through these purchase orders with receipts and ensure that he repays the government for funds that cannot be accounted for.

Before official travel, the commercial officer has been obtaining cash for a travel advance through a government travel credit card and then obtaining an additional purchase authorization for incidental purchases through a purchase order. Such purchase orders are typically for \$500, but we have identified one for \$2,000, which was issued in advance of a particularly long trip. The commercial officer told us that these incidental purchases were for relatively small items meant for the office, such as books and software made available as samples for the staff.

We believe this represents a troubling disregard for basic procurement regulations and good internal control practices. An advance authorization established through a purchase order for a given commercial officer's unplanned purchases does not constitute a valid travel expense. When the commercial officer makes purchases in this fashion, there are no internal controls to ensure that government funds are not abused or wasted. In this case, a single commercial officer acted as the buying agent, contracting officer's technical representative approving the purchase, and as the vendor specifically named as payee in the purchase order. At the time of our review, we found no receipts, logs, or inventory maintained in the post's administrative records to support these purchases. In effect, the expenditure of government funds could not be specifically and fully accounted for.

Purchase orders are intended for the procurement of goods and services that are ascertainable at the time the purchase order is issued. Allowing an officer an advance purchase authorization for unknown purchases is also inappropriate because the officer has not been authorized by the government to make purchases on its behalf. If US&FCS approves of this practice, then the commercial officer in question should be issued a government credit card to facilitate such purchases.

US&FCS should take immediate action to prevent commercial officers from using advance purchase orders as unspecified purchase authority while on travel and establish policies and procedures to ensure all commercial officers understand that doing so is an improper activity.

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In response to the concern raised regarding the practice of using purchase orders to obtain cash advances for travel, US&FCS Brazil stated that the example and commercial officer in question did not receive cash in advance of travel, but rather used a purchase order as a means of reimbursement for items purchased for the São Paulo office upon his return from a trip to the United States. Furthermore, US&FCS contends it was a more cost-effective way to purchase the items and that the State Department required the use of purchase orders for these transactions.

We have confirmed that the disbursement in question was not a travel advance and was in fact made to the commercial officer upon his return from his trip. However, regardless of whether cash was received in advance or upon the return of the commercial officer, we reiterate that this practice

represents an internal control weakness and potentially exposes government funds to abuse and waste.

Moreover, it is our understanding that the State Department required purchase orders to stop the US&FCS practice of submitting receipts for reimbursement to the State Department cashier. Since some of these reimbursement requests—as stated in the US&FCS response—totaled as much as \$1,500, the State Department suggested the use of purchase orders not because it endorsed the transactions, but rather, to isolate the payments from the State Department cash system and to make US&FCS Brazil more accountable for the transactions.

US&FCS also compared the use of purchase orders for advance purchase authority to blanket purchase orders. This is not a correct analogy. Blanket purchase orders are usually for large amounts and are used to obligate funds for particular, identifiable purposes (such as building maintenance). After a contracting officer has issued a typical blanket purchase order, an authorized contracting officer's technical representative (COTR) may be delegated procurement authority to issue task orders—discrete work packages—against the purchase order. Performance is then accepted by the COTR and payment made to the vendor. In this case, however, the commercial officer was both the COTR and the “vendor,” named in the purchase order to receive funds from the government. The commercial officer authorized the State Department General Service Office officer to issue a purchase order, acted as buying agent, then acted as the COTR approving the purchases, and finally acted as the vendor, receiving reimbursement from the government against the purchase order. The assumption of all of these roles by one commercial officer clearly represents an internal control weakness and a potential for abuse and waste of government funds.

We reiterate this point: if US&FCS approves of this practice in order to take advantage of relative cost savings as opposed to making purchases in Brazil, then US&FCS should issue a government credit card to the commercial officer for such purchases so they can be monitored at US&FCS headquarters. Furthermore, since these purchases are made for the US&FCS São Paulo Commercial Center and the cost savings are available primarily through U.S. purchases, we further suggest that US&FCS São Paulo make these purchases as part of its planned office supply purchases through U.S. stateside suppliers.

#### **D. US&FCS Brazil has used some funds in a questionable manner**

In addition to the previously cited examples, we identified several other procurement actions by US&FCS São Paulo that demonstrated the exercise of poor business judgment and perhaps waste of funds. These include an extremely unfavorable lease of copying machines, an incredible tangle of contracts to support the FSN student interns, and the inappropriate use of government funds to upgrade an officer's residence. We believe these are additional examples of the disregard for good financial management practices by the post.

Questionable lease of copying machines wastes funds

US&FCS São Paulo is leasing two copy machines, which are getting limited usage, at a high price. We question whether entering into this lease was a prudent decision and have concluded that this is an example of poor decision-making by management concerning the use of government funds.

One copier is a desktop model located in a commercial officer's office. The other is a large, high-speed copier with many useful features located on the first floor of the facility. US&FCS is paying \$23,600 in lease payments over two years, an amount just over the full purchase price of the two copy machines. We believe it would have been more economical and prudent to have purchased the machines outright in fiscal year 1997 and had use of them for at least four years—their typical useful life. All other US&FCS posts in Brazil have purchased their copying machines to conserve funding and hedge against local inflation. We concluded that US&FCS Brazil did not follow proper procedures in analyzing whether a lease or purchase would have been more appropriate, as required by regulations.

The high price for leasing these machines has had a curious and not altogether surprising result, given the cost center structure set up by US&FCS Brazil's performance tracking system (discussed previously in Chapter I, Section A). In fact, the effect of the system and the high lease rates have resulted in further waste. Because the use of these machines is charged directly back to the cost centers (e.g., individual employees) and because the internal charge rates are very high because of the high lease rate, São Paulo staff avoid using these machines. Our concern is that São Paulo has wasted its resources twofold, first by paying too much for the leased equipment, and second by underutilizing it such that the post is receiving little benefit from funds paid out for the machines.

In the future, US&FCS São Paulo should follow federal procurement regulations and guidelines in determining whether a procurement is best completed as a purchase or a lease.<sup>51</sup> In addition, the post should consider charging the majority of the copier costs to a broader overhead account so that the machines will be better utilized by the staff.

The large number of personal services contracts for interns unnecessarily increases ICASS charges

US&FCS Brazil's extensive use of interns has resulted in significant and wasteful ICASS charges. The post uses university students as interns to provide business training to the students and support a large number of trade events, especially in São Paulo. To obtain their services, individual purchase orders are issued to a quasi-governmental Brazilian organization, the Centro de Integração Empresa-Escola Center of Integration Enterprise. From October 1, 1997, to May 11, 1998, 58 purchase orders

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<sup>51</sup> FAR 7.4, *Equipment Lease or Purchase*.



totaling the equivalent of \$37,645 have been issued and paid to CIEE. These purchase orders range from as little as \$104 to \$13,477, and many are under \$850.

The small size of individual purchase orders, despite the large total value of the intern program, is significant because US&FCS must pay the State Department, through ICASS, approximately \$83 for each purchase order it processes.<sup>52</sup> Given the large number of small purchase orders issued by São Paulo, US&FCS resources would be conserved if these and other similar purchase orders were consolidated wherever possible.

The future of US&FCS Brazil's intern program is currently in doubt because of unrelated legal issues. In the event that the intern program is ever reinstated, US&FCS Brazil should adopt a task order contract structure to conserve its administrative effort and minimize its ICASS charges.

*Questionable improvements made to leased residence represent questionable use of funds*

A commercial officer authorized the use of US&FCS funds for five purchase orders totaling \$12,113 for upgrades to his leased residence in São Paulo. The purchase orders were then issued to local contractors through the State Department's General Services Officer in São Paulo. The lease terms on the residence call for monthly payments of \$3,700 for two years, or a total of \$88,800. The commercial officer stated that the upgrades were necessary to make the apartment habitable for an officer with diplomat status. As a result, \$12,113—or 13.6 percent of the total lease value—was spent on upgrades to the residence. These upgrades included a remodeling of the kitchen and bathroom that will only benefit the landlord in the long term.

Although this work was conducted with the consent of State Department officials, we question the spending of such a large proportion of the lease value for amenities that will not benefit the U.S. government beyond a two-year lease term. US&FCS agrees and during September 1998, after our review, was conducting its own inquiry into this expenditure of funds. US&FCS should establish policies and procedures to review work done at officers' residences to ensure that government funds are not being wasted or misused.



In response to the recommendation that US&FCS use federal procurement guidelines to determine whether the acquisition of future assets, such as the copy machine, include an analysis of leasing versus purchasing, US&FCS stated that the acquisition of the copier was conducted and fully competed by the State Department General Service Office. The post stated that the lease option was chosen to ensure maintenance because the copier market in Brazil is closed and non-competitive. In

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<sup>52</sup> Based on a 1997 US&FCS Brazil analysis of ICASS charges.

addition, the lease is a lease-to-purchase contract, where US&FCS has the option to buy the machine at the end of the lease term. This response is inconsistent with our observations on post, where we found no records or documentation of an analysis of a lease versus purchase, with or without a maintenance agreement. We request that US&FCS provide a copy of the analysis with their action plan.

US&FCS agreed with and has taken action to implement the recommendation to charge the majority of the copier's cost to a broader overhead account to ensure better utilization by the US&FCS staff, thereby meeting the intent of this recommendation.

In response to the recommendation to alter the method of payment for the Brazilian intern program, US&FCS stated that the program has been discontinued. However, the post went on record defending the methodology because it allowed the best coordination between payment to the intern and availability of trust funds, notwithstanding the added cost of ICASS charges. Given the balance between performing the task, such as completing an ADS and receiving payment, we modify our recommendation to say that to the extent possible, US&FCS should try to minimize the number of payments into a single task order.

US&FCS did not adequately respond to the recommendation calling for the establishment of policies and procedures to ensure commercial officer residence renovations are an appropriate use of government funds. Rather, the post stated that the renovations in question were approved and contracted by the Department of State General Service Office. Further, the post stated that the residence in question remains in the consular housing pool and that the renovation costs will be amortized over subsequent U.S. government officers. Finally, US&FCS Brazil stated that the renovation work performed was reasonable and had been inspected by US&FCS headquarters and Western Hemisphere.

We need to point out that although US&FCS headquarters and western hemisphere officials inspected the renovation in question, this was not done in advance. We reiterate that US&FCS establish policies and procedures to ensure that commercial officers' residential renovations are an appropriate use of government funds and request that US&FCS specifically address the status of the recommendation in its action plan.

#### **E. US&FCS needs to reconsider its São Paulo facility**

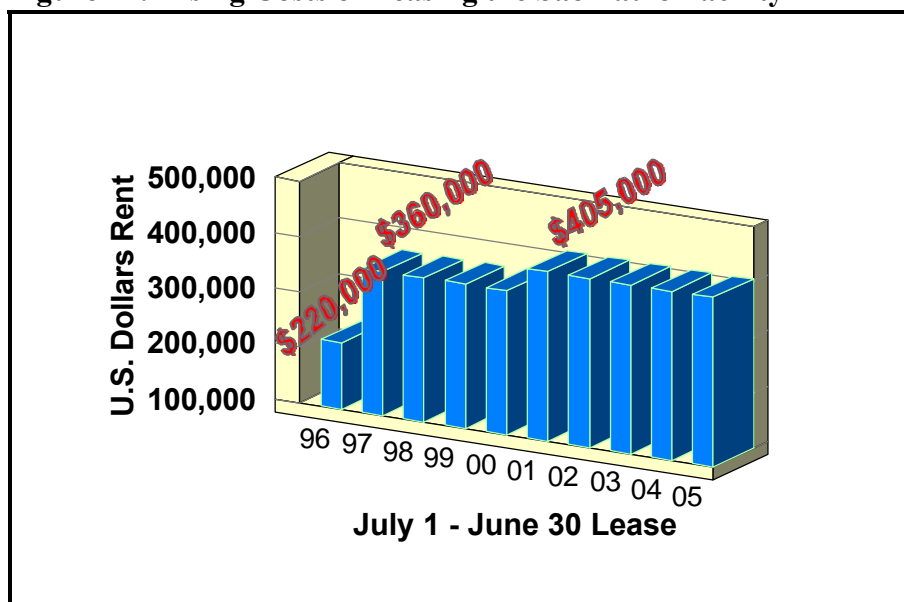
We found that US&FCS São Paulo is leasing deficient office space. Although conveniently located near the U.S. Consulate, the facility does not meet the city's building code, does not meet State Department fire and safety standards, and lacks modern amenities, such as adequate electrical power distribution, telephones, and computer communications lines. Although US&FCS is paying a reasonable rental rate, the bureau has spent over \$500,000 in renovations and security upgrades

since 1995. Leased office space, complete with modern safety features and amenities, is available at several other business districts in São Paulo. The US&FCS should consider alternatives to meet its office space needs. In considering alternative space, the bureau should consider each prospective facility's overall cost, condition, and proximity to the business districts as well as to the U.S. Consulate.

US&FCS is renting deficient office space

The São Paulo commercial real estate market is one of the most expensive in the Western Hemisphere, roughly on par with New York City. US&FCS is currently paying a reasonable annual rent, less than comparable space nearby. Even so, the US&FCS São Paulo facility has a number of building code violations and fire, safety, and security deficiencies that make it potentially unsafe. In addition, its primitive infrastructure makes it ill-suited as a US&FCS post.

**Figure 12: Rising Costs of Leasing the São Paulo Facility**



US&FCS has a leasehold on the building at 1812 Rua Estados Unidos in São Paulo. The current terms of the lease require US&FCS to pay \$360,000 each year on June 30, through 2000. The facility yields 28,000 rentable square feet, representing a rental rate of \$12.86 per square foot. Before June 1997, the annual lease rate was only \$220,000. At that time, however, US&FCS exercised a lease option for four years at an annual lease rate of \$360,000—a 64 percent increase. Further, the lease has another option clause allowing US&FCS to exercise a lease extension for

an additional five years from 2001 to 2005 at the increased rent of \$405,000 each year, or \$14.46 per square foot. If US&FCS exercises the second lease option, its rent would almost double (increase by 84 percent) in the span of only five years.

Despite its increasing future cost, the building is in violation of the São Paulo municipal construction code and State Department fire and safety regulations. One of the building code violations is the SCO's rooftop office. The electrical and telephone system is poor, and there was considerable work being done at US&FCS expense during our inspection to improve these problems. Finally, security over the US&FCS São Paulo facility is also a great concern to the State Department since one two-story exterior wall is made entirely of glass and is situated near a busy street. A recent State Department report on this facility made a number of recommendations concerning its security, many of which would require substantial work and funding to implement.

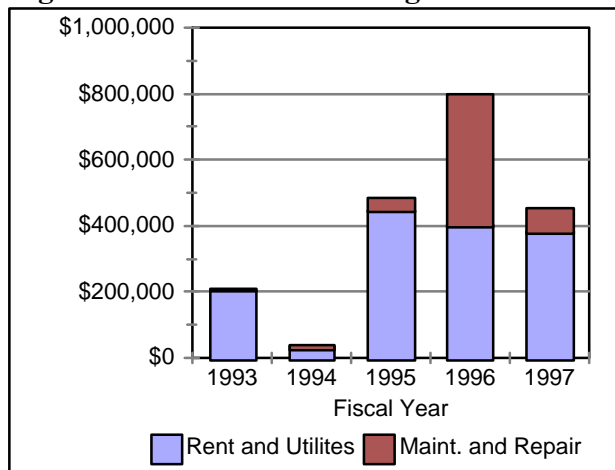
US&FCS continues to spend money on building improvements

US&FCS São Paulo has spent over \$500,000 on renovations and correction of building deficiencies since fiscal year 1995, despite the fact that the lease clearly states that the landlord is responsible for correcting code violations. As recently as April 30, 1998, State Department fire safety inspectors cited the US&FCS facility for 16 fire and safety violations and identified several maintenance actions to improve safety. In addition, the current phone system will not support the completion of the PAIP system, and the post is considering the installation of a 64K data transmission line to correct the problem.

In 1996 and 1997, US&FCS spent over \$40,000 repairing the roof. The landlord denied responsibility for the roof, claiming that although two contractors of the landlord's choosing had identified problems with the roof, US&FCS chose a third contractor for building renovation work that did not identify the roof as a problem. However, once work was started, this third contractor then identified problems with the roof that required major repairs. US&FCS did not attempt to recover repair costs or otherwise force this issue with the landlord.

In addition, the State Department has identified numerous security upgrades needed for the building, some of which have been completed and some of which are scheduled. We examined planning documents and proposed statements of work that suggested that US&FCS personnel may

**Figure 13: São Paulo Building Costs**



combine the security-related construction work with certain cosmetic changes to the building, depleting funds earmarked for security upgrades.

US&FCS expenditures to improve or modify the São Paulo facility will only benefit the landlord over time. Spending U.S. government funds on the São Paulo facility only makes it more difficult to vacate the facility. Because the added spending increases the facility's value to US&FCS, the landlord can be expected to further increase the rent. This is evidenced by the increase from the base rent of \$220,000 per year in 1995 to the option price of \$405,000 per year in 2001.

We believe that US&FCS headquarters should immediately initiate a study of the current São Paulo facility to determine the exact extent of the building deficiencies and the amount of time and money required to make it compliant with São Paulo municipal codes and Department of State fire and safety codes. US&FCS should also aggressively pursue the landlord in an effort to improve the substandard condition of the facility and mitigate the expenditure of government funds for basic habitability through reduced rent. Furthermore, US&FCS Brazil should immediately cease all renovation work until US&FCS studies the deficiencies and estimates the cost of their correction. US&FCS Brazil should be directed to enter into discussions with the landlord seeking a rent abatement for the value of the improvements made to date, as well as for any improvements made in the future.

#### Location and infrastructure of São Paulo facility

The US&FCS São Paulo facility may not be at the most effective location for promoting U.S. trade interests. Because of this, and the rising costs of the facility as discussed above, we believe a strong case can be made for reconsidering long-term occupation of this facility.

São Paulo, a metropolis of 17 million people, is the largest business center in South America. Five separate business districts have sprung up over the years, and the US&FCS São Paulo facility is near only one of these. The current facility is located in the Jardim neighborhood, near both the U.S. Consulate and the wealthiest residential neighborhood in São Paulo. We were told, however, that much of the new business growth is in other parts of the city, far from where the current US&FCS facility is located. Public law provides that, to the extent feasible, the commercial center should be located in the center of commercial activity.<sup>53</sup> Virtually all Brazilian commercial activity abandoned the Jardim neighborhood about 10 years ago in favor of newly developing commercial areas. Because the city's streets are so busy, the current US&FCS facility is becoming increasingly isolated from most business activity. Most events that US&FCS hosts in São Paulo occur in other parts of the city.

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<sup>53</sup> Jobs through Exports Act, Title IV, Section 401(g)(1), 106 Stat. 3662 (1994) *codified at* 22 U.S.C. § 4723a (g)(1).

Visitors to the US&FCS São Paulo facility find little or no parking available, and the open space that could be used for events is too small and has been converted to office space. Further, the building has a poor electrical and telecommunications system. In fact, as previously stated, the building's infrastructure will not support full deployment of the PAIP system, intended to draw Brazilian importers and American exporters to the facility. New, leased office space is available in São Paulo in any of the new business districts currently under development. Such new space is more expensive—from \$24 up to \$40 per rentable square foot, compared to the \$14.46 rate projected for the current facility in 2001. But new space could offer modern infrastructure for electrical distribution, telecommunications, and space for events and would not require significant additional funds for renovation.

We recognize that there are other considerations for staying at the current facility, including the proximity to the U.S. Consulate and the Jardim neighborhood, where all of the officers live. The American school is also located nearby, easing the childcare burdens of commercial officers. Nevertheless, we believe that US&FCS headquarters should conduct a market survey to determine what other reasonable facilities may exist for the São Paulo operations. In conducting its market survey, US&FCS should consider modern, more cost-effective facilities in the developing business districts of São Paulo. We also understand that the State Department is currently studying the government's requirements for a new consular compound in São Paulo. This is another option to be considered, and US&FCS should contribute to State's activity to determine if the US&FCS Brazil facility should be combined with the consular compound. US&FCS should compare these options to remaining in the current facility with upgrades at the landlord's expense. In addition, if US&FCS São Paulo stays in the current facility, it should attempt to renegotiate its lease to obtain a lower rent with a longer lease term and include a clause making the landlord liable for the cost of bringing the facility up to the São Paulo municipal codes.



US&FCS, in response to our draft report, stated that the São Paulo commercial center has been mandated to relocate within the consulate for security reasons; consequently, only facility improvements involving the safety and security measures for staff will be approved. The move to relocate will be managed by the State Department. As for seeking rent abatement, US&FCS responded that the State Department is responsible for lease negotiations. While true, as the occupant of a facility with serious habitability issues, US&FCS should closely monitor the effort and encourage State Department to proceed.

## RECOMMENDATIONS

We recommend that the Assistant Secretary and Director General of the U.S. & Foreign Commercial Service take the necessary action to ensure that:

1. US&FCS headquarters studies the initiatives developed and implemented by US&FCS Brazil to determine their effectiveness and potential replication at other US&FCS posts. These initiatives include Gateway/CIRS, the performance tracking system, and the Twin Libraries program (page 8).
2. US&FCS Brazil undertakes a study of its performance tracking system to determine to what extent the system is determining work priorities and what modifications might be made to make the system more useful to post management (page 10).
3. US&FCS Brazil's client satisfaction survey program is delegated to, and implemented by, an officer in each office, who will be responsible for determining an appropriate survey methodology, sending out the survey forms, and entering the results into the performance tracking system. In addition, US&FCS Brazil and US&FCS/EPF should coordinate their efforts to both share survey results and ensure that customers are not receiving duplicate questionnaires. US&FCS Brazil should ensure that the questionnaires meet Paperwork Reduction Act requirements. Finally, the OMB control number and applicable statement should be included on the questionnaire form as required by the Paperwork Reduction Act (page 12).
4. The new management team set to arrive shortly in US&FCS Brazil should consider improving the post's strategic planning process to provide more specific information on program priorities, achievable objectives and milestones, and regular reporting. This should help the post guide operations and keep headquarters better informed about the post's priorities, short-term goals, and long-term direction (page 15).
5. US&FCS Brazil clarifies the responsibilities and activities of its minority business development specialist and sets specific performance goals that justify the resources expended on this position. If reasonable performance milestones are not achieved by the end of 1999, the position should be eliminated (page 17).
6. US&FCS Brazil works with ITA and US&FCS headquarters to better define its responsibilities for and strengthen its coverage of the travel and tourism industry sector. Further, the post needs to do more to better promote U.S. tourism interests in Brazil, including preparing market reports, working with the Visit USA Committee, and providing links on the US&FCS Brazil Internet site, in both English and Portuguese, to U.S. travel information sites (page 19).

7. Commercial center management, with US&FCS headquarters assistance, further integrates existing collocated partners into US&FCS operations. At a minimum,
  - Collocated partners should be involved in the office's strategic planning process.
  - Steps should be taken to more visually market the partners' presence to U.S. exporters and Brazilian importers.
  - Management should systematically identify and recruit additional partners or potential future partners, as space becomes available (page 23).
8. No additional investments are made in the commercial center's short term rental space until a decision about the continued occupancy of the building is made by post and headquarters management (page 27).
9. US&FCS Brazil periodically reviews the appropriateness of the cost recovery rates for partner and short-term rental space and other services in the commercial center (page 29).
10. US&FCS Brazil disposes of its surplus equipment, whether designated for the Twin Libraries or otherwise, in full accordance with established regulations and procedures, and only after receiving authorization from headquarters. US&FCS Brazil should, with all possible speed, and in consultation with the Office of General Counsel, resolve the legal questions surrounding this initiative and realistically estimate if and when promised equipment will be donated to its partner organizations (page 33).
11. US&FCS São Paulo takes steps to improve its interactions with the local American Chambers of Commerce, including (a) have the SCO participate on the local AmCham Board; (b) providing information about AmCham services to potential U.S. firms and placing a link to the AmCham Internet site on the post's homepage; and (c) if appropriate, including the AmCham under its Twin Libraries program (page 35).
12. US&FCS Rio de Janeiro continues to offer opportunities to the American Chamber of Commerce to participate in or join on US&FCS initiatives (page 36).
13. US&FCS Brazil incorporates domestic office coordination into staff performance evaluations (page 37).



14. For core services it is unable to provide, US&FCS Brazil develops a list of alternative sources for these services and provides it to clients and to the domestic offices and puts it on the post's website (page 37).
15. US&FCS Brazil solicits input from the US&FCS domestic offices to develop a protocol for requesting services from the post that is acceptable to the domestic offices, yet meets the post's requirements (page 37).
16. US&FCS headquarters regional management for Brazil develops a method to alert domestic offices when US&FCS Brazil is experiencing significant system problems (page 37).
17. US&FCS Brazil more actively monitors its Pre-License Check and Post-Shipment Verification workload and ensures that timeliness is maintained. If circumstances beyond US&FCS Brazil's control require an extension for completing a PLC or PSV, the post needs to cable BXA and request it, according to the agency's regulations (page 42).
18. US&FCS Brazil drafts a resource allocation plan that includes justifications for the total number and mix of staff, staff per site, and staff devoted to US&FCS core activities versus post-implemented initiatives. This plan should be submitted to the Office of International Operations for approval (page 44).
19. US&FCS Brazil's Agent/Distributor Service workload, quality, and timeliness are more effectively monitored and improved (page 48).
20. US&FCS/EPS provides copies of all customer surveys received on post products and services on a periodic basis (page 48).
21. US&FCS Brazil makes the production and quality of its Industry Sector Analyses a higher priority among officers and staff. This may involve reconsidering optional work and administrative elements for all staff to ensure that adequate time is made available for market research responsibilities (page 50).
22. US&FCS Brazil properly follows regulations and strengthens management controls for handling and depositing cash, conducting regular cash verifications in São Paulo as surprise audits, and preventing the improper use of funds (page 53).
22. US&FCS Brazil institutes adequate property controls in accordance with policies and procedures issued by US&FCS in the absence of State Department coverage (page 56).

23. US&FCS headquarters adopts the State Department inventory asset accountability thresholds for post personal property of \$1,000 and all residential property, regardless of value. This change would affect all US&FCS facilities worldwide. US&FCS should revise and issue its property management regulations in final form, and take steps to ensure that US&FCS Brazil completes its future annual inventories in a timely fashion, in accordance with US&FCS headquarters requirements (page 56).
24. US&FCS takes action to ensure that constituent commercial posts use government credit cards for proper purposes in accordance with procurement regulations, and departmental and US&FCS guidelines (page 58).
25. US&FCS Brazil follows the State Department requirements for monitoring the use of official vehicles, including using official vehicles for only authorized purposes, recording the use of all official vehicles on the proper forms, ensuring that all usage is accounted for and reimbursement for personal use is made (page 60).
26. US&FCS São Paulo reconstructs its missing records for official vehicle use for the fiscal years 1996 through 1998 and that appropriate reimbursement for personal use is made (page 60).
27. US&FCS Brazil uses formal contracting procedures, including competition, adequate planning, development of adequate specifications, and a statement of work to properly define all of its procurement actions, especially those involving information technology systems. As a best practices measure, US&FCS should define contract requirements as performance-based criteria to ensure better overall value and performance from its contractors (page 63).
28. US&FCS notifies the appropriate Commerce Department procurement office of procurement actions where U.S. contractors are under consideration and ensure that such procurement actions are competed and managed through the Department procurement office (page 63).
29. US&FCS Brazil curtails its use of advance payments (page 65).
30. US&FCS Brazil follows standard, formal procurement and contract management procedures whereby all communications directing contractor performance are in writing. (page 67).

31. US&FCS strengthens its internal control procedures and follows current regulations to preclude the inappropriate use of travel, Business Facilitation Services, and purchase orders as advance purchase authorizations (page 69).
32. US&FCS São Paulo follows federal procurement regulations and guidelines for future acquisitions in determining whether a procurement is best completed as a purchase or a lease. In addition, US&FCS Brazil should consider charging the majority of its copier costs to a broader overhead account so that the machines will be better utilized by the staff (page 71).
33. In the event that the Brazilian intern program is reinstated, US&FCS Brazil, to the extent possible, adopts a task order contract structure to conserve its administrative effort and minimize State Department charges (page 72).
34. US&FCS establishes policies and procedures to ensure that commercial officers' residential renovations are an appropriate use of government funds given the circumstances of the post. Renovations that benefit the landlord should result in a reduction in rental costs to the government (page 73).
35. US&FCS headquarters directs the US&FCS Brazil SCO to cease the continuing facility improvement projects in São Paulo and enter into discussions with the landlord seeking a rent abatement for the value of the improvements made to date (page 74).
36. US&FCS conducts a market survey to determine what other feasible facilities may exist for its São Paulo operations, and considers moving from the current facility if more appropriate and cost-effective facilities can be found to house the operation (page 74).
37. US&FCS Brazil enters into negotiations for a reduced rent for future years and seeks a longer term lease if the study determines that the São Paulo operations should remain in the current facility. If possible, any new or renegotiated lease should explicitly state that all building code and habitability upgrades will be at the landlord's expense and that rent abatements will be made by the lessee (page 74).

## APPENDIX A

### US&FCS Products and Services

**Agent/Distributor Service.** An ADS provides information on up to six prequalified potential agents or distributors of a client's product in a particular market.

**Customized Market Analysis.** CMA reports provide clients with an assessment of how their product or service will sell in a given market.

**Gold Key Service.** US&FCS trade specialists in a target country will arrange appointments for a U.S. exporter with prescreened contacts whose interests and objectives match those of the client.

**Industry Sector Analyses.** ISAs are in-depth, structured reports on a broad range of industries that include information on market potential and demand trends, market size and import statistics, competition, market access, regulations and standards, and best sales prospects.

**International Buyer Program.** This service helps U.S. companies achieve their international marketing goals through participation in domestic trade shows. Each year the Department selects more than 20 leading U.S. trade shows to promote worldwide through US&FCS's global network of offices. Qualified buyers and prospective representatives and distributors are recruited from all over the world to travel to the show and see U.S. products firsthand.

**International Market Insights.** IMIs report on specific foreign market conditions and upcoming opportunities for U.S. business. They cover a variety of topics, such as competition, trade laws and regulations, trade show opportunities, recent market developments, upcoming major projects and purchases, and economic/trade statistics.

**Matchmaker Program.** This service links U.S. firms with trading partners abroad to help U.S. businesses expand sales to markets around the globe.

**Trade Opportunity Program.** This service provides prescreened leads that are gathered and transmitted to the United States by commercial specialists in U.S. embassies and consulates abroad. Exporters respond directly to the contacts listed for the leads of interest.

**APPENDIX B**  
**Acronyms**

ABC	American Business Center
ADS	Agent/Distributor Service
AmCham	American Chamber of Commerce
BEM	Big Emerging Market
BXA	Bureau of Export Administration
CIRS	Commercial Information Research Service
COTR	Contracting Officer's Technical Representative
DPS	Direct Program Support
EAC	Export Assistance Center
EPS	Export Promotion Services
FSN	Foreign Service National
ICASS	International Cooperative Administrative Support Services
IMI	International Market Insights
ISA	Industry Sector Analysis
ITA	International Trade Administration
MBDA	Minority Business Development Agency
NIST	National Institute of Standards and Technology
NTDB	National Trade Data Bank
O&A	Operations and Administration
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAIP	Public Access Information Platform
PCO	Principal Commercial Officer
PLC	Pre-License Check
PSC	Personal Service Contractor
PSV	Post-Shipment Verification
SCO	Senior Commercial Officer
SPCC	São Paulo Commercial Center
TD	Trade Development
TIA	Travel Industry Association of America
US&FCS	United States and Foreign Commercial Service

ATTACHMENT A -- AGENCY COMMENTS

JUL 16 1999



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

MEMORANDUM FOR: Jill CGross  
Acting Assistant Inspector General  
for Inspections and Program Evaluations

FROM:

Awilda R. Marquez *Awilda R. Marquez*

SUBJECT:

US&FCS Response to Draft Audit Report IFE-10916  
(US&FCS Brazil: Improvements Needed in Program  
Management and Internal Controls)

This memorandum responds to your Draft Audit Report, which summarized OIG findings during on-site inspections (from June 15 to July 2, 1998) in the cities of Sao Paulo, Brasilia, Belo Horizonte, and Rio de Janeiro, Brazil.

GENERAL COMMENTS:

We appreciate and share the IG Team's positive observations about Brazil's operation, especially in regard to the improvements made since the current SCO's arrival in Brazil, and also its recognition of new programs which have been developed to promote U.S. products in our fifth largest overseas post. More than any other post, Brazil has responded to our call for initiatives. The new marketing products and management tools developed and implemented in Brazil were still developmental during the Team's visit.

Almost a year has passed since the IG Team completed its visit to Brazil and completed its report. During that period, post has placed a priority on fleshing out those initiatives and has kept management informed through work groups and progress reports. From concept to conclusion, each innovation has undergone change and refinement. At headquarters, *Innovation 2003* has been implemented not only to encourage modernization within the bureaucracy, but also to provide guidance in consistency and uniformity of worldwide operations and to coordinate post efforts with appropriate headquarters experts. As innovative measures are conceived and implemented, we need time to prove or disprove the effectiveness of our initiatives. The SCO has demonstrated creativity, dedication, hard work and focus on results in taking Brazil to a new level of exciting innovations. We expect important results from his efforts.

We believe that the related issues of Commercial Center policy and scope of activities, as well as compliance with Commercial Center legislation, should be addressed following completion of the OIG's report of all four Commercial Centers, and not in the context of Brazil alone.



We acknowledge that administrative problems exist in Brazil and seek, as always, to quickly remedy those situations. We do not believe that modernization and innovation should displace our focus on sound and effective management of administrative and fiscal responsibilities. We take the recommendations seriously and will move to improve our performance with all due speed.

Although the report delves into many specific issues, e.g. staffing at constituent posts, the co-locators, ADSs, relations with Export Assistance Centers, and market research, we would have appreciated a report that also gives us a general reading on whether Brazil is meeting the needs of U.S. exporters, and tells us if the Sao Paulo Commercial Center is effective and provides benefits to US&FCS' overall mission. With 15,000 trade assistance actions and 600 success stories documented for Brazil in four years, this perspective would have been especially welcomed given the current focus on refining our products to better meet the needs of U.S. exporters.

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The Office of the Inspector General has recommended that the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service take the necessary action to ensure that:

*Recommendation 1: US&FCS' headquarters studies the initiatives developed and implemented by the US&FCS Brazil to determine their effectiveness and potential replication at other US&FCS posts. These initiatives include Gateway/CIRS, the performance tracking system, and the Twin Libraries program. (page 8)*

*Reply:* Brazil initiatives, including Twin Libraries Program, Gateway, CIRS, Inovatec (Strategic Alliance Proposal) as well as the Focus Brazil Initiatives (Gold Key Teleconference, Customized Business Service, etc.), and Brazil's Satisfaction Survey have been turned over to EPS and/or Innovation 2003 team for study and possible inclusion in (or modification of) US&FCS worldwide programs.. Comments on the performance tracking system are covered in the following reply.

*Recommendation 2: US&FCS' Brazil undertakes a study of its performance tracking system to determine to what extent the system is determining work priorities and what modifications might be made to make the system more useful to post management. (page 10)*

*Reply:* This is a good recommendation. The performance tracking system created in Sao Paulo was intended to guide staff in determining the most effective use of government resources. US&FCS acknowledges that Brazil staff initially may have not fully understood the purpose of the performance tracking system which has undergone extensive refinement from its inception in January 1998 until today and continues to be a work-in-progress. Post will undertake a study of the effectiveness of the system and will reach a conclusion by the end of the calendar year.

*Recommendation 3: US&FCS' Brazil's client satisfaction survey program is delegated to, and implemented by an officer in each office, who will be responsible for determining an appropriate survey methodology, sending out the survey forms, and entering the results into the performance tracking system. In addition, US&FCS Brazil and US&FCS/EPS should coordinate their efforts to share survey results and ensure that customers are not receiving duplicate questionnaires. US&FCS Brazil should ensure that the questionnaires meet Paperwork Reduction Act requirements. Finally, the OMB control number and applicable statement should be included on the questionnaire form as required by the Paperwork Reduction Act. (page 12)*

*Reply:* The SCO had instructed staff to have the satisfaction surveys sent directly to him for registration in the Performance Tracking System. As indicated in response to the first



recommendation, EPS is being tasked to review Brazil's satisfaction survey with an eye to incorporating what may be useful world-wide, or to recommending that the survey be discontinued or replaced by a hybrid option in order to eliminate duplication. Headquarters is aware that user satisfaction surveys must be submitted to and approved by OMB before more than a limited number of users can be approached. In future, we will ask the COI leader to request that such surveys developed by Centers of Innovation be treated as limited pilot programs and submitted to headquarters before general use or distribution at post. Brazil has been asked to discontinue use of the survey until EPS review is completed.

*Recommendation 4: US&FCS Brazil improves its strategic plan to provide more specific information on program priorities, achievable objectives and milestones, and regular reporting. This should help the post better guide operations and keep headquarters better informed about the post's priorities, short-term goals, and long-term direction. (page 14)*

*Reply:* Commercial Service Headquarters eliminated the requirement for an SCP for this particular year. Given all the other more accurate and more regularly updated reports outlined below, the SCP was no longer needed; but in response to the OIG's request for this traditional planning document, US&FCS Brazil has assembled an SCP based on all sources listed below.

We would like to note that US&FCS Brazil regularly provides information on its programs, activities and services to Washington, EACs and its customer base, as appropriate. The following is a list of reports explaining US&FCS Brazil's work plan and commercial program:

*Mission Program Plan:* Since the arrival of the SCO and DSCO in September 1995, US&FCS Brazil has contributed annually to the U.S. Embassy Mission Program Plan. In the FY 2000 submission (updated in April 1999), US&FCS was the Mission lead for drafting the MPP's Strategic Goal for "U.S. Exports," and also contributed to ECON's Strategic Goals concerning "Open Markets" and "Economic Development." Improvements with this year's MPP follow the IG's recommendation of reporting on new initiatives and resource needs, performance goals and performance reporting. It also inputs actual dollar resources dedicated to each strategic goal.

*Sector Work Plans:* At the end of each fiscal year, Commercial Specialists get together at the "all hands" end-of-year meeting to define the next Fiscal Year Work Plan for each sector team. Each team must present its work plan to the entire US&FCS Brazil staff at the end of the 3-day meeting. Work Plans are then compiled and made available in US&FCS Brazil's official files. This effort has been in practice for the last three fiscal years. The team work plans are specific enough to mention trade events, market research and objectives.

*Country Commercial Guide (CCG):* US&FCS Brazil has published in the CCG its list of

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market research, i.e. ISA schedule, trade events program, and the Guide to Commercial Services since FY 1997.

*US&FCS Brazil Officer Work Plans:* Each US&FCS Brazil officer has a detailed FY Work Plan written and discussed with the DSCO and SCO the beginning of each fiscal year. A mid-year review is held with each officer (late March). These plans are detailed and relate directly to the four critical elements provided in the CO Performance Evaluation forms. These plans are available in US&FCS Brazil's official files.

*Quarterly Reports:* US&FCS Brazil forwards updates of its trade events schedule in each of the Quarterly Reports forwarded to OIO/WH.

*Brazil Commercial Overview:* Since mid-January 1999, US&FCS Brazil has distributed the weekly Brazil Commercial Overview to HQ, USEACs, and industry groups. This report is an update of changes in the financial and commercial scenes in Brazil since the devaluation of the Brazilian currency. The last section of the report mentions commercial opportunities for U.S. exporters and investors, lists programmed US&FCS Brazil trade events and highlights ISA and IMI reports.

*CD-ROM and [www.focusbrazil.org.br](http://www.focusbrazil.org.br):* Lists US&FCS Brazil's program plans by sector.

*SCO Reports:* The SCO regularly and thoroughly reports to all US&FCS Brazil staff and OIO/WH on all developments as to his strategic vision and definition of "Who We Are and What We Do."

*Recommendation 5:* *US&FCS Brazil clarifies the responsibilities and activities of its minority business development specialist and sets specific performance goals that justify the resources expended on this position. If reasonable performance milestones are not achieved by the end of 1999, the position should be eliminated. (page 16)*

*Reply:* We would like to note that this prototype position had been in existence for only four months at the time of the Team's visit, and we acknowledge that duties and responsibilities were still evolving. Now, almost a year after conception, the position responsibilities have been clarified and the results are notable: a database of more than four hundred (400) minority-owned Brazilian firms has been developed and is being accessed by team coordinators providing ADSs, Gold Keys, and Matchmakers through a wide variety of business sectors from computers to auto parts and machine tools. The incumbent has a better-defined work program now, and we will continue to monitor and modify as appropriate. US&FCS Brazil will continue to monitor and balance the costs and benefits of the performance goals, and will review the position by the end of the calendar year.

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*Recommendation 6: US&FCS Brazil works with ITA and US&FCS headquarters to better define its responsibilities for and strengthen its coverage of the travel and tourism industry sector. Further, the post needs to do more to better promote U.S. tourism interests in Brazil, including preparing market reports, working with the Visit USA Committee and providing links on the US&FCS Brazil Internet site, in both English and Portuguese, to U.S. travel information sites. (page 18)*

*Reply:* Upon the abolishment of the USTTA, US&FCS issued a worldwide policy (May 1996) which reflected the views of the private sector as well as government's national strategy. The policy left the SCO's role in establishing a Visit USA committee, as well as determining local resource commitments to following the tourism industry, to the discretion and judgement of the SCO based on local conditions. SCOs were not, and are not, mandated to play a role in local Visit USA committees. In fact, mindful of congressional prohibition against re-creating the USTTA within the US&FCS, we have instructed SCOs to devote no more time to tourism promotion than they would to any other "Best Prospect" sector.

Nevertheless, after a two year period of concentrated efforts and contacts with the local travel industry, US&FCS Brazil was successful in assisting with reorganization of the Visit USA Committee-Brazil, which is managed by a board of directors formed by Brazilian tour operators and major U.S. airline carriers.

The Team is correct in stating that US&FCS Brazil has not focused on market research. Primary tourism sector research is performed by ITA/TD/Tourism Industries (Helen Marano, Director, extension 4752), and disseminated to all posts for their use. US&FCS Brazil's travel and tourism team coordinator has focused on the provision of services to stimulate additional demand and results for U.S. companies.

Since September 1998, US&FCS Brazil has been very active in promoting new U.S. destinations to the Brazilian travel industry. To date in FY99, thirty four (34) success stories have been reported – more than any other of Brazil's sector teams – with more expected.

In responding to U.S. demand and/or prompting from the VUSA committee, the US&FCS Brazil travel and tourism team coordinator has:

- focused on a U.S. Travel and Tourism section on our web site, where Brazilians can obtain information about the specific U.S. travel destinations;
- attended Rocky Mountain Symposia to make contacts with "new" U.S. destinations;
- organized a U.S. Pavilion in a new trade and consumer travel show in Sao Paulo -- "Hotel Travel Show," coordinating first time participation of Denver CVB, Alabama, Hawaiian Tour

Operators, Brazilian tour operators, Las Vegas CVA, Massachusetts, Rhode Island and Louisiana;

- organized seventy (70) tour operators and a press delegation for PowWow '98;
- represented the US&FCS at the most important travel shows in Brazil and renewed contact with members of ABAV (Brazilian Travel Agencies Association), AVIESTUR (Brazilian Association of Independent Travel Agencies), Gramado Travel Show, and BRAZTOA (Brazilian Tour Operators Association);
- organized promotional travel events in Brazil for the Las Vegas Convention and Visitors Authority including a reception and dinner for 300 tour operators, a press dinner for 50 journalists, and workshops throughout Brazil;
- organized and coordinated two familiarization tours to Texas and Arizona, in partnership with Delta Airlines and American Airlines. The first familiarization tour consisted of tour operators that had never visited the State of Arizona. As a result of this tour, a travel package was put together by a pool of three tour operators to be sold in Brazil. The second familiarization tour was recruited from selected travel agents and visited Texas and Arizona;
- recruited top journalists and prepared itineraries to visit "new" U.S. destinations such as Montana and Arizona, which resulted in a large amount of free press coverage for post's travel and tourism program;
- recruited and accompanied twenty five (25) Brazilian tour operators and journalists to attend *La Cumbre*, one of the most important travel shows in the U.S.; made presentations about the Brazil travel market to U.S. suppliers;
- recruited and accompanied fifteen (15) travel agents to "Gateway Americas", a travel show held in Phoenix, Arizona;
- recruited U.S. participants for the *Visit USA Show 99*, organized and promoted the event which was visited by 2,000 Brazilian travel agents and almost 100 media representatives;
- organized the Brazilian trade and press delegation to attend POW WOW 99;
- coordinated a New Jersey Governor Reception for the travel trade;
- continued work with the Travel South Partnership, assisting them to develop a three-year promotional plan for their many new U.S. destinations; and
- organized and recruited a California workshop for thirty (30) Brazilian travel agents in the U.S. Commercial Center facilities.

Considering that US&FCS policy states that travel and tourism should be treated as any other "best prospects" sector, we believe that US&FCS Brazil has met and perhaps even exceeded the mandate to promote tourism to the U.S.

**Recommendation 7:** *Commercial center management, with US&FCS headquarters assistance, further integrate existing collocated partners into US&FCS operations. At a minimum,*

- *Collocated partners should be involved in the office's strategic planning process.*

- *Steps should be taken to more visually market the partners' presence to U.S. exporters and Brazilian importers.*
- *Management should systematically identify and recruit additional partners or potential future partners, as space becomes available. (page 21)*

*Reply:* US&FCS Brazil management is making every effort to reasonably include our co-located partners in various projects and programs, and we will increase these efforts. Co-locators are given every opportunity to participate and are continuously encouraged to do so. They are invited to participate in event planning meetings as well as to have an active role in all Brazil events. We will propose that they join us to create a joint strategic plan.

We agree with the recommendation to visually market the presence of co-locator office spaces, and US&FCS Brazil has already provided co-locator signage at the entrance to the building. We will work with our partners to develop other ways to advertise the presence of our co-locators.

Memos of Understanding with present co-locators extend through the year 2000. Policy issues involving the length of time that co-locators can or should occupy USG space are under review separately in conjunction with the overall policy affecting all four Commercial Centers. At the same time, we will develop a strategy regarding recruitment of future partners, but separately in Brazil, and in a larger, coordinated effort with the other Commercial Centers.

Addressing the Team's additional concerns regarding co-locator issues, facilities have also been improved and the co-located offices are now sound-proofed and newly air conditioned. Correspondence from the SCO regarding the resolution of maintenance issues had been distributed to co-locators at least a year before the IG Team's visit. Security procedures were also explained to co-locators at least a year before the IG Team's visit. In spite of the Team's footnote # 20 (page 24), the Regional Security Officer's rules and regulations apply without exception. No one is permitted in the facility after hours and on weekends without proper government ID, and anyone who is not properly escorted is asked to leave the premises. The RSO has not allowed any exceptions to those rules, even though the SCO has asked for modifications.

*Recommendation 8: No additional investments are made in the commercial center's short term rental space until a decision about the continued occupancy of the building is made by post and headquarters management. (page 25)*

*Reply:* In the wake of the Nairobi/Dar-es-Salaam bombings (August 1998), it is currently mandated that all foreign affairs agencies co-locate. The São Paulo Commercial Center will refrain from making any additional investments in short-term rental space because the DOS is

taking steps to consolidate all USG offices in São Paulo into a single compound within the next three to four years. Until that move, however, headquarters will still allocate whatever funds are necessary to provide security upgrades as recommended by RSO or FBO to assure the immediate safety and security of our staff.

*Recommendation . . . . . FCS Brazil reviews the appropriateness of the cost recovery rates for partner and short term rental space and other services in the commercial center. (page 27)*

*Reply:* The Sao Paulo Commercial Center has recently completed and submitted an analysis of cost to the USG for housing co-locators at the Sao Paulo Commercial Center (see Appendix.) Note: cost recovery suggested by this analysis is only slightly lower than the previous cost estimate - \$12,000 vs. \$15,000 per office space.

For the auditorium, post projects forty (40) days of "in-house" (i.e. non-fee generating) program use such as country-wide meetings of US&FCS Brazil/Staff, budget and admin staff training, monthly meetings with the SCO, presentations to staff by USG VIP's (Deputy Secretary Mallet, the Chairman of Exim Bank, etc.). Post also projects at least eighty (80) days of fee-generating events this fiscal year totaling \$32,000. We believe sufficient use (both fee and non-fee) of this space justifies its costs.

On a larger scale, US&FCS commits to a review of, and plans to develop an overall management strategy for all commercial centers in FY 2000. We will begin this effort immediately upon the completion of our Innovation 2003 roll-out.

*Recommendation 10: US&FCS Brazil disposes of its surplus equipment, whether designated for the Twin Libraries or otherwise, in full accordance with established regulations and procedures, and only after receiving authorization from headquarters. US&FCS Brazil should, with all possible speed, and in consultation with the Office of General Counsel, resolve the legal questions surrounding this initiative and realistically estimate if and when promised equipment will be donated to its partner organizations. (page 30)*

*Reply:* US&FCS Brazil has requested and received authorization from headquarters and has in fact donated surplus computer equipment to NUSA in accordance with Chapter 6 of the Department of State's *Foreign Affairs Manual*. Terms and conditions have been defined in '98 Brazil 2133.

*Recommendation 11: US&FCS Sao Paulo takes steps to improve its interactions with the local American Chambers of Commerce, including (a) SCO participation on the local*

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*AmCham Board; (b) provision of information about AmCham services to potential U.S. firms and place a link to the AmCham Internet site on the post's homepage; and (c) if appropriate, inclusion of the AmCham under its Twin Libraries program. (page 31)*

*Reply:* The Sao Paulo AmCham constituency is comprised primarily of Brazilian companies (50%) seeking business with the United States (including exporting to the U.S.), and U.S. multinational investors (30%).

The development of a cooperative relationship between the AmCham and the US&FCS has an uneven history dating back to the opening of a U.S. Trade Center in the late 1970s. The US&FCS focus on developing U.S. exports of small and medium-sized companies to Brazil, and in eliminating non-tariff barriers, did not necessarily coincide with the needs of the AmCham or its membership.

The SCO previous to the incumbent had an unproductive relationship with the AmCham. Since his departure, the post has been concentrating on reversing the damage. Because of that effort, the AmCham now regularly refers U.S. exporters to US&FCS for business counseling, and also refers all import inquiries from Brazilian companies to us. Our post encourages use of (and makes use of) the new AmCham facilities for convention and program support, and refers all queries for guidance in local investments to the AmCham. The two entities often join in sponsorship of high level luncheons, and Secretary Daley inaugurated the AmCham's new facility in 1997. Both organizations recognize that the high volume of business activity in Sao Paulo is more than enough to keep them both busy in offering complementary services.

We will take under advisement the recommendation to include AmCham in the Twin Libraries program. Because the AmCham limits its services to members only, the reach of this information base will miss our target audience.

We are studying the best way to link our websites. In 1999, US&FCS Sao Paulo and AmCham jointly promoted Y2K awareness to AmCham members, making a DOC CD Rom Diagnostic tool available for wide dissemination through the broader AmCham Y2K service.

The importance of a sound and mutually cooperative relationship with the American Chamber of Commerce in Sao Paulo is indisputable. Upon his arrival, our new SCO will make a fresh assessment and determine how best to develop those ties.

*Recommendation 12: US&FCS Rio de Janeiro explores other opportunities to get involved with the American Chamber of Commerce, such as providing materials to AmCham on US&FCS products and services and including it as a member of one of its committees or joint US&FCS initiatives, such as AmCham becoming a Twin Library site. (page 32)*

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*Reply:* We agree that AmCham relationships are critical in Rio as well and have made consistent efforts to engage this organization. Post repeated its original offer from September 1997 to AmCham to participate in AmCham Committee on International Trade (which has not formally met during this period of time). In addition, the PCO offered to provide specialized seminars to AmCham on USG financing institutions, such as Export Import Bank, Trade and Development Agency, etc. Post routinely provides standard materials on US&FCS Brazil products and services, since AmCham Rio is one of post's three main multiplier organizations. For the Internet, AmCham charges all users for access, whereas US&FCS Brazil information is free. For program ideas, AmCham declined to sponsor a U.S. Department of Commerce Y2K Seminar on the grounds that it would not attract a large enough audience. US&FCS Rio targeted AmCham for the Virginia Governor's keynote address in May. We had already selected FIRJAN, with an importer data base of 9000 Brazilian companies, as a Twin Library program partner. Because the AmCham does not specifically focus on importers and has declined to provide post with a free listing of its membership with full contact information, we are doubtful that they would be an effective host.

In sum, AmCham Rio emphasizes fee-based luncheons and seminars, and its program excludes all other types of informational activities, as noted above. Therefore, while we agree with the Team that it is important to remain on good terms with the AmCham, we believe it is not in the best interest of the U.S. exporter to devote excessive time and resources to this organization in Rio.

*Recommendation 13: US&FCS Brazil incorporates domestic office cooperation into staff performance evaluations. (page 34)*

*Reply:* This is a good recommendation and it is being implemented now. A customer service critical element has been added to all US&FCS employees' workplans, under which comments from the domestic network will be taken into account.

*Recommendation 14: For core services it is unable to provide, US&FCS Brazil develops a list of alternative sources for these services and provides it to clients and to the domestic offices and puts it on the post's homepage. (page 34)*

*Reply:* A full description of post's core services is available in US&FCS Brazil's "Guide to Commercial Services." Further, post lists alternative service providers in its "Focus Brazil" Web Site and CD Rom. The CCG includes contact information for AmChams, market



research firms, consulting firms, and other support firms. We will be pleased to consider additional sources as suggested by the Team.

*Recommendation 15: US&FCS Brazil solicits input from the US&FCS domestic offices to develop a protocol for requesting services from the post that is acceptable to the domestic offices, yet meets the post's requirements. (page 34)*

*Reply:* Post agrees with the Team's recommendation and had taken steps in this direction previous to the report. As a response to Washington management's emphasis on innovations this FY, post fully revised its offering of Products and Services. It communicated this revision, and the much simplified protocol that accompanied it, as a proposal to all the domestic offices in the Commercial Service. Prior to that communication, it had been reviewed and enthusiastically endorsed by the InterAmericas Center (IAC), which acts as a proxy for all domestic offices vis-a-vis posts in the Americas. Response from our domestic offices has been unanimously positive.

Finally, post invited two District Office colleagues to a two-week TDY in Brazil to jointly streamline a protocol between the domestic and US&FCS Brazil offices. The agreed-upon protocol resolved many issues. We would be happy to provide the Team with a copy.

*Recommendation 16: US&FCS headquarters regional management for Brazil develops a method to alert domestic offices when US&FCS Brazil is experiencing significant system problems. (page 34)*

*Reply:* We agree with the Team that a better method to alert domestic offices should be developed. When post's e-mail system has gone down, post has reported the event immediately both to local State Department support staff and that of US&FCS in Washington. When there are scheduled down times, OIS notifies all system users world-wide. OIC/WH staff has discussed this informally with the OIS contractor who advised that if OIS tried to send a world-wide advisory notice every time a system failed, this task would consume their resources. We will continue to work with OIS to ensure that senders are made aware of lengthy disruptions in electronic communications to Brazil.

*Recommendation 17: US&FCS Brazil more actively monitors its Pre-License Check and Post-Shipment Verification workload and ensures that timeliness is maintained. (page 37)*

*Reply:* Brazil's PLC and PSV workload for FYs 1997 and 1998 has been reviewed, and a matrix developed, listing all incoming cables requesting a PLC or PSV, as well as outgoing

cables showing the completion of the request. In fifty percent of those checks which were not completed by the deadline, US&FCS Brazil was waiting for further input from BXA either for funding or for more information on the company.

Post believes that BXA sometimes assigns PLCs and PSVs without taking into consideration the following critical points: First, Brazil is a vast country, and travel from one part to another often requires significant advanced planning, as well as a budget. Secondly, an officer cannot always abandon immediate commercial program commitments to perform a verification, especially in a country where three of the five US&FCS Brazil sites are staffed by one officer.

The US&FCS has been working with BXA on a program to increase PLC/PSV effectiveness across both organizations and will continue to do so.

*Recommendation 18: US&FCS Brazil drafts a resource allocation plan no later than June 30, 1999, that includes justifications for total number and mix of staff, staff per site, and staff devoted to US&FCS core activities versus post-implemented initiatives. This plan should be submitted to the Office of International Operations for approval. (page 39)*

*Reply:* Post would be pleased to supply a resource allocation plan taking into account the Team's suggestions, especially in view of US&FCS emphasis on product innovations and services and the need for a supportive infrastructure.

We would like to clarify elements of the Team's conclusions about resource allocation procedures in Brazil and in OIO. Regarding the first, the draft report states that Rio is often the first point of contact for people entering the country, and portrays that constituent post as the principal post in Brazil. Regardless of how the workload statistics are analyzed, it is clear that Sao Paulo is by far the predominant post with the bulk of all activity and, even more so, that activity which attends to the small to mid-sized potential U.S. exporter. Further, no distinction is made by the Team of Sao Paulo's role as head office, administrative office and the Commercial Center. In all of these roles, Sao Paulo serves each constituent post equally, and the Sao Paulo office is, itself, one of four regional centers in Brazil.

The report also makes incomplete observations about our smallest post, Belo Horizonte. This post represents a dynamic market with substantial future market opportunities. It is an untapped market for U.S. exports, and thus represents a more appropriate market for US&FCS presence than the limited statistics used by the IG team would indicate. The report might be a bit more complete if it utilized statistics for the entire year instead of the first three quarters, as the data double during the last quarter, as follows:

IG's 3rd Qtr. Data	US&FCS BH Annual
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IMIs	116	28
ISAs	2	5
Success Stories	3	32
GKs	4	21

The report also failed to include other achievements, such as 5 CMAs, 6 SKs, and import pull programs such as 26 CIRS, 1 Gateway.

With regard to personnel, US&FCS BH did not hire an additional PSC last fall when the new PCO arrived; rather, the 1 FSN and 3 PSC on board at the time were retained. There has been no increase in staff since the office reached this level of staffing. The BH office is unique in that it is located some 400 kilometers from the nearest consulate and thus carries a significant administrative burden. The office takes responsibility for all types of calls directed to the U.S. government, including visa information and USIS-related contacts. It also handles its own security, personnel, and communications issues.

The BH office has a large territory to cover, with industry spread throughout the state, an area of 600,000 sq.km., representing 7 percent of Brazilian territory. The state has an economy of US\$70 billion and a population of 17 million. It comprises 28 percent of the automotive sector, 26 percent of mining, 26 percent of agriculture, and 39 percent of the steel industry in the country. US&FCS BH also has responsibility for developing a large part of the northeast of Brazil, the area between Alagoas to Maranhao, representing 20 million inhabitants and 10 percent of the nation's GNP.

Regarding the second, staffing patterns will be reviewed as a matter of course upon the arrival of the new SCO in the fall of 1999. However, staffing changes in any individual post must be justified under OIO's Overseas Resource Allocation Matrix, and often require NSDID-38 action; the latter is often a drawn-out process.

*Recommendation 19: US&FCS Brazil's Agent/Distributor Service workload, quality, and timeliness are more effectively monitored and improved. (page 43)*

**Reply: Workload/Quality:** US&FCS Brazil and many EACs recognize significant weaknesses of the ADS product. As a part of the COI project, US&FCS is reviewing all Commercial Service products, including the ADS, to determine whether they meet the needs of U.S. exporters.

Given the poor results of ADS experiences in Brazil, which showed a 2 percent success rate in FY97, the post designed two new products under the Center of Innovation initiative -- the Market Profile Report and the Virtual Gold Key. Post and EACs consulted to date believe

these initiatives will better address U.S. exporters' requirements for providing initial market information or identifying a qualified potential Brazilian partner. While the ADS is still available, many EACs are actively welcoming these new services that meet their client needs better than the ADS.

Since posts are mandated to carry out ADS at a set fee, and since that fee is sometimes not sufficient to cover expenses incurred to provide the service, the ADS program was \$11,000 over its FY98 allotment. Brazil is a high volume ADS post (with, for example, 90 ADSs requested in FY97) and felt the need to devise a low-cost method of providing this service. In this case, the post used college student interns to conduct the telemarketing portion of the ADS, under the daily supervision of Commercial Specialists.

Regarding ADS quality, it is important to note that a "negative" ADS, or one that does not identify any potential agents or distributors, often includes valuable market feedback on the product that more than compensates the U.S. company for its minimal expenditure on this product. Post has been unable to obtain sufficient feedback from ADS recipients to determine the quality of its input. It would be important for posts to receive copies of surveys obtained by EPS on all products since the only way to address quality control is to have specific feedback.

**Timeliness:** We agree with the Team's comments regarding lack of timeliness and post has taken steps to correct this problem. US&FCS Brazil's tracking of ADSs and other services is handled country-wide by Sao Paulo. All products/services are also registered as completed on the Commercial Specialists' individual assignment files, and forwarded monthly to Sao Paulo. In Sao Paulo, which is the highest volume post, an internal tracking matrix was established in 1997 to closely monitor improvement of the ADS turnaround time.

In late 1996/early 1997, ADSs were delayed up to 7 months. By FY98, ADSs were completed within an average of 40 days. At the time of the IG Team visit, the final FY98 assignment files were not yet completed; thus the Team assessed incomplete records. This FY98 report is now available. We would be pleased to supply a copy.

Please note that start dates are tracked from the date of receipt of company literature, and not after receipt of the EAC pre-ADS request.

**Recommendation 20:** *US&FCS Brazil makes the production and quality of its Industry Sector Analyses a higher priority among officers and staff. This may involve reconsidering optional work and administrative elements for all staff to ensure that adequate time is made available for market research responsibilities. (page 45)*

*Reply:* As with other information products prepared by the Commercial Service, ISAs and their value to U.S. exporters are being reviewed under the COI process. Many posts are moving away from the cumbersome, general ISA reports and writing shorter, focused industry briefs, or are concentrating on providing a more customized approach to U.S. exporter market research needs.

An ISA schedule is prepared and forwarded to USDOC in late May of each year. During the year, deadlines and changes to sector titles are successfully negotiated between post and headquarters, as necessary. In FY 1998, US&FCS Brazil forwarded thirty (30) ISAs to USDOC. Given the state of Brazil's economy at the time, we judge that number as appropriate.

US&FCS shares the Team's concerns, however, and we will continue efforts to produce quality reports.

Even with a less-than-full complement of market research tools, US&FCS Brazil has garnered praise for its research from a variety of customers. We invite the OIG to review the following:

On our ISA of Piped Gas Equipment - The Director of Operations for the Bolivian-Brazil Gas Pipeline said that, "The report is technically accurate with respect to the gas industry and appears to be a well reasoned analysis of Brazilian energy development. It was circulated to the TBG's commercial group who also had positive comments about facts brought out in the analysis."

Consul General Orozco of the Rio Consulate submitted the following comment last year regarding PCO Henderson's reporting: "Her written work is professional, succinct, and substantive. Her IMIs are informative and well-documented with statistics; and her contributions to the Consulate's weekly report are timely and informative."

A representative from the Department of Transportation also praised Brazil's reports: on road building and intelligent transportation requirements, saying it was among the best in the world.

*Recommendation 21: US&FCS Brazil properly follows regulations and strengthens management controls for handling and depositing cash, conducting regular cash verifications in Sao Paulo as surprise audits, and preventing the improper use of funds. (page 48)*

*Reply:* Unlike most US&FCS offices, the São Paulo Commercial Center is not co-located with an embassy or consulate, but in a separate building some distance away from the Consulate General.

[REDACTED]

[REDACTED]

[REDACTED] The cashier has a number of reasons to visit the CG other than to deposit government funds.

[REDACTED]

[REDACTED]

We acknowledge that monthly reconciliation is essential, and US&FCS Brazil has performed a full surprise monthly reconciliation since it has been fully staffed. We note that during much of the time from August 1995 until September 1998, US&FCS Brazil was at ½ or ¼ of its full strength of American officers. We admit that reconciliations were not handled adequately during this period.

The O&A funds used to support FIEPAG were approved by US&FCS headquarters in a memo dated February 5, 1998 -- long before the anticipated expenditure. The memorandum also explains how and why US&FCS Brazil became involved in recruiting for a first-time U.S. pavilion at this event, and acknowledges the mistake made by the responsible officer. The post was chastised by OIO management as soon as it discovered the shortfall. However, in the interest of fairness, this same officer was responsible for at least six other trade events in FY98 and none of them suffered a loss. In fact, for FY98, US&FCS Brazil returned a trust fund surplus of more than \$70,000.

*Recommendation 22: US&FCS Brazil institutes adequate property controls in accordance with policies and procedures issued by US&FCS in the absence of State Department coverage. (page 51)*

*Reply:* US&FCS Brazil's property inventories were prepared following Department of Commerce guidelines for accountable and sensitive property, but we acknowledge we need to track our inventory more carefully.

*Recommendation 23: US&FCS headquarters adopts the State Department inventory asset accountability thresholds for post personal property of \$1,000 and all residential property, regardless of value. This change would affect all US&FCS facilities worldwide. US&FCS should revise and issue its property management regulations in final form, and take steps to ensure that US&FCS Brazil completes its future annual inventories in a timely fashion, in accordance with US&FCS headquarters requirements. (page 51)*

*Reply:* US&FCS is subject to Department of Commerce and ITA property management regulations including the accountability threshold of \$2,500. ITA Admin is currently working with the Department to raise the accountability threshold to \$5,000.

*Recommendation 24: US&FCS takes action to ensure that constituent commercial posts use government credit cards for proper purposes in accordance with procurement regulations, and departmental and US&FCS guidelines. (page 53)*

*Reply:* US&FCS agrees with ICG recommendation and has taken actions to implement. Shortly after his arrival at post in September 1998, the new SPCC administrative officer issued stringent guidelines for the use of government cards. These guidelines adhere to USIG simplified acquisition procedures and were vetted by both the SCO in Brazil and Commerce headquarters in Washington.

*Recommendation 25: US&FCS Brazil follows the State Department requirements for monitoring the use of official vehicles, including the use of official vehicles for only authorized purposes, recording the use of all official vehicles on the proper forms, ensuring that all usage is accounted for, and reimbursement for personal use is made. (page 54)*

*Reply:* US&FCS Agrees with the recommendations, and notes that US&FCS Brazil vehicles which were not recording their use in State Department forms (three of the five), have been doing so since the Team's visit. In the case of two of these three vehicles, post maintained an office log on Lotus Notes even before the Team's visit.

**Recommendation 26:** *US&FCS Sao Paulo reconstructs its missing records for official vehicle use for the fiscal years 1996 through 1998 and ensures that appropriate reimbursement for personal use is made. (page 54)*

**Reply:** We will attempt to reconstruct these logs, but do not expect many entries. Three of the four officers in Sao Paulo walk to and from work to their residences, and the fourth drives his personal vehicle.

US&FCS Brazil at Sao Paulo is aware of only three instances since 1996 of personal use of official vehicles in São Paulo; all of these instances were properly documented and the appropriate reimbursements were made.

**Recommendation 27:** *US&FCS Brazil uses formal contracting procedures, including competition, adequate planning, development of adequate specifications, and a statement of work to properly define all of its procurement actions, especially those involving information technology systems. As a best practices measure, US&FCS should define contract requirements as performance-based criteria to ensure better overall value and performance from its contractors. (page 56)*

**Reply:** US&FCS agrees and has taken measures to ensure that all officers, and as many FSNs as possible, have simplified acquisitions training. Part of that training differentiates between what US&FCS officers can and cannot do in the contracting process and consequently, outlines the US&FCS officer's duty as opposed to that of a warranted contracting officer. Our regional admin training will be held in Sao Paulo this year.

Regarding the specific case cited by the Team, US&FCS Brazil requested an authorization of funds for the upgrade of the Commercial Center, which included IT acquisitions, justifying same in an overall "Commercial Center Proposal" from post as well as a subsequent, specific set of IT proposals submitted to the Office of Planning, US&FCS Washington. Based on HQ's approval, post submitted purchase order requests to the State Department GSO in Brasilia who is the contracting authority.

**Recommendation 28:** *US&FCS notifies the appropriate Commerce Department procurement office of procurement actions where U.S. contractors are under consideration and ensures that such procurement actions are competed and managed through the Department procurement office. (page 56)*



*Reply:* In the case cited where formal contracting procedures were not observed, post advises that there is supporting documentation that procedures were followed from the solicitation for at least three competitive bids per contract, to the proper structuring of each contract. Three different bidders won five different contracts. Each contract was submitted to the State Department contracting authority for approval and action.

*Recommendation 29: US&FCS Brazil curtails its use of advance payments. (page 58)*

*Reply:* While we believe this is a valid recommendation, the issue of incorrect advance payments must also be addressed to DOS contracting authorities and/or financial management authorities.

*Recommendation 30: US&FCS Brazil follows standard, formal procurement and contract management procedures whereby all communications directing contractor performance are in writing. (page 60)*

*Reply:* We have implemented this recommendation.

*Recommendation 31: US&FCS strengthens its internal control procedure and follows current regulations to preclude the inappropriate use of travel, Business Facilitation Services, and purchase orders as cash advances. (page 61)*

*Reply:* The SCO denies receiving cash advances for purchases that he made while on travel. From 1995 through January 1999, almost any item purchased in the U.S. was half the price of the identical item if purchased in Brazil; therefore, when the SCO traveled to the U.S., he made various purchases for the office from his personal funds. Upon his return, he would deliver the purchased products and provide receipts to the US&FCS cashier for reimbursement from petty cash. Since some of the reimbursements totaled up to \$1,500, a purchase order would be completed and sent to FMC for reimbursement. FMC stated that although individual purchases were under \$500, US&FCS Brazil should obligate a purchase order before the actual purchase took place. Therefore, following FMC's instructions, post routinely obligated between \$1,000 and \$2,000 on a blanket purchase order before the SCO traveled. Expenditures against blanket purchase orders are exempted from the contracting officer warrant program, and our officers are permitted to purchase against them, as they would make purchases as a credit card holder.

*Recommendation 32: US&FCS in Sao Paulo follows federal procurement regulations and guidelines for future acquisitions in determining whether a procurement is best completed as a purchase or a lease. In addition, US&FCS Brazil should consider charging the majority of its copier costs to a broader overhead account so that the machines will be better utilized by the staff. (page 62)*

*Reply:* The contract regarding the Sao Paulo Commercial Center's copy machine was competitively bid by the GSO by request of a commercial officer who has since departed post. According to information in the file and the recollections of the current SPCC Director, the decision to lease versus purchase a copy machine was sound, based upon the copying needs of the SPCC.

More than 10,000 copies monthly were projected. In fact, the Center was averaging 13,900 copies per month. With such heavy usage for this class of machine, the total machine life would have been only a few years. By leasing, post was able to obtain a maintenance contract covering all parts and labor for the length of the leasing agreement. Neither the GSO nor the commercial officer believed that parts and service would be available for a purchased machine by the time major repairs would be necessary. They had more confidence in a lease with a service agreement, than in the company honoring a service warranty for a broken machine.

The Brazilian market for copy machines is closed and non-competitive. Prior to January 1999, copy machines were at least double the price in Brazil than in the U.S. Post considered shipping a U.S. machine, but could not get a local maintenance contract for an imported machine. After studying various options, the GSO competitively bid and signed the contract. This was in full agreement that a lease with a comprehensive maintenance contract was the best use of USG resources. US&FCS Brazil agreed, and continues to agree, with that analysis, based upon our copying needs and our experience in the non-competitive Brazilian copy machine market.

Beginning in FY99, O&A pays the entire leasing and maintenance costs of the machines, with trust funds paying for only the toner and paper used for making copies for trust fund projects.

*Recommendation 33: In the event that the Brazilian intern program is reinstated, US&FCS Brazil adopts a task order contract structure to conserve its administrative effort and minimize State Department charges. (page 63)*

*Reply:* US&FCS Brazil has discontinued the Internship Program that included stipends for interns. Therefore, this specific issue is now moot.

For the record, please note that interns assisted with various projects which were funded by various trust fund budgets. US&FCS Brazil had more than 34 trust fund budgets in FY98. As experienced commercial officers are aware, trust fund budget authorizations are not always received on schedule. Therefore, if a project-specific trust fund budget authorization was not received by the bi-monthly deadline for the intern obligation, a separate Purchase Order would be prepared when the authorization was received. Although not efficient, separate obligations were necessary to insure that an intern's stipend was paid by the trust fund event that benefited from the intern's services. The alternatives would have been to pay an intern from an event that he or she was not working on (against US&FCS regulations), or to cease work on a project until the next bi-monthly intern obligation date after receipt of the proper trust fund authorization. Instead, we chose the legal and reasonable course of doing a separate purchase order. Although each purchase order may have cost an additional \$88 in ICASS charges, there was no reasonable alternative.

The federal budget process is not very flexible. Regrettably, we sometimes have to be relatively inefficient in order to complete our projects AND obey the rules. That is what occurred in this case.

*Recommendation 34: US&FCS establishes policies and procedures to ensure that commercial officers' residential renovation are an appropriate use of government funds given the circumstances of the post. Renovations that benefit the landlord should result in a reduction in rental costs to the government. (page 64)*

*Reply:* Residential renovations were approved and contracted by post GSO, who is also responsible for contract negotiations of residential properties. Regarding the value of renovations to the occupant vis-à-vis the landowner, the expenditures cited by the ICI were at a property long in the consular housing pool and which has since been assigned to the incoming SCO.

It is not uncommon for substantial improvements -- even structural improvements within the confines of the rental unit -- to be made, especially in kitchen and bathroom areas. OIO/WH staff, in September 1998, visually inspected the improvements and subsequently reviewed the purchase orders and supporting documentation in question and determined that none of the renovations were extravagant. Not only were the expenditures reasonable regarding the present tenant's occupancy, but will also be amortized with subsequent US&FCS occupants.

*Recommendation 35: US&FCS headquarters directs the US&FCS Brazil SCO to cease the continuing facility improvement projects in Sao Paulo and enter into discussions with the landlord seeking a rent abatement for the value of the improvements made to date. (page 64)*

*Reply:* The Commercial Center is currently mandated to relocate for security reasons.

Until such time as the center relocates, any and all precautions necessary for the immediate safety and security of our officers and staff will be approved. Cosmetic or other non-security upgrades will not be undertaken.

We consider the Department of State contracting officer is and has always been responsible for lease negotiations including rent abatement for the value of improvements to date. This lease was also approved by FBO. In the event that a future Commercial Center site is not co-located, headquarters and post will work closely with both DOS and FBO to ensure that the US&FCS is not again left to deal alone with a site that does not even conform to local laws, much less USG security standards, and a landlord who appears to be unaccountable.

*Recommendation 36: US&FCS conducts a market survey to determine what other feasible facilities may exist for its Sao Paulo operations, and considers moving from the current facility if more appropriate and cost-effective facilities can be found to house the operation. (page 64)*

*Reply:* This recommendation is being attended to as a direct consequence of the item above.

*Recommendation 37: US&FCS Brazil enters into negotiations for a reduced rent for future years and seeks a longer term lease if the study determines that the Sao Paulo operations should remain in the current facility. If possible, any new or renegotiated lease should explicitly state that all building code and habitability upgrades will be at the landlord's expense and that rent abatements will be made by the lessee. (page 64)*

*Reply:* All foreign affairs agencies are currently mandated to co-locate, and Sao Paulo specifically is searching for new space, adequate for all of our needs. Our response to Recommendation # 35 also applies here.