



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



International Trade Administration

**Pacific Northwest USEAC Network Generally
Operates Well, but Export Success Reports
Need More Management Scrutiny**

Final Inspection Report No. IPE-16507/March 2004

PUBLIC RELEASE

Office of Inspections and Program Evaluations

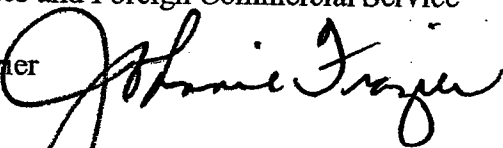


UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

MAR 31 2004

MEMORANDUM FOR: Grant Aldonas
Under Secretary for International Trade

Carlos Poza
Acting Assistant Secretary and Director General of the
United States and Foreign Commercial Service

FROM: Johnnie Frazier 

SUBJECT: Final Report
*International Trade Administration: Pacific Northwest USEAC
Network Generally Operates Well, but Export Success Reports
Need More Management Scrutiny (IPE-16507)*

As a follow-up to our February 27, 2004, draft report, attached is the final report on our inspection of the Commercial Service's U.S. Export Assistance Centers in the Pacific Northwest region. A copy of your response to our draft report is included in its entirety as Appendix B of the report.

We appreciate ITA's and the Commercial Service's concurrence with our recommendations and the concrete steps taken thus far to implement the recommendations. With the exception of the recommendations related to export success reporting, increasing new-to-export activity, and increasing user fee collections, the actions planned or taken meet the intent of our recommendations and we consider them closed. Please provide an action plan addressing the unresolved recommendations within 60 calendar days.

We thank the personnel in ITA headquarters and the Pacific Northwest network for the assistance and courtesies extended to us during our review. If you have any questions or comments about our report, or the requested action plan, please contact me on (202) 482-4661, or Jill Gross, Assistant Inspector General for Inspections and Program Evaluations, on (202) 482-2754.

Attachment

cc: Linda Cheatham



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EXECUTIVE SUMMARY

The Department of Commerce's International Trade Administration (ITA) plays a major role in leading the federal government's efforts to increase U.S. exports. ITA's U.S. Commercial Service,¹ as one of the most visible export promotion agencies, works closely with the U.S. business community as well as federal, state, and local trade partners to promote export awareness and U.S. sales abroad.

Currently, the Commercial Service, through its Office of Domestic Operations, operates 106 U.S. Export Assistance Centers (USEACs), grouped geographically into 12 networks. The key objective of the USEACs is to enhance and expand federal export promotion and trade finance services through greater cooperation and coordination between federal and non-federal trade-related partners.²

The Office of Inspector General conducted the on-site portion of its inspection of the operations of several offices in the Pacific Northwest USEAC Network from November 10-21, 2003. We performed additional work at ITA headquarters and via telephone and email following the field work through January 2004. Our review focused primarily on the management, program operations, and the financial and administrative practices of the network. During the period of our inspection, the Pacific Northwest USEAC Network's service area included Alaska, California, Hawaii, Idaho, Montana, Oregon, and Washington.

Overall, we found that the export assistance centers within the Pacific Northwest USEAC Network are generally doing a good job of providing export assistance to U.S. companies, collaborate well with most trade partners, and have sound financial and administrative operations. However, we identified a few problems or issues that warrant the Commercial Service's attention. Specifically, some export success reports overstate export values or claim exports that did not occur; outreach to new-to-export companies appears low; and USEACs do not always comply with Commercial Service requirements for fee collection. Our key observations are as follows:

Pacific Northwest USEAC Network Operates in a Collaborative Fashion. The 12-office Pacific Northwest USEAC network—recently created in July 2003 by consolidation of the Silicon Valley and Seattle USEAC networks—is innovative and works well together. Staff praised the network director's leadership and told us that he manages effectively, clearly communicates expectations, emphasizes CS headquarters initiatives, and has helped develop strong trade partner relationships. We also found that among their various federal, state, and local partners in the Pacific Northwest, the USEACS have a strong reputation as valuable trade partners that are available to help sponsor, promote, and organize trade events and participate in export counseling. The collocation of representatives of the Export-Import Bank and Small

¹ U.S. Commercial Service is also known as the U.S. & Foreign Commercial Service (US&FCS).

² The Export Enhancement Act of 1992 directed the Commerce Department to take the lead in setting up "one-stop shops" to assist U.S. exporters. The one-stop shops, known as USEACs, are intended to integrate the representatives and assistance of three principal federal agencies providing export promotion services: Commercial Service, Export-Import Bank, and Small Business Administration. The first four USEACs were established in January 1994, as pilot offices in Baltimore, Chicago, Long Beach, and Miami.

Business Administration and a few other trade partners in some USEACs encourages strong ties, leverages Commercial Service's resources, and improves client assistance, as evidenced by joint client outreach and mutual referrals (see page 6).

Clients Value USEACs' Assistance, but Reported Export Success Values Were Overstated by At Least 60 Percent, and Assistance to New Exporters Appears Low. Based on interviews with clients, it appears that the Pacific Northwest USEAC Network is providing valuable and timely products and services to its clients. However, the network did not always comply with Commercial Service's guidelines on the reporting of export successes—the agency's key performance measure. We found that the Pacific Northwest USEAC network overstated its fiscal year 2003 reported export success values by at least \$156 million, out of \$263 million (or 60 percent). In addition, we identified \$6 million of reported exports that did not occur. Further, we identified three USEACs in the network that did not report any export successes for new-to-export companies—another important Commercial Service performance measure. We are concerned that some trade specialists may not be adequately reaching out to inexperienced exporters, because they prefer to assist existing clients in order to reach their export success goals (see page 12).

Commercial Service Should Take Additional Steps To Increase Its User Fee Collections. Office of Management and Budget (OMB) Circular A-25 establishes federal policy regarding fees assessed for U.S. government services and for sale or use of federal goods or resources—including those of the Commercial Service—that convey special benefits to recipients beyond those accruing to the general public. It requires that fees be set to allow full cost recovery. However, the Commercial Service's current policy on fees, as outlined in its *Operations Manual*, conflicts with OMB requirements, by requiring only recovery of direct costs associated with fee-for-service products. Because Commercial Service has not consistently enforced its policy of fee collection to cover even its direct costs for its products and services—especially for services executed by USEACs—trade specialists both at the USEACs and overseas posts may sometimes forgo charging clients for their services. Although ITA has requested a waiver from OMB Circular A-25 requirements for full cost recovery, OMB has not yet acted upon this request. Until ITA receives a waiver from OMB, Commercial Service should take additional steps to increase cost recoveries (see page 24).

Financial and Administrative Operations Are Generally Sound, with a Few Exceptions. We found the network's financial and administrative operations, for the most part, to be sound. Specifically, the network's assets are accounted for and properly used, collections are recorded in a timely manner, and time and attendance records are properly managed. We did, however, discover that (1) some purchase cardholders did not adhere to the \$2,500 established annual spending limit for purchase card payment of cellular telephone airtime charges, and (2) advance payments were improperly made for cellular telephone expenses. Also, one USEAC director did not handle time and attendance matters for one employee properly for an extended period of time. Finally, we learned that Commercial Service is aggressively seeking to reduce its leasing costs for USEACs nationwide, and for fiscal year 2004, CS expects to achieve lease savings of \$154,000 in the Pacific Northwest region (see page 29).

On page 33, we list a summary of the recommendations we are making to address our concerns.



The ITA Chief Financial Officer and Director of Administration's response to our draft report stated that ITA was pleased with our assessment that the Pacific Northwest network is innovative and works well together, is providing valuable and timely products and services to its clients, and that clients remarked about the network's responsiveness. The CFO did not agree with our finding that the Pacific Northwest USEAC network had overstated the value of its reported export successes. As we discuss in detail beginning on page 18 of the report, we thoroughly evaluated the CFO's position and provide a discussion of why we continue to conclude that the reported export successes were overstated.

ITA's response to our recommendations outlines actions completed and steps to be taken to (1) strengthen management's oversight of export successes, (2) increase outreach to new-to-export firms, (3) comply with OMB Circular A-25 and Commercial Service policies regarding fee collection, (4) ensure that all appropriate regulations are followed for cell phone services, and (5) ensure compliance with minimum security standards at one export assistance center. We discuss those specific actions and ITA's comments on our recommendations following each appropriate section in the report. ITA's entire response to our draft report begins on page 35.

BACKGROUND

The International Trade Administration (ITA) established the Commercial Service (CS) in 1980 to assist U.S. companies—particularly small and medium-sized businesses—in exporting their products to international markets, and to protect U.S. business interests abroad. Commercial Service’s Office of Domestic Operations (ODO) administers 106 U.S. Export Assistance Centers (USEACs) located across the United States.

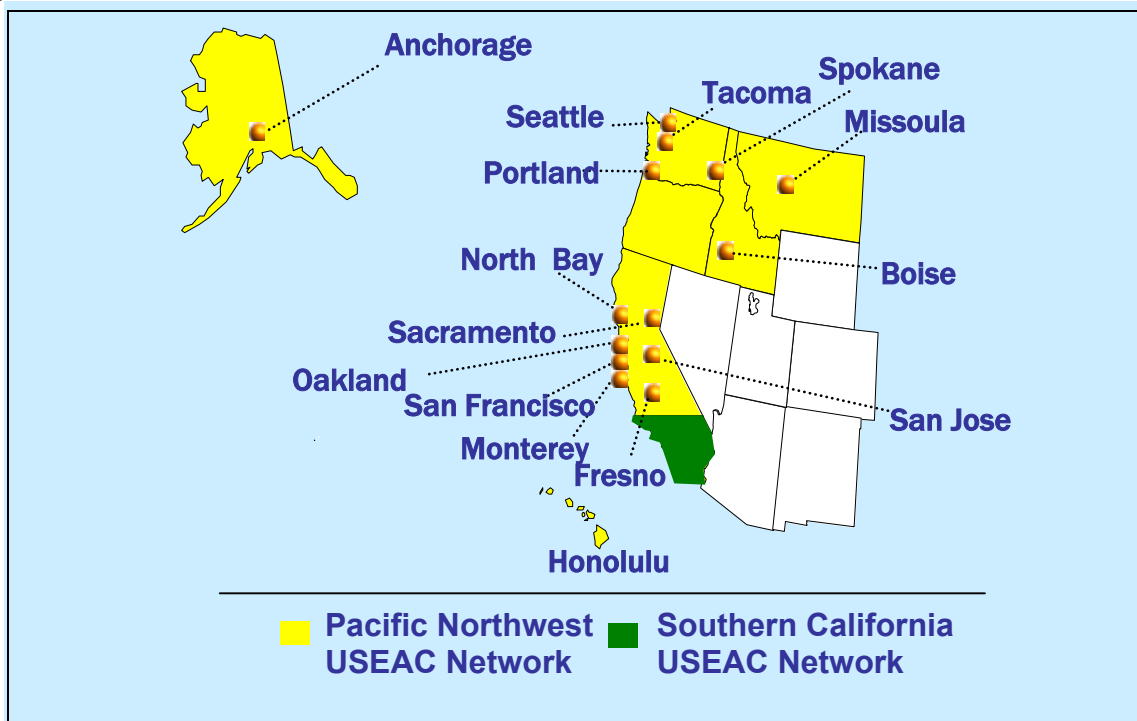
The Export Enhancement Act of 1992 called for the creation of export assistance centers that bring together federal trade-related agencies to form one-stop shops where U.S. firms could receive information about all federal export promotion and finance activities. In creating USEACs, Commercial Service designed a “hub-and-spoke” system: a USEAC, with collocated federal trade partners, serves as the “hub” office supporting the activities of several “spoke” or satellite offices (also called USEACs), thus creating a network of export service offices within a designated geographic area.

The Pacific Northwest USEAC Network assists U.S. companies in a wide range of industries, the most prominent being computers and electronic equipment, environmental and biotechnologies, information services, software, and telecommunications. Its trade specialists provide one-on-one counseling and customized business solutions to U.S. firms, particularly small and medium-sized ones, venturing into markets abroad or seeking to expand their international activities.³ USEACs often promote tradeshows, meetings, and seminars to identify new clients, including those new-to-exporting. USEACs also gain clients through referrals from trade partners and trade associations. Through national programs, such as the Global Diversity and Rural Export Initiatives, the Commercial Service has increased its outreach to minority and woman-owned businesses, as well as rural companies, which were traditionally under-served.

To optimize regional and industry similarities of the Pacific Northwest, as well as to maximize the leadership skills of its managers, CS combined the Silicon Valley and Seattle USEAC Networks in July 2003, to form the Pacific Northwest Network—the largest of the 12 networks and the focus of this report. During the period of our review, the newly merged network consisted of 15 USEACs covering Northern California, Oregon, Washington, Idaho, Montana, Alaska, and Hawaii (see Figure 1).

³ Counseling services may include helping clients determine their export readiness; identifying potential export markets; and developing an overall, long-term international business strategy and marketing plan. Trade specialists also speak at seminars, participate in export promotion initiatives with their trade partners, promote and sell CS products and services, and work with CS’ overseas posts, which provide market information and in-country assistance to U.S. companies.

Figure 1: Geographical Territory of the Pacific Northwest USEAC Network As Of September 30, 2003

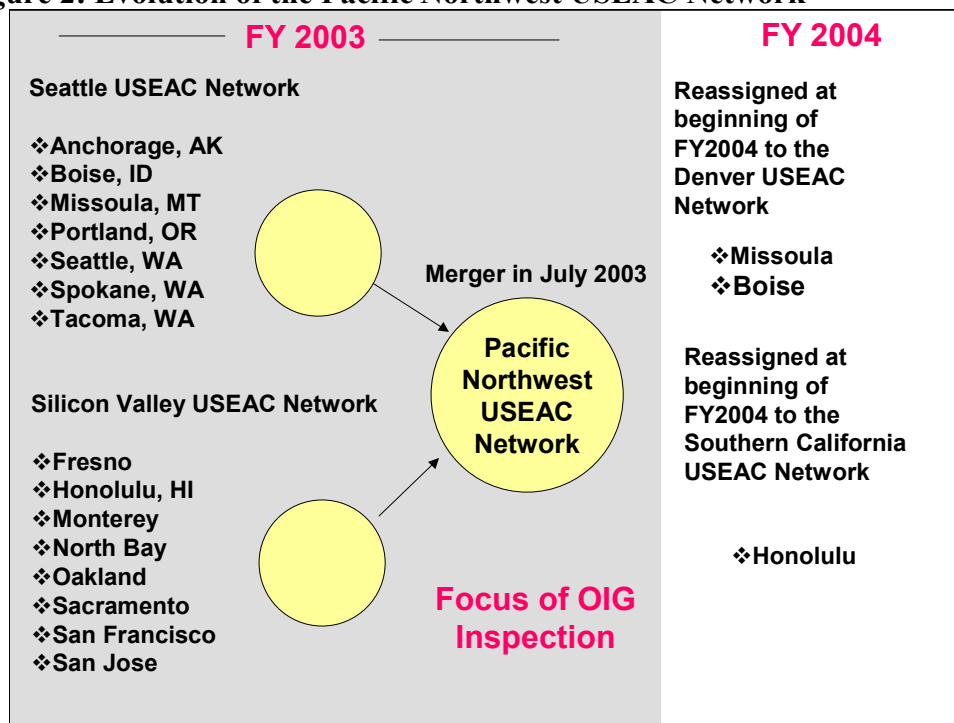


Source: Commercial Service.

Prior to July 2003, the Silicon Valley and Seattle networks were two separate networks, each with its own network director. The Silicon Valley network primarily served the northern California region, with offices in Fresno, Monterey, North Bay (Novato), Oakland, Sacramento, San Francisco, San Jose (which served as the hub office), as well as Honolulu, Hawaii. The Seattle network included USEACs in Anchorage, Alaska; Boise, Idaho; Missoula, Montana; Portland, Oregon; Seattle (which served as the hub office), Spokane, and Tacoma, Washington. Beginning October 1, 2003, Missoula and Boise were reassigned to the Denver USEAC, and Honolulu was reassigned to the Southern California network, leaving the Pacific Northwest Network with 12 USEACs (see Figure 2)⁴.

⁴ We included the Boise, Missoula, and Honolulu USEACs in our review since they were part of the Pacific Northwest USEAC network during fiscal year 2003.

Figure 2: Evolution of the Pacific Northwest USEAC Network



Source: OIG

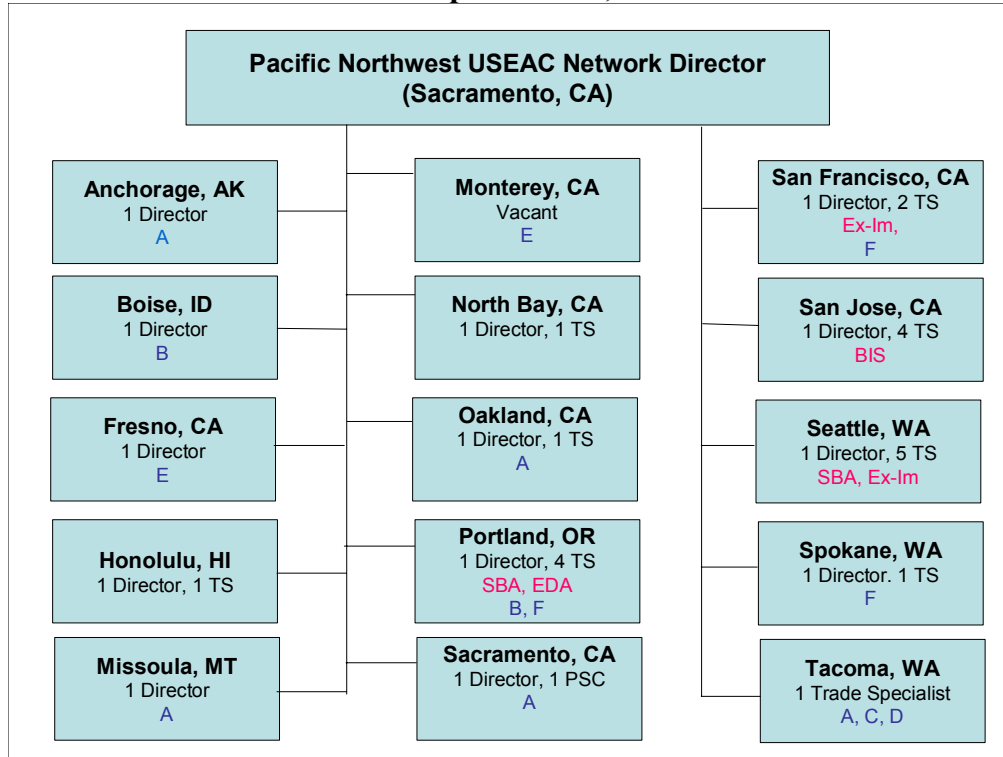
All USEACs in the consolidated network report to the Pacific Northwest Network director, who was also the director of the former Silicon Valley network. Typically, network directors are physically located in the hub office. However, the Pacific Northwest USEAC Network operates as a decentralized network with the network director residing in Sacramento. The network director teleworks from his home two days per week, and spends the remainder of his time visiting each USEAC to review its operations, meet with staff, participate in partner outreach, and attend trade events. Therefore, this network does not have one central “hub” office.

Since the merger of the Seattle and Silicon Valley networks, the former Seattle network director serves as both the Seattle USEAC director and the Commercial Service’s liaison to ITA’s Market Access and Compliance (MAC) unit. MAC has country desk officers and a Trade Compliance Center whose objectives are to obtain market access for American firms and workers and to achieve full compliance by foreign nations with trade agreements they have signed with the United States. The MAC liaison position is part of ITA’s Trade Compliance Initiative and is intended to increase the level of cooperation, coordination, and interaction between the Commercial Service and MAC’s desk officers. ITA hopes this collaboration will ultimately expand the services it delivers to exporters.

In addition to working with other ITA units, the USEACs work with a number of other federal agencies, to leverage their resources and prevent unnecessary duplication of efforts. The Pacific Northwest USEACs also work with state trade agencies, local chambers of commerce, and other trade-related organizations responsible for providing export assistance to U.S. companies. Together they sponsor, promote, and host trade events and seminars and jointly assist clients.

At the time of our review, the Pacific Northwest USEAC Network had a staff of 36 employees. Table 1 below shows the distribution of staff and the collocated partners (highlighted in red).

**Table 1: Pacific Northwest USEAC Network Staff and Collocated Partners
As of September 30, 2003**



Source: Commercial Service Organization Chart and OIG.

Legend for Non-Federal Trade Partners:
 A = World Trade Center Ass'n.
 B = State Government
 C = Chamber of Commerce
 D = Local Government
 E = Educational Institution
 F = Trade Association

In FY 2003, the Pacific Northwest USEAC Network operated with a budget of \$3.8 million; collected \$181,235 in fees from its clients; and counseled 3,982, including 1,817 new clients that it added to its portfolio.

OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose of our inspection was to assess the effectiveness of the management, program, and financial and administrative operations of the Pacific Northwest USEAC Network. Specifically, we sought to determine whether the Pacific Northwest USEAC Network

- plans, organizes, and controls its work and resources effectively and efficiently;
- operates effectively, in that it meets the needs of U.S. exporters and helps increase U.S. exports and market access; and
- has appropriate internal controls and financial management practices.

To accomplish our objectives, we did the following:

- Reviewed the individual USEACs' strategic work plans, which offer quantifiable performance goals and measures for increasing U.S. exports as well as efforts to coordinate and collaborate with trade partners.
- Interviewed appropriate Commercial Service officials, as well as 18 trade partners representing various federal, state, and local government agencies, and various geographic, ethnic, and industry-focused constituencies.
- Surveyed network staff and a random sample of the network's clients.
- Evaluated coordination between the network and other trade-related organizations in relation to achieving the overall goals of ITA and the Department of Commerce.
- Examined pertinent files and records relating to the Pacific Northwest USEAC Network's financial, administrative, and other operations.

We conducted our fieldwork from November 10-21, 2003, by visiting the following Pacific Northwest USEACs: San Jose, San Francisco, North Bay, and Portland. We also met with the Oakland USEAC staff, the director of the Seattle USEAC, and other CS officials in ITA headquarters in Washington, D.C., both before and/or after our fieldwork. During the review and at its conclusion, we discussed our findings with the Pacific Northwest network director and ODO's national director for the Western Region. We also discussed our findings with ITA's Chief Financial Officer and Director of Administration, the Acting Assistant Secretary and Director General of the U.S. and Foreign Commercial Service, and the Acting Deputy Assistant Secretary for Domestic Operations.

OBSERVATIONS AND CONCLUSIONS

I. Pacific Northwest USEAC Network Operates in a Collaborative Fashion

We conducted a comprehensive review of the Pacific Northwest USEAC Network to determine how well the USEACs work together, with their overseas counterparts, trade-related partners, and their business clients. We found the work atmosphere within the various USEACs to be positive overall. There is a team environment and open lines of communication among the trade specialists and director within each USEAC we visited and within the network overall.⁵ The staff repeatedly noted that the network director provides a clear sense of direction and leadership. We also found that the USEACs are well respected by their various federal, state, and local partners in the areas we visited. They consider the USEACs to be reliable trade partners, available to help sponsor, promote, and organize trade events or participate in export counseling sessions. Additionally, clients noted the fact that the trade specialists provide them with information on various markets and keep them apprised of applicable trade events.

A. Network functions in a collaborative, team environment

The network director resides in Sacramento, but travels regularly to each of the USEACs within the network. While in Sacramento, he teleworks from his home two days per week and travels to the individual USEACs regularly, visiting the larger offices on a monthly basis⁶. Unlike most other USEAC networks, the network director's location is not the "hub." Because of this unique arrangement, the large number of USEACs in the consolidated network, and the large geographic territory, we were particularly concerned about the network's operations. Based on discussions with the staff, CS management at headquarters, and trade partners, the current decentralized model appears to be working well, although the network director had only been responsible for the entire network for a few months during our review.

"Collegiality of the staff is fairly high...everyone seems to work hard yet be pleasant to their co-workers."

*Trade Specialist's description
of her colleagues.*

At the time of our visit in November, the network director had already visited 14 of the 15 USEACs in the network, and met with all staff. The only USEAC he had not yet visited was Anchorage, but he planned to be there in February 2004 to attend a trade event. During our visit, the network director visited the San Jose, San Francisco, and Portland offices, and traveled to Seattle to present an export award with the CS' Acting Director General. USEAC directors consistently also told us that the network director is accessible and responsive, despite the large geographic territory and number of USEACs in the network. USEAC staff also told us that the network director manages effectively, clearly communicates expectations, and emphasizes CS headquarters initiatives via regular conference calls, email, and on-site visits. Regarding export successes (CS' primary performance measure), staff stated that the network director emphasizes reaching or exceeding export success goals and collaboration between trade

⁵ Use of the term "directors" includes the network director as well as the directors of the individual USEACs.

⁶ While in Sacramento, the network director does not usually work at the Sacramento USEAC, since that USEAC has a director. He does, however, periodically visit that office to oversee its operations.

specialists. Staff and the network director himself also told us that he occasionally questions export success write-ups, and frequently requests that trade specialists include additional information. Further, the network director stated that he verifies reported export success information with CS' client management system. However, we found that some export successes approved by the network director did not comply with CS guidelines, and reported export success values for the network were overstated by at least 60 percent (discussed on page 13). We also found that interactions among network staff are frequent and collaborative, as evidenced by the Oakland and San Francisco USEACs' collaboration on Global Diversity Initiative events, and the sharing of innovative ideas between the North Bay and Fresno USEACs (see page 13).

Trade specialists also told us that the network director is concerned about each trade specialist's professional development. For example, in addition to the professional development funds provided by headquarters, the network director allocates additional funds from the network's overall budget for each trade specialist to use for job-related training. Some trade specialists have used these funds for language training relevant to countries where they frequently assist clients. The trade specialists believe the language training ultimately allows them to provide better client service. Clients also stated that they find the trade specialists' language skills valuable. Other trade specialists have used professional development funds to attend industry specific seminars, as well as Export-Import Bank training on export financing and various BIS seminars.

In addition to regular USEAC visits, the network director holds annual "all hands" network meetings to discuss strategic planning issues and objectives and share best practices. He also invites senior level Commercial Service managers to speak about overall initiatives. Staff told us these network meetings increase collaboration and teamwork, especially after the addition of the Seattle network.

Because of its strategic location in California's Silicon Valley, the San Jose USEAC often hosts Commercial Service staff from overseas posts as well as foreign service nationals on temporary duty assignments and State Department foreign service officers visiting the Northern California area. During our visit, the San Jose USEAC was hosting a foreign service officer on a full two-year domestic tour. Hosting of overseas officers and staff appears to have helped the Pacific Northwest network establish good working relationships with many of Commercial Service's overseas posts; several trade specialists and directors noted that their relationships with overseas posts have improved over the past few years, particularly with regard to information sharing. In addition, a number of trade specialists have completed temporary assignments at overseas posts. CS management acknowledged that integration initiatives, such as temporary duty assignments and joint training, have helped improve cooperation and responsiveness between the domestic offices and overseas posts with staff gaining a better appreciation and understanding of each other's roles and functions.

"Over the years, incoming and outgoing visits [by overseas CS staff] have strengthened our relationships with our posts worldwide and as a result have strengthened our client service."

*San Francisco USEAC Director's
description of cooperation with
overseas colleagues.*

The network director also took steps to promote staff continuity and maintain quality client service. Specifically, he requested and obtained a 10 percent retention allowance for all trade specialists at grade 12 and lower, in the San Francisco Bay area (includes the Monterey, North Bay, Oakland, San Francisco, and San Jose USEACs) because the high cost of living in the area caused frequent turnover in these USEACs. Since the retention allowance was approved in October 2002, the USEACs have had lower turnover rates, resulting in more reliable client service. At the time the network director made the request, the USEACs had several trade specialists who benefited from the retention allowance. Since that time, however, several trade specialists in San Jose have been promoted, and all of San Jose's trade specialists are at grade 13 level or higher, and no longer receive the allowance.⁷

In conclusion, we found that the USEAC network director is cultivating a good working environment with a focused, results-oriented atmosphere. Furthermore, the directors of the USEAC offices we visited found the network director to be very accessible and supportive. They also said the network director had helped improve interaction within and among the network's USEACs and brought defined leadership and direction to the offices. However, we are concerned that a significant percentage of the export successes we reviewed did not comply with CS guidelines. We are also concerned about the size of the network and the large geographical area that the network director must cover. Although CS has reassigned three USEACs from the Pacific Northwest network since it was formed in July 2003, we believe that ODO should continue to monitor the performance of the Pacific Northwest network to ensure that such a large network continues to operate effectively and that one network director can adequately manage and provide necessary leadership and oversight to 12 far-flung USEACs.

B. USEACs collaborate well with most trade partners

Several USEACs within the Pacific Northwest network are collocated with both federal and non-federal trade-related agencies. Each collocated federal trade partner works with the staff in the "home" USEAC, as well as with USEAC staffs throughout the network. The relationships with collocated and other non-collocated agencies have been very productive, as evidenced by mutually beneficial referrals and joint counseling for clients. These relationships have helped the USEACs to leverage their resources. The network USEACs also work closely with a number of non-federal trade partners, including ethnic chambers of commerce, and local business development offices, but collaboration with the Northern California District Export Council (DEC) needs to be improved.

Based on our meetings with 18 trade partners, it appears that the Pacific Northwest USEACs have also developed close ties with other, non-federal trade partners, facilitating smooth and enhanced delivery of export assistance to U.S. companies, including greater and more convenient access to trade finance support as well as joint counseling and mutual client referrals among the Pacific Northwest USEAC partners. Three non-federal trade partners are also collocated with a USEAC or located in the same building, which further facilitates cooperation (see Figure 4).

⁷ According to Office of Personnel Management regulations, the retention allowance could be as high as 25 percent, with no limit on grade level.

Federal trade partners. The network staff we spoke with were complimentary with regard to the support offered by the federal trade partners. Similarly, the trade partners cited the benefits of their relationship with the USEAC in accomplishing their mission; particularly their ability to draw on the USEAC staffs' professionalism, responsiveness, and involvement in the business and international communities. We learned that the trade specialists and directors within the Pacific Northwest USEAC Network frequently co-sponsor programs and seminars with their federal partners and conduct joint client counseling sessions. Both the Small Business Administration (SBA) and the Export-Import Bank (Ex-Im), through their respective working capital and export support programs, offer the financial assistance needed by many of the ready-to-export companies the trade specialists counsel. Ex-Im officials told us they frequently receive client referrals from their Commercial Service counterparts, and both Ex-Im and SBA stated that the trade specialists and USEAC directors share quality client leads and know when to bring in the trade finance experts to provide clients with trade assistance.

The San Francisco USEAC is collocated with an Ex-Im Bank regional representative who not only answers trade finance-related questions but also participates in outreach and joint counseling of USEAC clients. The Ex-Im representative works with all the Pacific Northwest USEACs and praised the trade specialists' dedication and knowledge, and clients cited the benefits of the joint counseling sessions of USEAC and Ex-Im staff, particularly in the area of credit insurance.

The Portland USEAC is collocated with two trade partners, the Small Business Administration (SBA) and Commerce's Economic Development Administration (EDA). The SBA representative frequently conducts joint client counseling with USEAC staff. SBA and the USEAC also mutually refer clients. The SBA representative stated that her work is completely integrated with that of the USEAC and cited increased collaboration as a benefit to collocation.

Department of Commerce trade partners generally work well with Network USEACs

The presence of an EDA representative in the Portland USEAC, though unusual, is beneficial to several of the network USEACs. EDA's involvement with local development projects in the Pacific Northwest enables the representative to refer companies to the Portland and Northern California USEACs for export assistance. The EDA representative also supports CS' Rural Export Initiative, which enhances the USEAC's outreach to rural and Native American communities through seminars and on-site visits.

In the San Jose USEAC, the Bureau of Industry and Security's (BIS) Office of Export Administration has two representatives available to assist USEAC trade specialists in answering clients' questions about export licenses and controls. Because of BIS' Export Administration Regulations, this particular collocation is especially valuable in the Silicon Valley's high-technology business corridor. BIS staff, in turn, refer their clients who are also seeking export promotion services to the USEACs. We might add that the BIS staff in San Jose do not limit their assistance to exporters and USEACs in the Pacific Northwest. During a recent visit to the Boston USEAC, the Inspector General was told that the USEAC staff there received help and information from the San Jose staff, which provided invaluable answers to questions about export licensing from New England businesses seeking to export their products.

Non-federal trade partners. The state of California, facing a budget crisis and investigations of inflated or erroneous claims of export successes by its overseas trade offices, dismantled its entire international trade and commerce bureau in August 2003. In addition to the state government's decision to close its export offices, some local trade partners have also cut back their services due to budget constraints. Nevertheless, several non-federal trade partners we interviewed—in the Northern California or Portland areas—continue to provide valuable referrals of potential exporters and opportunities for USEAC outreach to the local business communities (see Figure 4 for some examples of collaboration).

District Export Councils (DECs). Most of the USEACs report that they have very active DECs, especially those in Alaska, Idaho, Oregon, and Washington. The DECs in those states work closely with the USEACs to increase outreach to exporters. For example, the Boise USEAC is the site of the Idaho DEC (which meets monthly), and has initiated inter-DEC cooperative efforts with the Washington and Montana DECs to maximize export counseling available to clients. The Alaska USEAC also reported having excellent working relationships with DEC members, with mutual support of operations. According to the Portland USEAC director, the DEC in its area holds semiannual meetings and co-sponsors about three events a year. Despite the few meetings, many of the Portland DEC members are trade partners with whom the USEAC collaborates on a regular basis. Furthermore, the USEAC maintains a referral network of DEC members who are available to assist local companies with their export questions. Conversely, network staff reported that the Northern California DEC focuses more on trade policy than trade promotion activities, and does not meet on a regular basis. One of the Northern California USEAC directors stated that she does not understand the purpose of the DECs, and has no contact with them. We were somewhat surprised that the USEACs in Northern California have not tried to develop more support from and cooperation with the DEC, since they have been invaluable resources to USEACs elsewhere in the nation.

District Export Councils (DECs) consist of local leaders who have international business expertise, which they share with USEAC clients, and thus complement the assistance provided by CS trade specialists. There are 56 DECs throughout the country. Council members are appointed by the Secretary of Commerce.

Figure 4: Examples of collaboration between Pacific Northwest USEACs and non-federal trade partners

San Jose

- The City of San Jose's Office of Economic Development is a significant force in the exporter community, hosting foreign government and business delegations; its international program director works with the San Jose USEAC staff and BIS representatives by making client referrals.
- The Silicon Valley Center for International Trade and Development (CITD), with its training program for companies new-to-exporting, is another source of clients for the USEAC.
- The Japanese American Chamber of Commerce holds three to four joint trade events with the San Jose USEAC annually and continues to partner with the USEAC as a valuable source of companies interested in exporting.

San Francisco

- The San Francisco USEAC has a strong relationship with the local chapter of the American Institute of Architects, jointly sponsoring events, such as video conferences for architecture and engineering firms seeking to do business in Asia and the Pacific Rim.
- The Bay Area CITD serves both the San Francisco and Oakland USEAC areas and collaborates closely in Global Diversity Initiative outreach and trade development support. The director of the CITD praised the USEAC staff and stated that they are a valuable resource for hosting joint events and trade missions.
- The San Francisco Global Trade Council is collocated with the San Francisco USEAC, which allows many opportunities for hosting local trade events and interacting with inbound and outbound trade delegations and VIPs.

Portland

- The Pacific Northwest International Trade Association promotes international trade throughout the region through joint conferences conducted with the Portland USEAC, showcases the USEAC's services to its members, and invites senior commercial officers to speak at its functions in order to increase interest in exporting and identify market opportunities.
- The International Division of the Oregon Economic and Community Development Department is located in the same building as the Portland USEAC. The head of the USEAC and the Oregon International Division meet monthly to identify opportunities for further collaboration as well as conduct joint client visits and coordinate trade events.

Source: OIG

II. Client Satisfaction is High, but Export Success Reporting Needs Closer Management Scrutiny

The Pacific Northwest USEAC Network received high marks from its clients for the services it provided. The clients we contacted were generally impressed with the availability and responsiveness of the trade specialists and pleased with their knowledge of overseas markets, access to contacts, and understanding of how to conduct international sales. However, we found that the Pacific Northwest USEAC Network and ODO headquarters staff, who have responsibility to review performance reports, did not always comply with Commercial Service's guidelines for reporting and reviewing export successes—Commercial Service's key performance measure. Specifically, we found that the network overstated its export values by nearly 60 percent for fiscal year 2003, and reported export sales that did not occur. We also found that several USEACs claimed few new-to-export successes. In fact, three USEACs did not report any successes for new-to-export companies. Further, of the new-to-export successes reported, 9 percent were either duplicates or misclassified.

A. *Clients value the USEACs' assistance*

Of a sample universe of 152 clients, we obtained feedback from 85 via either telephone or e-mail. We visited an additional 13 clients during our on-site visit. Repeatedly, clients remarked that they had not expected such responsive customer service from a government agency. One client was particularly pleased by the assistance he received from a San Jose trade specialist who, during her temporary assignment in Asia, made several calls on his company's behalf and contacted him from Japan to address his concerns. This client considers the trade specialist an extension of his staff and frequently invites her to make presentations at his company regarding new markets.

Another minority client was impressed by a trade specialist's patience and dedication, evidenced by the fact that the specialist took the time to explain things numerous times to her to overcome language barriers. Several other clients added that the trade specialists' knowledge of and subsequent referrals to SBA and Ex-Im helped make their export transactions a success. Other businesses that we spoke with stated that the trade specialists keep them informed of market conditions and issues affecting exports and upcoming events.

Clients also were pleased with the USEACs' innovative use of technology to assist exporters. For example, the San Francisco USEAC conducts regular video market briefings to assist companies in service sectors (e.g., architectural design firms) meet with potential buyers at a very low cost. One client valued the trade specialist's input so highly that she asked him to be a board member of the nonprofit organization she represents.

Also, the North Bay USEAC uses video-conferencing equipment to conduct "virtual wine tastings" to promote wine exports. In coordination with the CS post in the target country, as well as the Foreign Agricultural Service, the North Bay USEAC has the U.S. wineries ship a case of their wines to the target country embassy. The trade specialists at the overseas posts bring representatives of interested foreign companies to the embassy for the tastings. As the U.S. exporters describe their wines via video conferencing, the wines are simultaneously poured and

tasted. The USEAC hosts approximately three wine tastings per year and has already held tastings with companies in Italy, Mexico, Colombia, Philippines, Japan, Switzerland, and Vietnam.

We met with the owner of a small U.S. winery who participated in the virtual wine tastings hosted in several countries. This client was very satisfied with the trade specialist's assistance and praised the USEAC's innovative approach. Although this client had not achieved exports yet, he stated that without this service the cost of traveling to a country to directly interface with the buyers would be prohibitive for a small winery such as his.

Through collaboration with the North Bay USEAC, trade specialists at the Fresno USEAC realized that exporters in that area could also benefit from virtual tastings. In February 2002 the North Bay USEAC assisted the Fresno office in launching Fresno's first virtual wine and food tasting. Subsequent to this, the Fresno USEAC has hosted tastings for other products. Trade specialists at the North Bay USEAC explained to us that virtual tasting events could be launched by any USEAC who has clients in the wine or food industries, as long as the overseas posts are willing to participate.

B. Reported export values are overstated by at least 60 percent

Export successes are Commercial Service's key performance measure. The Office of Domestic Operations (ODO) uses reported export success data to assess the performance of USEACs and trade specialists to determine whether they are meeting organizational goals and objectives. OMB and Congress use the data when reviewing Commercial Service performance and funding levels. Reporting inaccurate export successes that do not conform to CS' *Operations Manual* guidelines is a serious concern.

Both trade specialists and USEAC directors have a yearly export success performance goal, outlined in their annual individual work plans. For example, for fiscal year 2003, a trade specialist at grade level 13 was expected to realize 35 export successes. Information about each export success is recorded in CS' client management system by a trade specialist, but must be reviewed and approved by the USEAC director, who then forwards the success record to the network director for final review and approval. A USEAC director forwards his/her export success records directly to the network director. According to CS management, headquarters staff then randomly spot-check the approved export successes, as called for in ODO's guidelines. If problems are identified, staff are supposed to bring the export success to the attention of the regional directors.

In reporting their export successes in narrative form, trade specialists and USEAC directors are expected to briefly describe the client company, what it does, and where it does business; then explain the chain of events leading to the success—that is, what was done to make the success happen including any actions by other CS or ITA staff as well as federal, state, or local trade partners who assisted with the success. Per the guidelines, there must be a direct link between the USEAC assistance provided and the reported outcome.

Commercial Service reports to Congress both the number of export successes generated per fiscal year and the total dollar value of those exports. Commercial Service reported that during fiscal year 2003, it facilitated 14,090 exports, which totaled over \$35 billion.

The Pacific Northwest USEAC Network reported 761 export successes for fiscal year 2003. Of that total, we reviewed a random sample of 152, or 20 percent. To determine the accuracy of the reported information, we contacted 85 clients, or approximately 56 percent, of the sample and learned that several approved successes did not occur or did not comply with the CS guidelines.

Based on the 20 percent sample we reviewed, we found that the value of export successes reported by the Pacific Northwest USEAC Network for fiscal year 2003 was overstated by at least \$156 million, out of \$263 million in reported export value (about 60 percent). Of the \$156 million, \$150 million is attributable to two export successes where the trade specialist reported anticipated export values for an electrical power plant and a waste water treatment plant. In both of these cases, the U.S. companies signed contracts to build the plants overseas. We do not question the legitimacy of the contracts to build the plants, nor the trade specialist's assistance in these cases. In fact, both clients were complimentary of the trade specialist. However, both clients stated that although they expect some exports to occur, the contracts were for the overall construction of the plants and did not specify or guarantee any amounts for exports, nor had any exports occurred yet. Both clients told us that the \$100 million and \$50 million amounts were merely "ballpark figures" and although exports were likely to occur at some point, the companies could not be certain of an export value.

We agree that based on client feedback, it appears that some exports related to these contracts are probable. *CS' Operations Manual* specifically states that the legally binding signing of an agreement, as in the two instances described above, can be claimed as an export success. However, the manual states that trade specialists should "only claim the dollar value of the actual amount of product/service that has already been sold. Projected or anticipated sales, etc. are not allowed as the sales have not yet been consummated." Therefore, the trade specialist should not have included—and the network director should not have approved—these amounts as export sales.

Commercial Service uses export success data to assess the performance of USEACs and trade specialists and determine whether organizational goals and objectives are being met. OMB and Congress use this data when reviewing Commercial Service's performance and funding levels. The *Commercial Service Operations Manual* describes export successes as follows:

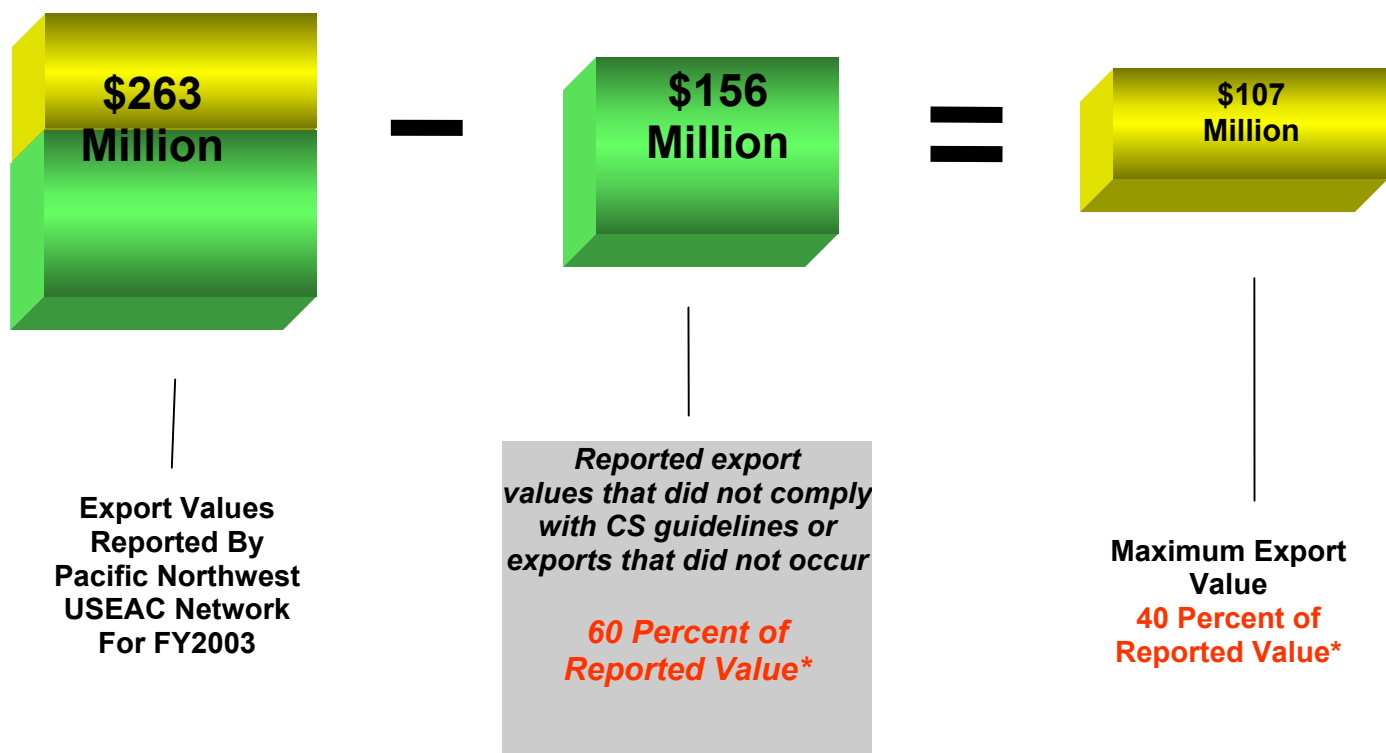
- An actual verifiable export sale—shipment of goods or delivery of services.
- The legally binding signing of an agreement, including agent/distributor, representation, joint venture, strategic alliance, licensing, and franchising or the signing of a contract by the client, with sales expected in the future.*
- Resolution of a trade complaint or dispute on behalf of the client—avoiding harm or loss.
- Removal of a market access barrier, including standards, regulations, testing and certification—opening a market for U.S. firms.

* *The signing of a contract and an export sale immediately thereafter (within 3 months), related to the same contract, must be reported as a single export success.*

The two export successes we cited above comprised over half of the network's reported export success value. Although the network director sought advice from CS headquarters officials before approving these two export successes, we believe that given such high export values, the network director should have taken additional steps (e.g., contacting the clients) to confirm the reported information. Such simple steps as these could prevent the reporting of overstated performance claims like the ones we identified.

We also identified 11 cases, totaling nearly \$6 million, for which the clients told us the exports simply did not occur, in direct conflict with the reported export success story. Again, we do not question that the trade specialists involved provided assistance to the U.S. companies. We are, however, concerned that the reporting write-ups were approved as successes with "success amounts" ranging from \$3,000 to \$5,000,000, even though no export sales had taken place. In one case where the success story claimed a \$500,000 export to Mexico, the client stated that his company had purchased a Gold Key in Mexico, but no sales ever resulted. In response to our review, the trade specialist stated that he obtained the export figures from the trade specialist a CS Mexico, rather than from the U.S. company. In previous OIG reports, we noted the importance of trade specialists confirming export information directly from the U.S. client to ensure more reliable reporting, and we reiterate the importance again here. We brought these export successes to the attention of the Pacific Northwest network director, who stated that in these instances, since there were no actual export sales, no monetary success amount should have been reported (see figure 5 below).

Figure 5: Comparison of FY 2003 reported vs. actual export values
(*Based on 20 Percent Sample Reviewed by OIG)



Source: OIG

We also questioned four other reported successes where the trade specialists claimed credit for helping companies avoid export sales that may have exposed them to losses due to fraudulent schemes by importers. According to section 4.2.1 of CS' *Operations Manual* effective during our review period, "offices cannot claim a success for preventing a U.S. company from making a bad sale, such as with the ever-present West African fraud letters—this would open up a Pandora's box of tenuous reports and figures." Since the *Operations Manual* did not allow credit to be claimed for this assistance in fiscal year 2003, we do not believe these export successes should have been approved.

Again, we do not question that the trade specialists provided valuable assistance to these companies. In fact, one businessperson who avoided \$1.4 million in sales to a fraudulent Ghanaian company, informed us that proceeding with the sale, "could have been costly to my company had I not had the help of the export services." Other companies similarly expressed satisfaction with CS' due diligence in helping to prevent financial harm.

We are pleased that under CS' new export success guidelines, effective October 1, 2003, this type of assistance can now be claimed as a success. When we brought these export successes to the attention of the network director, he explained that at the time he approved these successes, he believed that CS allowed these export successes to be claimed. However, during our discussions with the Western Region national director, he agreed with us that no export success credit was allowed for this type of assistance during our review period. Despite this change in the guidelines, the CS *Operations Manual* has not been updated and still reflects that this assistance does not qualify as a legitimate success. We recommend that CS update its *Operations Manual* to reflect its new guidelines and ensure that network directors are aware of this and other changes.

A final note in relation to preventing a potential fraud: we do not believe that this assistance should be classified as an "export success." CS management agreed with us that *prevention* of an export loss is not an export. Therefore, to accurately reflect this category of assistance and avoid misstating information to Congress, we believe CS should develop a new category for this success type.

The errors, discrepancies, and quality control problems we identified appear to be the results of (1) network staff's failure to consistently follow *Operations Manual* guidelines for performance reporting, and (2) management's inadequate oversight of this data. According to the *Operations Manual*, "Managers and staff are accountable for reporting performance statistics consistent with this guidance. Office Directors provide quality control certifications by completing approval fields in the CMS database. Regional Directors spot-check Export Success reports." We are concerned that neither the Pacific Northwest network director nor the national director for the Western Region identified the reporting errors contained within the export successes we reviewed.

In response to our report on the Chicago USEAC Network, which identified similar problems, the Commercial Service informed us that it has taken actions to improve the quality of export success reporting. This includes revising its export success guidelines and working directly with the USEACs to facilitate the implementation of the guidelines and ensure greater accuracy and consistency, and compliance with CS policy. It is also developing a training class to help employees (1) understand the new guidance, (2) improve the quality of export successes, and (3) ensure that trade specialists are recording client interaction consistently. Under a proposed reorganization, the agency also plans to designate a senior-level employee in ODO to review export success reporting nationwide. We support all of these actions, but CS should ensure that all appropriate staff, including the senior ODO official, are held accountable for carrying out their responsibilities with regard to export success reporting.

Recommendations. Commercial Service should

- monitor the implementation and adequacy of its initiatives for improving export success reporting and review, and ensure that they have the desired impact of enhancing both the reporting process and management oversight;
- ensure that reported successes that did not occur are deleted from the database; and

- ensure that the Commercial Service *Operations Manual* is updated to reflect its new export success guidelines, including development of a new category for prevention of export loss.



In responding to our draft report, ITA disagreed with our finding that the Pacific Northwest USEAC network had overstated the value of its reported export successes by about 60 percent. It requested that we recognize the validity of the export values for the two export successes totaling \$150 million. The Commercial Service cited the following section in CS' *Operations Manual*, related to major advocacy projects, as justification for reporting the export values of these two contracts: "Offices can claim the total value of the U.S. content of the contract even if sales/service are spread out over several years." The Commercial Service added that it believes this guideline applied to these two successes because they were attributable to the combined work of both ODO and overseas (Commercial Service's Office of International Operations) trade specialists. Also, ITA said that the Commercial Service asked the clients to provide only the U.S. content value of exportable goods and services within the much larger contract values, and the figures reported represented the clients' assessment.

We continue to disagree with the Commercial Service's reporting of these export dollar values for the following reasons. First, the complete citation regarding major advocacy projects from CS' *Operations Manual* states that: "Offices can claim the total value of the U.S. content of the contract even if sales/service are spread out over several years. The difference here is that the contract is a legally binding document. Sales are thereby ensured and are not just anticipated or projected." According to this criteria, the key factor in determining whether to report the full export value for major advocacy projects is whether the contract ensures or guarantees exports. This was clearly not the case for either export success that we cited. In fact, both clients specifically told us that these contracts did not require *any* amounts for exports and the amounts provided were merely estimated export values—the value of actual exports could be much higher or much lower. In subsequent discussions with Commercial Service headquarters officials, they told us that contracts for long-term major advocacy projects, such as the two we cited, typically specify the amount of U.S. content. Again, that was not the case with these two contracts. We note that regardless of which section of the *CS Operations Manual* is used (major advocacy or the export success reporting criteria we noted in our report), since the contract did not require a specific amount of exports, the reported dollar value for both of these successes should have been zero.

Further, during our review, we obtained documentation that the clients provided to the trade specialist that assisted both of these clients. In this documentation, one client stated that the contract "will result in the export of approximately \$100 million dollars in equipment and materials." Earlier documentation from the same client to the trade specialist indicates that the same contract "will result in the export of approximately \$50 million dollars in equipment and materials." We believe that this \$50 million dollar difference reported by the company should have alerted the trade specialist and network director to the fact that these figures were merely projections and the company was unsure—and that the contract did not require—any amounts for exports. We note that when we contacted these clients, they were both very forthcoming

about the details of the contracts and readily told us that these amounts were merely “ballpark figures.” Thus, while we agree that the trade specialist should be credited with diligently assisting both of these clients, according to Commercial Service’s reporting guidelines, these export successes should not have included any dollar amounts for projected exports. Although based on the client feedback, we believe that some exports will most likely occur eventually as a result of these two contracts, according to Commercial Service’s performance measure guidelines, it is misleading to claim these projected export values prematurely.

ITA’s response also noted that Commercial Service export success dollar values are not reported as an official measure in the Department’s annual performance plan. We appreciate the CFO pointing this out and we have removed reference to the Plan in our report, although we note that the Plan does include the number of export successes. The Department’s Fiscal Year 2003 Performance and Accountability Report also includes the “dollar value of completed advocacies,” which measures the estimated dollar value of U.S. export content of foreign contracts signed or awarded to U.S. companies during a fiscal year. Since the two export successes we questioned listed advocacy as a secondary product, we ask that ITA and Commercial Service officials determine whether these reported amounts were included in ITA’s advocacy figures for fiscal year 2003 and whether the amounts should now be deleted from the advocacy performance data.

ITA agreed that management oversight of export success reporting can be strengthened across the field as well as in headquarters. In its response to our draft report, ITA outlined the actions it had completed or intends to take to improve the quality of export success reporting. This includes development of harmonized performance standards; creation of a training class to help personnel understand the new reporting guidance, improve the quality of export success narratives, and ensure that trade specialists are using CMS to record client interaction consistently; and the designation of a senior-level official in headquarters to be responsible for ensuring that export successes are of high quality and that there is consistency in reporting nationwide. We support the planned corrective actions, including the designation of this senior level official to ensure that export successes are thoroughly reviewed by headquarters Commercial Service personnel. ITA also stated that it is reviewing fiscal year 2004 export successes to ensure that any problems resulting in the reporting of export successes that did not occur or are overstated are resolved.

In addition to those efforts, ITA stated that its Office of the Chief Financial Officer (CFO) will conduct several on-site verification and validation reviews of export success data as well as other performance results data, during the second half of this year. The purpose of these reviews will be to ensure that data sources used in Department documents (e.g., ITA Performance and Accountability Report) are accurate and properly prepared and that any duplicate or overstated export successes are deleted from the database. ITA also stated that Commercial Service’s Office of Planning has implemented an oversight function to work in tandem with ODO to ensure that there are no duplications within FY 2003 and FY 2004 export success data.

We support ITA’s effort to improve the quality of export success reporting and the reporting of other performance data, however, we note that it may not be necessary to conduct on-site verifications since ITA’s CFO staff has access to export success reports via eMenu and client

counseling reports via CMS at headquarters. As part of its action plan, we ask that ITA discuss the methodology it will employ to conduct verifications and validation reviews of export success and other performance data.

Lastly, ITA stated that it has implemented our recommendation that Commercial Service's *Operations Manual* be updated to reflect its new export success guidelines, including development of a new category for prevention of export loss. We are pleased that Commercial Service has updated its export success guidelines to account for prevention of export losses. However, as recommended in our draft report, we believe that the Commercial Service should develop a new category for these types of "successes," since reporting these as exports could be misleading to OMB and Congress. We reiterate that this type of assistance is valuable to clients. We request that you address the details of this new category in your action plan.

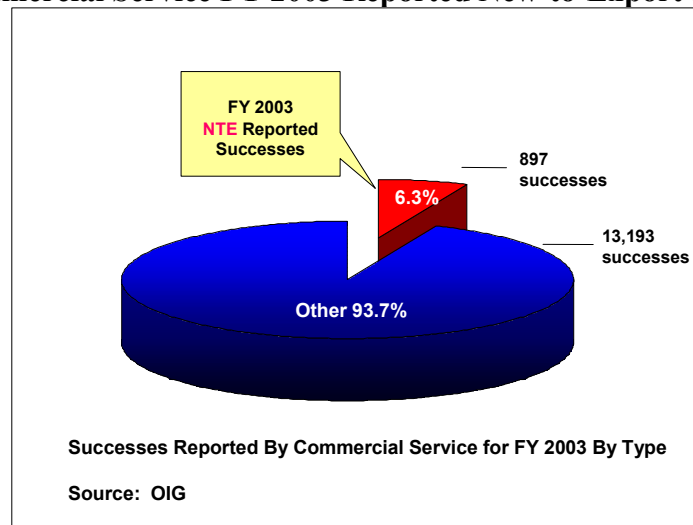
C. USEACs may not be adequately reaching out to new-to-export companies

CS' *Operations Manual* (and, similarly, the Program Assessment Rating Tool that CS submits to OMB) defines the three classifications of transactions, in relation to export successes, as: new-to-export (NTE); new-to-market (NTM); and increase-to-market (ITM). In its annual reporting to Congress and OMB, along with the number and dollar value of export transactions, CS also reports the transaction classification.

An NTE success occurs when a U.S. firm makes its first sale into any foreign market. An NTM success occurs when a U.S. firm with some existing level of export activity makes a sale in a new market, enters into a legally binding agreement, or introduces new products or services that require a different channel of distribution in a market to which it already exports. An ITM occurs when sales are made by a U.S. firm in its existing foreign markets, using the criteria of an export success.

For fiscal year 2002, CS fell short of its NTE goal, which was to achieve 800 exports for NTE firms. It reported 699 NTE, or 87 percent of its goal. For fiscal year 2003, out of a total 14,090 export successes, CS overall reported 897 as new-to-export, or about 6 percent of its reported export successes (see Figure 6). CS' 2003 goal for NTE successes was 800—no increase from its fiscal year 2002 NTE goal—despite the fact that CS' total export success goal increased by 10 percent.

Figure 6: Commercial Service FY 2003 Reported New-to-Export (NTE) Successes



We calculated the number of NTE export successes reported by each USEAC in the Pacific Northwest network in FY2003 (see Table 2 below). Three USEACs (North Bay, Spokane, and Tacoma) did not report any successes for NTE companies. An additional four USEACs (Honolulu, Oakland, San Jose, and Seattle) reported less than 5 percent of their export successes for NTEs.

Table 2: NTE Transactions Reported by the Pacific Northwest USEAC Network*

USEAC	Reported Export Successes	Reported NTE Successes	Percent of NTE Successes (%)
Anchorage	15	6	40.0
Boise	24	3	12.5
Fresno	31	10	32.2
Honolulu	23	1	4.3
Missoula	27	8	29.6
Monterey	28	6	21.4
North Bay	55	0	0
Oakland	32	1	3.1
Portland	142	11	7.7
Sacramento	30	2	6.6
San Francisco	68	7	10.2
San Jose	164	7	4.2
Seattle	82	4	4.8
Spokane	28	0	0
Tacoma	12	0	0
Total	761	66	8.6

Source: Commercial Service Reported Successes and OIG Analysis.

* These figures are based on export successes classified as NTE by the network prior to adjustments based on OIG findings of inaccurate reporting.

Further, of the 66 reported NTE successes reported by the Pacific Northwest USEAC network, we identified 6 that were either misclassified or did not meet CS' definition of an NTE. Specifically, we identified three export successes reported by the Monterey USEAC for the same company, with sales in three different countries. Each export success classified the company as an NTE. Clearly, only the first export success met CS' definition of an NTE. For another company with two exports to two different markets, the trade specialist classified each export success as NTE. In another case, although the narrative clearly stated that the company had been exporting for some time, the success type was classified as "new-to-export." Another client whose company generates all of its revenue from exports told us that he had been exporting to 25 countries for the past 20 years. Despite this, the company was classified as NTE by the trade specialist. Thus, the Pacific Northwest USEAC network overstated its NTE successes by 9 percent. When we discussed this with the Western region national director, he stated that CS believes that its reported NTEs are overstated by only 1 percent. However, based on our findings here, we are concerned that CS' overall reported NTEs may be overstated by more than 1 percent.

Again, because this data is used by the Department of Commerce, OMB and the Congress in reviewing CS's overall performance and funding requests, the accuracy of these figures is critical. The number of NTEs is a crucial CS performance measure, and is designed to ensure that trade specialists reach out to as many companies as possible to help expand U.S. exports. Trade specialists reported that because of intense pressure to reach short-term export success goals, they often cannot spend adequate time with inexperienced exporters. Instead, to reach their goals, trade specialists may spend time assisting ITM or NTM exporters that are more likely to achieve exports in the short-term, and thus help the trade specialists reach their goals. We are concerned that this may be at the expense of NTE companies who need additional assistance. Based on the comments from trade specialists and the low percentage of NTEs in the network and CS overall, we are concerned that potential exporters are not receiving the assistance needed.

Recommendation. Commercial Service needs to ensure that trade specialists are adequately reaching out to and counseling U.S. firms interested in developing export business, including new-to-export firms. In addition, we recommend that network directors and headquarters management ensure that export success data correctly reflects the export transaction type.



In responding to our draft report, ITA's Chief Financial Officer and Director of Administration agreed that it is incumbent upon trade specialists should reach out to and counsel U.S. firms interested in developing export business, including new-to-export firms. However, she noted that trade specialists are also responsible for nurturing relationships with clients over the long term. We understand that Commercial Service has limited resources, and must ensure that long-term, more established exporters are not neglected, while concurrently uncovering and assisting new firms that may be interested in exporting. We also recognize that some firms identified through extensive outreach may be new to Commercial Service products and services, but may not be new-to-exporting, and therefore would not meet ITA's definition of a new-to-export firm.

ITA's Chief Financial Officer also stated that ITA is "looking at a number of options to motivate trade specialists to devote more time to new client development." Because this is one of ITA's primary performance measures, we request that ITA, in its action plan, provide additional details of the steps it has taken or is planning to take to help increase exporting activity by new-to-export firms.

ITA also stated that it is taking steps to ensure that export success data correctly reflects the export transaction type, through site visits, sampling and data certification requirements. We support ITA's effort to improve the quality of transaction type, however, as we noted earlier, it may not be necessary to conduct on-site verifications since ITA's CFO staff has access to export success reports and the transaction type data via eMenu at headquarters.

III. User Fee Collections Warrant Management's Attention

Office of Management and Budget (OMB) Circular A-25 establishes federal policy regarding fees assessed for U.S. government services and for sale or use of federal goods or resources—including those of the Commercial Service—that convey special benefits to recipients beyond those accruing to the general public. The stated objective of this policy is that fees be set to allow full cost recovery or charge market price for benefits provided to specific recipients beyond those accruing to the general public. In reviewing this issue during this inspection, we found that CS' *Operations Manual* conflicts with the OMB requirement by not requiring full cost recovery. Instead, the *Manual* requires only recovery of direct costs associated with providing fee-for-service products. We found that trade specialists do not always charge clients for the services they provide contrary to CS' own requirements as established in the *Operations Manual*. Further, many clients we spoke with indicated that CS' current fees are low, and that they possibly would be willing to pay more for them, thereby increasing Commercial Service's cost recovery. We are aware that in January 2002, and again in early 2004, ITA requested a waiver from OMB's Circular A-25 full cost recovery requirement for its trade promotion activities, but OMB has not yet responded to CS' waiver requests. Until ITA receives a waiver from OMB, Commercial Service should take additional steps to increase cost recoveries.

A. Trade specialists sometimes forgo charging clients for international buyer services

According to section 6.3.1 of CS' *Operations Manual*, entitled *Trust Funds*, CS must recover all direct costs associated with providing fee-for-service products to its customers. Domestic offices are required to recover the direct costs (telephones, video hookups, room rental, etc) associated with their services. As noted in the manual, this cost recovery principle applies to Gold Key USA services, as well as Reverse Trade Missions, where foreign delegations travel to the U.S. In addition to direct cost recovery, the manual states that fees are to be set to encourage desired requests by target clientele, deter frivolous requests, and avoid competition with other CS services.

Gold Key USA is essentially the reverse of CS' Gold Key international matching service. The objective of Gold Key USA is to facilitate U.S. exports by providing a fee-based matchmaking program for international customers of U.S. products and services. Gold Key USA is tailored to international buyers traveling to the U.S. and includes customized appointment scheduling and counseling services, thus providing international buyers with one-on-one meetings with pre-screened export-ready U.S. companies. The level of services provided by the USEACs depends on the international buyers' needs, the resources available at the domestic office, the type of product or service requested, and the timing of the visit. Gold Key USA fees vary depending on the level of service provided and are set by the individual USEACs.

Gold Key USA is primarily promoted and publicized by posts through counseling and seminars, as well as at export events and by chambers of commerce. The target clientele of the Gold Key USA program are international buyers who are serious about importing, capable of investing in travel, and committed to following up with Gold Key USA appointments. To that end, CS requires all international buyers using the Gold Key USA service to complete a preliminary assessment, to determine their import readiness.

The San Jose USEAC provided two Gold Key USA services in fiscal year 2002, where each client was charged \$500. In fiscal year 2001, the San Jose USEAC hosted an in-bound trade mission, and collected \$7,750. In total, for these events, the USEAC collected \$8,750 in fees. The USEAC provided another reverse trade mission for the CS post in Taiwan in April 2002 and collected a \$550 fee (\$50 per company). In this case, the post brought a delegation of Taiwanese businesspeople to Silicon Valley for several days. The fee for this service was lower because the USEAC did not arrange individual appointments for the delegation, but rather arranged group presentations and company tours.

Although the San Jose USEAC collected fees for these events, we are concerned that San Jose and the other USEACs we visited do not consistently charge international buyers for their services, as required by OMB Circular A-25 and the *CS Operations Manual*. Further, it appears that the fees charged by the USEACs do not even cover the direct costs associated with their services much less the full costs required to be recovered by the Circular. One San Jose trade specialist told us that although the USEAC consistently tries to collect fees from the international buyers, some overseas posts are reluctant to charge their clients even though fee collection is required by both the *CS Operations Manual* and OMB. We have been told that the posts' resistance is partly due to the well-known fact that most USEACs do not collect fees for their international buyer services.

We were also informed that trade specialists are often willing to overlook the requirements to charge for their services because the overseas posts, which usually recommend the Gold Key USA service to clients, may balk at payment. We were told by a trade specialist that if, for instance, the San Jose USEAC charges clients for its Gold Key USA services but another USEAC does not, the posts may refer their client to the "free" USEAC, and thus avoid the San Jose USEAC altogether. Trade specialists also reported that Gold Key USA services could result in export successes—whether or not the international buyer pays a fee—and because the trade specialists do not want to miss an opportunity to achieve an export success, they may forgo charging the client.

We discussed this issue with the Western Region director, and he confirmed that the San Jose USEAC is one of the few USEACs in the country that has charged international buyers for the Gold Key USA service. Other USEACs we visited (particularly those in large metropolitan cities) told us they are overwhelmed by frequent foreign delegations that require trade specialists' services. One trade specialist estimated that it takes approximately 30 hours to complete a Gold Key USA service package. Despite this large time commitment, some USEACs and posts do not charge a fee—in direct conflict with CS and OMB requirements. This problem is exacerbated by the fact that the fees being charged may not cover even the USEACs' direct costs, much less their full costs. An unfortunate result of this practice is that some international buyers could receive services at no cost, while U.S. companies must pay for similar services at overseas posts.

Another issue came to our attention regarding Gold Key USA: when international buyers do not purchase formal Gold Key USA services, the buyers may not be required to complete and submit a preliminary assessment form. The preliminary assessment is important because it requires the international buyers to provide information such as how long the company has been in business,

annual sales, the anticipated end-users of the products, and the intended distribution channels. This information helps trade specialists at the USEACs assess the buyers' import readiness and properly match the international buyer with appropriate U.S. exporters. Circumventing this important step—which is required when a Gold Key USA is purchased, and is crucial to the success of Gold Key USA—makes it difficult for trade specialists to evaluate an international buyer's import-readiness, and reduces the likelihood of a successful export. Requiring international buyers to complete the preliminary assessment form is a crucial step in determining a company's import readiness and intentions, and in helping the USEACs better assist U.S. companies.

For instance, in one case where an international buyer did not purchase a formal Gold Key USA and thus did not complete a preliminary assessment, a trade specialist stated that she had set up many appointments for the buyer, only to learn that the "buyer" was actually interested in selling products to U.S. companies, not buying U.S. products for export. This trade specialist expressed concern that in instances like this, CS could lose credibility with its U.S. clients as well as waste trade specialists' time and other CS resources. We believe that at a minimum, posts should ensure that any foreign buyers referred to USEACs for Gold Key USA services are fully and properly screened.

Recommendation. CS should review and modify, as appropriate, its policies and *Operations Manual* to comply with OMB Circular A-25, unless it receives a waiver from its requirements. We also recommend that CS ensure that all USEACs and overseas posts consistently charge fees for Gold Key USA and other foreign buyer services.



In response to our draft report, ITA's Chief Financial Officer and Director of Administration stated that ITA is addressing the user fee issue on an ongoing basis. Specifically, she stated that (1) as a follow-up to the user fee study prepared by a contractor, ITA has formed a Product Management Board that consists of two working groups—one to address pricing, and the other to address policy; (2) a review of Commercial Service's Gold Key service is underway; and (3) ITA has a draft strategy to build on the contractor's work to ensure full cost recovery. Further, the CFO stated that Commercial Service will reissue the current Gold Key USA policy to the field, and the policy group of the Product Management Board will review the policy to determine whether it needs to be adjusted. The CFO added that ITA will routinely report on the results of the Product Management Board's work to the Department and OMB. We are pleased that ITA is taking these steps toward compliance with OMB and ITA policy and that Commercial Service will reissue its Gold Key USA policy. However, we believe that specific actions need to be taken to ensure that the latter policy is consistently enforced by both the overseas posts and all USEACs that provide Gold Key USA services.

B. Many clients consider Commercial Service fees to be low

We contacted 98 clients, 18 trade partners, and 18 trade specialists during our inspection. We asked each about their perspective on CS' fees. Although a few clients in the Pacific Northwest stated that they could not afford the fees, many stated that they found CS fees to be a "bargain" or a "great value," considering the level of service provided. One client, who had purchased Flexible Market Research on Australia, at a cost of \$2,000, told us that he believed that similar services from the private sector would have cost much more. He also purchased a Gold Key from CS' post in Canada and "could not believe" that it cost only \$500. This client (who represented a small company of less than 100 employees) was very pleased with CS' services and found them "an incredible bargain". A trade partner that represents over 2,000 firms in the San Francisco area, and promotes CS services to the members, told us the organization and its members believe the services CS provides are "invaluable," yet they find CS fees "laughable." Some trade specialists expressed concern for companies that could not afford CS' fees, even at their present level, but suggested this perhaps meant the company was not ready to export. Most of the specialists, however, stated that they believe their clients would be willing to pay higher fees.

Circular A-25 also states that fees should be assessed biennially to determine their reasonableness and modified to reflect changing costs and market values. To address this requirement, ITA hired a private contractor to conduct a study of its user fees. The results (issued January 24, 2003)⁸

showed that ITA's fee-based products and services have a negative cost structure (i.e., cost is greater than price), thus increasing the volume of fee-based products and services sold without significantly increasing prices charged and/or finding ways to reduce production costs would result in a further reduction in net revenues. The contractor concluded that although ITA has the means to increase generation of net revenue in the short-term by focusing on selective price increases and cost reductions, these measures would not be sufficient to generate significant increases in net revenues over the long

term—certainly not enough for full cost recovery. However, the contractor hired by ITA did not obtain any feedback directly from clients as to whether they would be willing to pay more for

Commercial Service Products and Services

- **Flexible Market Research.** Customized market research designed to meet the specific needs of clients by answering questions about a particular market and its receptivity to targeted products and services.
- **Gold Key Matching Service.** Sets up one-on-one appointments between U.S. clients and potential business partners identified and selected by in a targeted export market.
- **International Company Profile.** Background information on a prospective agent, distributor, or partner with whom a U.S. firm is considering doing business.
- **International Partner Search.** A service that matches requestors with potential partners to a market product or service in a given area.
- **Platinum Key Service.** Provides a firm with ongoing, customized support for a specified timeframe, scope, and fee. Services include counseling, as well as assistance in identifying markets, launching products, developing project opportunities, finding partners, reducing market access barriers, and understanding regulatory or technical standards.
- **International Buyer Program.** Promotes key U.S. trade shows to international business executives, and brings international buyers to these events to meet with U.S. firms.

⁸ Department of Commerce International Trade Administration User Fee Study, KPMG LLP, January 24, 2003.

products and services. Because of this, some managers have questions about the validity of the findings. Based on the limited feedback we obtained from clients, trade partners, and CS staff during this review, it appears that CS could increase its fees without adversely affecting at least some of its clients.

CS management has increased fees for some of its services. For example, the fees for its International Buyer Program increased from \$5,000 to \$6,000 for events that occurred in FY 2002, to \$7,000 for FY 2004 events, and to \$8,000 for FY 2005 events. Likewise for Trade Fair Certifications, CS increased the fees from \$1,500 to \$1,750 after FY 2002. CS stated that it is considering further increases in these fees and others in FY 2005.

CS' Office of Planning is currently leading a review, that includes a client focus group, and an analysis of historical price and volume data, to determine whether it could raise fees for several of its products, including the Gold Key service, one of its most popular products. This is significant because the prices of other products and services (e.g., International Partner Search) are determined as a percentage of the Gold Key price. Currently, the price of a Gold Key varies by post, and is set at a level that at best appears to cover only direct costs. The focus group plans to meet with CS clients in the Southern California and St. Louis networks to obtain their feedback on CS fees, and will issue a report to ITA management in 2004.

We shared the results of our review with CS management and the focus group, and they indicated that our findings are consistent with feedback they have obtained from at least some of their clients—primarily that it might be possible the current fees could be raised without much impact on clients. CS management also stated that instead of increasing fees on a pilot basis in a few markets, it would most likely increase fees worldwide.

IV. Financial and Administrative Operations Are Generally Sound, with a Few Exceptions

Our review of the Pacific Northwest USEAC Network's financial and administrative operations found them to be generally sound: assets are accounted for and properly used; no cash collections are made; credit card and check collections are entered into eMenu; and inventory and time and attendance records (with one exception) are properly managed. Our findings also reflect those of two internal control reviews of the Pacific Northwest network conducted in October 2002 and August 2003 by NFST staff not affiliated with the network. NFST identified no material problems with the administrative operations for the period October 1, 2001, through August 31, 2002; and for the period of October 1, 2002 through May 31, 2003, respectively. Much of the credit for the network's sound financial and administrative operations goes to the NFST personnel assigned to both the network and CS headquarters.

Because of the merger of the San Jose and Seattle networks in October 2003, the Pacific Northwest network has two field support specialists who appear to be knowledgeable, organized, and responsive. One FSS, who handles the former Seattle network, is located at the Portland USEAC; the other, who handles the San Jose network, is located at the Los Angeles USEAC. We visited the Portland office on November 18, 2003, and met with the FSS there. We interviewed the other FSS via teleconference during our Portland visit.

As part of our review, we asked network staff about their satisfaction with the two FSSs and NFST's services, and whether the establishment of NFST has indeed allowed them to focus more on client needs. Overwhelmingly, they stated that the FSSs were helpful, knowledgeable, and responsive and the trade specialists spend much less time on administrative matters since NFST's creation, which has allowed them more time for core responsibilities. One USEAC director stated that the NFST director was a "miracle worker." In fact, according to NFST's customer satisfaction ratings, the network staff gave one FSS a 98 percent satisfaction rating and the other a 99 percent rating.

National Field Support Team

ODO established the NFST in 2001 to relieve trade specialists of their administrative and financial workload so they could devote more time to clients and core mission activities. One NFST field support specialist (FSS) is assigned to each USEAC network as the primary contact for administrative processing for all network employees with the exception of the Pacific Northwest network which has two field support specialists. An administrative support agreement signed by the network director, the FSS and the NFST director, spells out FSS responsibilities for budget formulation allocation, * reporting, and reconciliation; human resources; hospitality requests; gifts, and bequests; management of procurement, travel, time and attendance, awards, trust funds, and inventory; and liaison for leases and memoranda of understanding. The purpose of the agreements is to enable ODO to, among other things

- ❖ place more resources into export promotion;
- ❖ establish administrative consistency across the country;
- ❖ improve budget formulation, allocation, and management;
- ❖ enhance administrative customer service and accountability; and
- ❖ improve the morale of administrative staff.

*The FSS works with the network director to formulate the budget and set allocations.

A. Leasing costs have been cut

To its credit, ODO management is aggressively seeking to reduce its space leasing costs for USEACs nationwide. Beginning in FY 2004, ITA management is projecting to achieve lease savings of \$154,000 per year in the Pacific Northwest region. In San Francisco, savings of \$122,000 will be realized due to downsizing and realignment of office space. In addition, relocation of the Hawaii USEAC during FY 2003 will result in lease savings of \$32,000.

B. Purchase cardholders are exceeding spending thresholds

The *Commerce Acquisition Manual (CAM)*⁹ states, “the purchase card may be used to purchase monthly cellular phone airtime, monthly pager service, monthly internet services, etc., *as long as the total for each type of service does not exceed \$2,500 in the course of a Fiscal Year,*” (emphasis added). However, three cardholders in the Pacific Northwest network exceeded the annual \$2,500 limit. Based on our review of purchase card records, three purchase cardholders in this network charged at least \$10,000 for cellular telephone charges. This issue was discussed with staff during our on-site visits and by teleconference, and a copy of the CAM guidelines was provided to both field support specialists. Both cardholders stated they were unaware of the CAM requirement.

We also discussed this issue of cell telephone expenses exceeding the \$2,500 limit with an official in the Office of Commerce Acquisition Performance Policy and Support whose position is that the purchase card limit should remain at \$2,500 in line with the small purchase requirement. In the event that actual or projected cell phone expenditures exceed \$2,500, purchase cardholders should discuss other methods for procuring cell telephone service with their procurement officials. An example of other payment methods would be procuring cell telephone service through a blanket purchase order.

Recommendation. CS management should ensure that purchase cardholders and authorizing officials are aware of and adhere to the \$2,500 annual purchase card limit for cell telephone service. If cell telephone costs exceed \$2,500, Commercial Service should instruct cardholders to work with procurement officials to identify other methods for procuring cell telephone service.



In replying to our draft report, ITA’s Chief Financial Officer and Director of Administration agreed with our findings and stated that ITA has initiated a project to address cell phone acquisition and management to conform to the Department’s new telecommunications policy. According to the CFO, this policy requires that all telecom data, including cell phones, must be fully auditable, reportable, and capable of being analyzed. The CFO also stated that ITA is working to develop a new system for cell phone purchases that complies with the telecom policy, as well as procurement requirements. The actions proposed meet the intent of our recommendations.

⁹ "Commerce Purchase Card Procedures," Chap. 1313.301 of *Commerce Acquisition Manual* (U.S. Department of Commerce, April 5, 2000, modified February 1, 2004), 10.

C. Advance payments were made for cellular telephone expenses

Title 31 of the U.S. Code sets forth a general prohibition to agencies against making advance payments for goods or services. Specifically, 31 U.S.C. Section 3324, provides that "...a payment under a contract or to provide a service or deliver an article for the United States Government may not be more than the value of the service already provided or the article already delivered." According to the General Accounting Office's (GAO's) Principles of Federal Appropriations Law, the primary purpose of this section is "to protect the government against the risk of nonperformance."¹⁰

In reviewing purchase card statements, we found that the Pacific Northwest network prepaid \$10,000 of projected FY 2004 cellular telephone charges in FY 2003. According to NFST staff, the estimated 2004 payments, made in September 2003, were projected from FY 2003 monthly cellular telephone costs. We discussed this finding with the NFST director, who agreed that advance payments for monthly recurring expenses should not be made.

Recommendation. Commercial Service should ensure that authorizing officials and NFST staff understand and adhere to the requirement that advance payments should not be made without specific statutory authority.



In its response to our draft report, ITA states that prepayment for services violates procurement policies. ITA also stated that our findings will be discussed with NFST staff and written guidelines will be issued by the end of April. In addition, ITA's purchase card coordinator will require all NFST staff to repeat on-line purchase card training by the end of June. We support the actions ITA has completed and proposes to take and we consider this recommendation closed.

D. Time and attendance matters were not handled properly for one employee

In preparation for our impending inspection, the FSS reviewed and corrected leave records for one employee. In doing so, she found that the employee had been absent from duty on many occasions without submitting leave slips or obtaining approval from his supervisor. Although the supervisor had documented the absences and consistently reminded the employee to submit the required documentation, the employee had not consistently done so. As a result, in many instances, the employee's supervisor did not notify the FSS to charge the employee leave. Therefore, the employee's leave balance was incorrect and the employee was paid for time not worked or covered with leave.

We discussed this issue with the USEAC director, the network director, and the FSS, and advised them that employees should be charged leave even if they do not complete a leave request. The network director stated that he was not aware of the extent of the problem until we brought this to his attention. Going forward, the directors and the FSS agreed to charge employees leave,

¹⁰ "Advance Payments," Chap. 5 in *Principles of Federal Appropriations Law*, Vol. 1 (United States General Accounting Office, July 1991), 5-42.

even if employees do not submit leave requests. The FSS also performed a leave audit on the employee mentioned above, covering the past 5 fiscal years (1999-2003). As a result of this audit, the employee's leave balance was adjusted. Based on the FSS' calculations that the employee had not been charged for nearly 200 hours of annual leave, we estimate that this adjustment will result in approximately \$7,000 of funds to be put to better use.

Recommendation. CS management should ensure that supervisors are aware of the importance of the timely submission of leave slips and notify the FSS promptly when leave deductions need to be made, even if proper documentation has not been provided. Further, supervisors should not approve timesheets without verifying the correctness of leave used and reported by employees.



ITA's Chief Financial Officer, in responding to our report, stated that the employee cited in our draft report is subject to a Leave Restriction memo, and currently reports to a new supervisor. ITA's response also indicates that the employee's time and attendance records have been adjusted to reflect the employee's actual leave usage. Further, the response indicates that ITA has begun implementation of the Department's web-based time-and-attendance system, which requires supervisors to certify all time-and-attendance records prior to processing by the National Finance Center. The actions taken and proposed meet the intent of our recommendations.

SUMMARY OF RECOMMENDATIONS

To strengthen the management and operations of the Pacific Northwest USEAC Network as well as all domestic export assistance centers, we recommend that the Acting Assistant Secretary and Director General of the Commercial Service do the following:

Export Successes

- Monitor the implementation and adequacy of its initiatives for improving export success reporting and review, and ensure that they have the desired impact of enhancing both the reporting process and management oversight.
- Ensure that reported successes that did not occur are deleted from the database.

Client Documentation

- Ensure that the Commercial Service *Operations Manual* is updated to reflect its new export success guidelines, including development of a new category for prevention of export loss.
- Ensure that trade specialists are adequately reaching out to and counseling U.S. firms interested in developing export business, including new-to-export firms. In addition, we recommend that network directors and headquarters management ensure that export success data correctly reflects the export transaction type.

Fee Collection

- CS should review and modify, as appropriate, its policies and *Operations Manual* to comply with OMB Circular A-25, unless it receives a waiver from its requirements. We also recommend that CS ensure that all USEACs and overseas posts consistently charge fees for Gold Key USA and other foreign buyer services.

Finance and Administrative

- Ensure that purchase cardholders and authorizing officials are aware of and adhere to the \$2,500 annual purchase card limit for cell telephone service. If cell telephone costs exceed \$2,500, Commercial Service should instruct cardholders to work with procurement officials to identify other methods for procuring cell telephone service.
- Ensure that authorizing officials and NFST staff understand and adhere to the requirement that advance payments should not be made without specific statutory authority.
- Ensure that supervisors are aware of the importance of the timely submission of leave slips and notify the FSS promptly when leave deductions need to be made even if proper documentation has not been provided. Further, supervisors should not approve timesheets without verifying the correctness of leave used and reported by employees.

APPENDIX A

List of Acronyms

BIS	Bureau of Industry and Security
CAM	Commerce Acquisition Manual
CMS	Client Management System
CS	Commercial Service
CITD	Center for International Trade Development
DOJ	Department of Justice
EDA	Economic Development Administration
Ex-Im	Export-Import Bank of the United States
FSS	Field Support Specialist
FY	Fiscal Year
GAO	General Accounting Office
GDI	Global Diversity Initiative
ICR	Internal Control Review
ITA	International Trade Administration
MAC	Market Access and Compliance
MBDA	Minority Business Development Agency
MOU	Memorandum of Understanding
NFST	National Field Support Team
ODO	Office of Domestic Operations
OIG	Office of Inspector General
OMB	Office of Management and Budget
OSY	Office of Security
PNITA	Pacific Northwest International Trade Association
SBA	Small Business Administration
TD	Trade Development
USEAC	U.S. Export Assistance Center

APPENDIX B


Agency Response to the Draft Report



UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

MAR 29 2004

MEMORANDUM FOR Jill Gross
Assistant Inspector General for Inspections and
Program Evaluation

FROM Linda Moye Cheatham 
Chief Financial Officer and Director of Administration

SUBJECT: Response to Draft Report on ITA's Pacific Northwest
Network Operations – Report # IPE-16507

The International Trade Administration welcomes the draft report on the Pacific Northwest (PNW) USEAC Network operations. We appreciate the IG staff assessment that the PNW network “is innovative and works well together”, “is providing valuable and timely products and services to its clients” and that clients remarked that they had not expected such responsive customer service from a government agency. Our highest priority is to deliver exceptional customer service to U.S. exporters.

I appreciated the discussion with you and your staff about the many issues facing ITA as reflected in recent inspection reports. CFO staff will conduct a number of on-site verification and validation reviews of export success date and other performance results source data during the second half of the fiscal year. At the same time, we plan to assess internal controls, including those associated with many of the management issues raised in your report. Additionally, we will keep you apprised of our progress with respect to user fees.

While your office found that the PNW network generally is doing a good job of providing export assistance, collaborates well with trade partners and has sound financial and administrative operations, you raise several issues relating to: 1) Export Successes; 2) Client Documentation; 3) Fee Collection; and 4) Finance and Administration. Attached are our responses to the recommendations contained in the report. The U.S. and Foreign Commercial Service and my staff have taken steps to address several of the recommendations and we will work together to make additional improvements as discussed in the response.

Attachment

cc: Timothy J. Hauser
Rhonda Keenum
Carlos Poza
Neal Burnham



International Trade Administration Comments on Draft Report: Pacific Northwest USEAC Network Generally Operates Well, but Export Success Reports Need More Management Scrutiny

Recommendation #1A: Monitor the implementation and adequacy of its initiatives for improving export successes reporting and review, and ensure that they have the desired impact of enhancing both the reporting process and management oversight.

Based on the 20 percent sample of export successes reviewed, the IG report shows the value of export successes reported by the PNW network for fiscal year 2003 was overstated by at least \$156 million, out of \$263 million in reported export value (about 60 percent). Of this amount, \$150 million is attributable to two export successes relating to major advocacy work we performed to assist our clients in winning government tenders for build-operate-transfer contracts for utility plants in China and Romania.

While the report does not question the legitimacy of the contracts and the clients have acknowledged satisfaction with our assistance, it is stated in the report that the contracts did not specify export amounts and that the \$100 million and \$50 million amounts we reported were, according to the clients, "ballpark figures". In fact, we asked the clients to provide only the U.S. content value of exportable goods and services within the much larger contract values (\$260 million and \$150 million respectively), and they gave us their assessment.

You also note that the amounts are "anticipated export values" and, as such, should not have been reported as export sales since guidance in the ODO section of the CS Operations Manual disallows the reporting of anticipated sales. However, as these export successes relate to major advocacy and were attributable to the combined work of both ODO and OIO Trade Specialists, it is more appropriate to apply the OIO section of the Manual, which provides the following guidance:

For Major Advocacy Projects: Offices can claim the total value of the U.S. content of the contract even if sales/service are spread out over several years.

If reporting errors occurred, they were related to how effectively we were able to ascertain the U.S. export content for the contracts. This is important and we will work with the CFO's performance management staff and the CS Performance Measures Task Force to determine how best to modify our guidance to achieve accurate reporting.

We hope that the IG Final Report recognizes the validity of these two export successes as reported and revises the language in the report as appropriate. We do not believe it is accurate to indicate that the \$150 million amount reported is an overstatement.

We are in agreement that management oversight of export success reporting can be strengthened across the field as well as in headquarters. We are taking the following steps to ensure that our export success reporting is of high quality:

- In late FY 2003, the CS reviewed our performance-measure guidance including the reporting of export successes. The review was prompted by concerns that export success guidance was being interpreted differently across the field and was an attempt to clarify and harmonize our performance standards worldwide. All performance-measure guidance has been revised with input from headquarters and the fields. The new guidance is posted on the ITA Our Place site and is accessible by CS personnel worldwide.
- ODO headquarters management worked aggressively with our Directors to ensure their understanding and compliance with the new guidance. Two quarterly Directors' meetings and multiple weekly conference calls have been dedicated to the review and implementation of these new guidelines.
- A unique series of training conference calls was offered to the entire domestic field at the beginning of this fiscal year to facilitate smooth implementation of the performance guidance. During these calls, policy guidance was reviewed in conjunction with the mechanics of reporting and editing export successes.
- ODO asked Network Directors to work together as they are reviewing export successes, to ensure greater consistency and compliance with CS policy.
- To enhance the review of export successes at the network level and to ensure that all valuable work of the CS is clearly documented, all ODO Network Directors now have editing rights for export successes on the Performance Measures Database.
- At the request of field management, ODO is also working to create a training class to help field personnel 1) understand the new guidance, 2) improve the narrative quality of export successes, and 3) ensure that Trade Specialists are using our Client Management System (CMS) to record interaction consistently.
- CS is considering the designation of a position in ODO headquarters to review export-success reporting worldwide. Key goals will be to ensure that individual export successes are of high quality and that there is consistency in reporting. With over 6,400 export successes reported in FY 2003, a resource is needed to help our National Director adequately review successes on an ongoing basis. This person will also be responsible for tracking the export-success approval records of the Network Directors and with providing guidance on export-success reporting as needed.
- The CS Office of Planning (OP) started implementation of an oversight function that will work in tandem with ODO's efforts of fiscal year 2003 and 2004 year-to-date data. OP is reviewing FY 2003 and 2004 year-to-date data to ensure that there are no duplications.
- ITA's Office of the Chief Information Officer is working with all units to further build requirements for a new worldwide Customer Relationship Management system. This system will replace the current Client Management System. The new system will allow employees worldwide to see the same data, further ensuring that employees do not accidentally duplicate reporting.

We will continue to make, every reasonable effort to obtain an accurate dollar value when reporting export successes. While it is incumbent on the CS to do so, certain industry specific challenges and client sensitivities exist. Unbeknownst to our Trade

Specialists, clients will often estimate sales that will accrue from a signed agent or distributor agreement. Clients also have difficulty reporting accurate sales figures for transactions in certain industries. The service industry is a perfect example, as sales are often ongoing exports of technology, marketing expertise, and other intellectual capital. In many cases, the client is unwilling to divulge the amount of the sale, and we are often forced to report a zero dollar value when we know an export sale was made. Lastly, in a number of instances the export success reflects the signing of a legally binding agreement with the shipment of goods or services to follow thereafter.

The draft report notes reporting in the Department's annual performance plan. Please note that the CS export success dollar values are not reported as an official measure. ITA's CFO staff will conduct several on-site validation and verification reviews of export success data, as well as other performance results source data, during the second half of the year. One aspect of each review is to ensure that duplicate or overstated reporting is corrected in the database.

Recommendation #1B: Ensure that reported successes that did not occur are deleted from the database.

The IG review of sample export successes, found that 2 percent by value of export successes reported by the PNW network did not occur. Upon further review of these reports, we are reviewing FY 2004 data to ensure this problem is resolved.

See the bullets in Recommendation #1A for further actions that will implement these improvements.

Recommendation #2A: Ensure that the Commercial Service Operations Manual is updated to reflect its new export success guidelines, including development of a new category for prevention of export loss.

This recommendation has been implemented.

Recommendation #2B: Ensure that trade specialists are adequately reaching out to and counseling U.S. firms interested in developing export business, including new-to-export firms. In addition, we recommend that network directors and headquarters management ensure that export success data correctly reflects the export transaction type.

We agree with the IG that it is incumbent upon trade specialists to continually perform outreach and counsel U.S. firms interested in developing export business. However, as the IG's comments acknowledge, trade specialists are also responsible for developing and nurturing "account-executive" relationships with clients over the long term. This should not be viewed as a "zero-sum game". Similar to service firms in the private sector facing the same dilemma, the CS uses its limited resources to uncover new clients while ensuring the long-time clients are not neglected.

We are proud of our results in the area of new client development. The Pacific Northwest Network also is actively involved in Rural Export Initiative and Global Diversity Initiative (GDI) outreach programs in an effort to identify and reach out to rural, women and minority-owned firms. The number of "outreach" events, such as seminars, conferences and press/political activities are evidenced by events recorded in the Highlights database which further attests to the amount of time and energy trade specialists devote to uncovering new clients. We are looking at a number of options to motivate trade specialists to devote more time to new client development.

Many clients that are identified through such extensive outreach efforts and engage in CS products and services have usually already concluded at least one "reactive" export sale at some point during the life of their firm. Therefore, even though that firm may be new to CS products and services, our initial export success with that new client would be reported as an NTM or ITM ES since it would not meet the definition of a NTE ES because it is not the first export sale in the life of the firm.

ITA management will ensure that export success data correctly reflects the export transaction type through site visits, sampling and data certification requirements. As noted above, CFO staff will conduct on-site verification and validation reviews. The purpose of these reviews will be to provide oversight to ensure that data sources used in Department documents (ITA Budget, ITA Performance and Accountability Report, and ITA Annual Performance Plans) are accurate and properly stated. This oversight separation of duties will enhance performance management controls and serve as an internal check on performance data. In addition, CFO staff will ask CS to certify that all reported client records are valid by transaction type and that there is sufficient supporting documentation. All on-site visits will include a review of back-up materials to validate transaction type reporting.

ITA remains committed to keeping its performance measures neatly aligned with that of its clients. The CS is convinced that any efforts to complicate or dilute this approach will result in a myriad of unintended consequences, which would serve to diminish our client focus and reduce our effectiveness.

Recommendation #3: CS should review and modify, as appropriate, its policies and Operations Manual to comply with OMB Circular A-25, unless it receives a waiver from its requirements. We also recommend that CS ensure that all USEACS and overseas posts consistently charge fees for Gold Key USA and other foreign buyer services.

Under the leadership of ITA's Chief Financial Officer, ITA is taking action to address this issue on an ongoing basis. Building on the FY 2003 KPMG fee study, ITA has formed a Product Management Board. The Board has two work groups, one on pricing and one on policy. The Board will have an ongoing role in product pricing and policy.

The CS has changed the pricing for a number of products and services. A review of its lynchpin product, the Gold Key Service is well underway. The pricing working group

has met twice, and has a draft strategy in place to build on the KPMG work to ensure accurate full cost-recovery. The CS will re-issue the current Gold Key USA policy to the field. The policy-working group of the Product Management Board will review the policy to decide if the policy needs to be adjusted. The work of the Product Management Board will be reported to the Department and OMB on a routine basis.

Recommendation #4A: Ensure that purchase cardholders and authorizing officials are aware of and adhere to the \$2,500 annual purchase card limit for cell telephone service. If cell telephone costs exceed \$2,500, Commercial Service should instruct cardholders to work with procurement officials to identify other methods for procuring cell telephone service

When administrative responsibilities merged under the National Field Support Team, the Pacific Network's Field Support Specialists (FSSs) consolidated individual and office cell phone accounts by vendor. This was done as a matter of convenience to ensure each office would receive only one monthly cell phone statement for all the accounts. Additionally, in order to simplify the processing and reconciliation of these accounts and to ease administrative burden for non-administrative staff, in some cases the FSS merged other office's cell phones onto one credit card for payment. At that time, the FSSs understood the \$2,500 annual limit to apply per cell phone account.

ITA agrees with the findings and has already initiated a project to address cell phone acquisition and management to conform to the Department's new telecommunications policy that requires all telecom data, including cell phones must be fully auditable, reportable and capable of being analyzed. We are working to develop a new system for the purchase of cell phones to meet all telecom policy and procurement requirements.

Recommendation #4B: Ensure that authorizing officials and NFST staff understand and adhere to the requirement that advance payments should not be made without specific statutory authority.

The NFST staff used remaining monies in the FY 2003 network budget to prepay cell phone services for FY 2004, based on the recurring standard monthly charge. The FSSs discussed prepayment with the cell phone vendors (AT&T and Sprint) and received confirmation that the account would receive a full refund for credit remaining if there were any issue of nonperformance. Additionally, if for any other reason the cell phone accounts had to be closed, the office would receive a check from the vendor for the full credit remaining on the account. Because these assurances eliminated the concern for the risk of nonperformance, the FSSs proceeded with the prepayment. We understand that prepayment for services violates procurement policies

Your findings were discussed with NFST staff and will be addressed by written guidelines by the end of April. In addition, the ITA purchase card coordinator will require all NFST staff to repeat on-line purchase card training by the end of June.

Recommendation #4C: Ensure that supervisors are aware of the importance of the timely submission of leave slips and notify the FSS promptly when leave deductions

need to be made even if proper documentation has not been provided. Further, supervisors should not approve timesheets without verifying the correctness of leave used and reported by employees.

Measures have been taken to address this concern. The employee cited in the draft report is subject to a Leave Restriction Memo and is working under a new supervisor, who is diligent in applying the terms of the memo. Additionally, the employee's time and attendance records have been adjusted to reflect actual usage.

ITA has begun implementation of the Department' web time-and-attendance system. This electronic system ensures supervisors must certify all time-and-attendance records prior to processing by the National Finance Center. This implementation will be complete by the summer.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

We conducted this review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency, and under authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

Program evaluations are special OIG reviews that provide agency managers with information about operational issues. A primary goal of these evaluations is to encourage effective and efficient operations, and thus eliminate waste in federal programs. By asking questions, identifying problems, and suggesting solutions, OIG hopes to help managers move quickly to address issues and deficiencies uncovered during the review. Program evaluations may also highlight effective operations, particularly if they are useful for agency managers or adaptable to programs elsewhere.

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