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*Final Inspection Report
US&FCS Post in Thailand*

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EXECUTIVE SUMMARY

Thailand is currently the United States' 18th largest export market with sales reaching \$8.4 billion in 1995, up 32 percent from 1994. Its export potential and designation as a "Big Emerging Market" have increased the attention U.S. businesses pay to Thailand. Consequently, the staff at the U.S. and Foreign Commercial Service (US&FCS) post in Bangkok have noticed an increase in workload. In an effort to accommodate this increase, US&FCS has nearly doubled its resources dedicated to Thailand over the past three years.

Although there is significant potential for U.S. exports to Thailand as a big emerging market, the US&FCS staff there face some real barriers to trade, including arbitrary customs valuation procedures and generally inadequate protection for U.S. intellectual property rights. Innovative and aggressive trade promotion efforts and committed management by US&FCS are critical to maximizing U.S. exports to Thailand.

Our review disclosed that clients were generally satisfied with the trade promotion efforts of the US&FCS staff in Thailand. According to many sources, specialized client services, such as gold key services, are most effective because they bring clients in direct contact with local businesses. Companies also praised the post's efforts to identify major projects in Thailand and advocate through direct promotional efforts on behalf of U.S. bidders. (See page 5.) We also found that the foreign service nationals who anchor much of the US&FCS Thailand operations are, for the most part, well qualified for their assignments, supportive of US&FCS goals and objectives, and key factors in the post's operations. In addition, we found that the U.S. Ambassador was supportive of and active in the commercial operations. Unfortunately, US&FCS Thailand has not consistently made the most of the Ambassador's support and his willingness to be active in trade issues. Although the American officers were generally knowledgeable and competent, we did not give high marks to the overall US&FCS leadership at post. Improved management, planning, and direction are needed, as discussed below:

- ! Improvements are needed in coordinating the export promotion efforts of US&FCS and the Joint U.S. Military Advisory Group when promoting the sale of U.S. defense-related equipment and services. (See page 6.)
- ! Management at post has not adequately addressed severe morale problems among the local staff. (See page 8.)
- ! The Ambassador and Deputy Chief of Mission expressed concerns that the senior commercial officer (1) operates a frenzied operation, (2) does not accept responsibility for US&FCS mistakes, (3) at times, is unprofessional with members of the Ambassador's staff, (4) is too frequently late in submitting requested reports, and (5) too often submits inappropriately formatted documents. (See page 8.)

- ! The management at post has not adequately assessed its products and services to determine whether the current mix is the most effective in assisting U.S. businesses. (See page 10.)
- ! Staff provided through the U.S. Agency for International Development’s U.S.-Asia Environmental Partnership add resources to US&FCS, but there is some question whether three positions and associated operational costs dedicated to environmental technologies is an appropriate use of resources in Thailand. (See page 11.)
- ! US&FCS resources used to support the commercial library could be put to better use. US&FCS staff do not use the library to support core US&FCS programs, and it is not clear who from the public is actually benefiting from the library. Although the library maintains a visitor’s log and the librarian is required to provide a monthly tally of visitors and phone calls, no analysis is made of library usage, and the log book is disposed of when full. (See page 13.)
- ! The post has not explored or made effective use of other available U.S. government resources. For example, the post could coordinate with the U.S. Information Service in Bangkok to share use of on-line and walk-in access to CD-ROM information, collocate reference materials, develop a US&FCS homepage accessible via the World Wide Web, and provide other library services. In addition, “Teams” (an ITA initiative to improve coordination of trade promotion efforts for key industry sectors or regions of the world) could be used more extensively to support the post’s trade promotion activities, such as recruiting U.S. businesses for Thai trade shows or matchmaker missions to Thailand and coordinating international buyer programs. (See page 14.)
- ! Many of the post’s problems, as outlined in this report, have been exacerbated by the failure of the former regional director in US&FCS headquarters to hold the post accountable. Oversight of US&FCS Thailand has not been adequate. (See page 17.)
- ! Contrary to specific guidance, US&FCS foreign service nationals are conducting pre-license checks and post-shipment verifications for export license applications processed by the Bureau of Export Administration. In some cases, response cables from the post do not clearly indicate who conducted the check so that Bureau of Export Administration can determine whether it was completed properly. (See page 20.)

On page 23, we offer a series of recommendations to the Assistant Secretary and Director General for the U.S. and Foreign Commercial Service to address our concerns.



In the agency's April 10, 1997, written response to our draft report, the Assistant Secretary and Director General of the US&FCS generally agreed with most of our recommendations, but disagreed with several of our observations on management issues.

US&FCS officials claim that because our visit coincided with several other events, it was an unusually busy week. The SCO and deputy SCO repeated this before, during, and after our inspection visit. Yet our observations and findings are based on interviews and discussions about the post's activities throughout the entire year, and not simply on the activities of the week of our on-site inspection. We believe that in times of tight resources and heavy workloads, the need for effective management is heightened. This sentiment was echoed by the Ambassador and DCM during our meeting with them.

The response also stated that the SCO and deputy SCO "were disappointed the team did not engage them more, to learn their views on post management issues." We are surprised at this statement. We spent a great deal of time with the SCO and her deputy both together and individually discussing management issues. Both the SCO and deputy SCO believed separately that because of resource constraints and high demands, they were unable to adequately plan and prioritize the post's activities.

INTRODUCTION

Pursuant to the authority of the Inspector General Act of 1978, as amended, and the requirements of the Omnibus Trade and Competitiveness Act of 1988, the Office of Inspector General conducted an inspection of the U.S. and Foreign Commercial Service (US&FCS) operations in Bangkok, Thailand, during the period September 9-13, 1996. The visit was part of a larger inspection trip, during which we also visited US&FCS posts in Indonesia and Malaysia. These posts will be covered in separate reports. We discussed some of our preliminary observations with the Ambassador and the senior commercial officer. In addition, we briefed the Director General and regional managers in headquarters on October 15, 1996. Because several of the issues and concerns we observed in Thailand involved other members of the US&FCS network and the International Trade Administration (ITA) headquarters, we conducted additional work in ITA headquarters and discussed pertinent matters with other US&FCS field personnel. This inspection was conducted in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

Inspections are special reviews that the OIG undertakes to provide agency managers with timely information about operations, including current and foreseeable problems. Inspections are also done to detect and prevent fraud, waste, and abuse and to encourage effective, efficient, and economical operations. By highlighting problems, the OIG hopes to help managers move quickly to address those identified during the inspection and avoid their recurrence in the future. By the same token, inspections may also highlight effective programs or operations, particularly if they may be useful or adaptable for agency managers or program operations elsewhere.

PURPOSE AND SCOPE

The purpose of the inspection was to evaluate the effectiveness of the US&FCS post in Thailand in assisting U.S. businesses to expand their trade and business opportunities in Thailand. We also looked at the policies, procedures, and practices being followed by the post to carry out its assigned functions and activities. This included determining whether established goals were being achieved, evaluating the economy and efficiency of operations, and assessing the post's compliance with applicable regulations and instructions. We also examined the coordination between the post and other organizations in achieving the overall goals of ITA and the Department.

In conducting the inspection, we (1) reviewed the organizational structure and operating approaches used in administering activities at the post; (2) interviewed appropriate Commerce Department, State Department, other U.S. government, private sector, and Thai government officials; and (3) examined pertinent files and records relating to the post's operations. The inspection also included a review of headquarters and district office activities that support the post's operations.

BACKGROUND

The International Trade Administration (ITA) administers a variety of programs and activities designed to increase U.S. exports. In addition to its headquarters operations, ITA maintains a network of U.S. Export Assistance Centers, district offices, domestic branch offices, and foreign posts in 69 countries.

The U.S. and Foreign Commercial Service, located at ITA headquarters and in domestic and foreign field offices, is structured to provide business firms with a base of export assistance support stretching from individual U.S. cities to specific foreign markets. Domestic operations are conducted through a network of 93 domestic offices, including 15 export assistance centers. Personnel at these offices primarily counsel U.S. firms on exporting, including how to get started, how and where to find foreign buyers, and how to successfully compete for foreign business.

The 134 foreign commercial offices perform a number of activities that are directed at improving the trade position of the United States, including identifying trade or investment opportunities, finding potential representatives or agents, providing business consultation to U.S. visitors at foreign posts, making business appointments with potential trading partners or host government officials, assisting in the implementation of export controls and other trade regulation activities, and preparing market research on a country's "best prospect" industries.

The overseas posts are generally staffed by three types of professionals: (1) American career officers within the foreign service, who rotate among posts on about three-year assignments and who are intended to provide the primary professional contact with U.S. businesses, the U.S. government, and senior foreign business and government officials as necessary; (2) career foreign service nationals (FSNs), who provide critical local continuity through the maintenance of foreign business and government contacts, as well as most of the specialized and general market research and business consulting; and (3) personal service contractors (PSCs), who provide the balance of support through specialized services beyond what current career staffing levels permit.

Thailand is a member of the Association of Southeast Asian Nations (ASEAN), along with Brunei, Malaysia, the Philippines, Singapore, Indonesia, and Vietnam. By establishing ASEAN in 1967, the countries allied to strengthen regional security, cohesion, and self-reliance, while emphasizing economic, social, and cultural cooperation and development. More recently, ASEAN has focused on economic development and trade promotion among the members. The countries are developing the ASEAN Free Trade Area, which aims to reduce tariffs among members to 0-5 percent by 2003.



Figure 1

Acknowledging the potential opportunities from this regional coordination, the Clinton Administration designated Thailand and the other ASEAN countries as "Big Emerging Markets" (BEMs) for U.S. exports. Other BEMs include the Chinese Economic Area (China, Hong Kong, and Taiwan), South Korea, India, South Africa, Poland, Turkey, Mexico, Brazil, and Argentina. ASEAN and the nine other economies are expected to account for 40 percent of total world imports and growth over the next 15 years. To compensate for the fierce international competition and significant barriers to trade in most of these economies, the BEMs strategy is designed to assist U.S. firms by securing market access, providing financing, supporting U.S. companies seeking to win major projects, and supplying market information. ITA's major effort to implement the BEMs strategy has been to increase staffing and budget, when available, in these key economies. Since October 1993, 118 additional US&FCS personnel have been allocated to BEMs countries.

Thailand has many interesting and unique characteristics that combine to make it a country with both significant potential for U.S. exports and a number of hurdles for U.S. firms to overcome. Thailand's economy has had a real annual growth rate of about 8 percent for the past decade. Its population is currently about 60 million. Its gross domestic product, about \$189 billion, has more than tripled since 1986. Thailand is now the United States' 18th largest export market. U.S. sales to Thailand were just over \$8.4 billion in 1995, up 32 percent since 1994. Over the last two years, U.S. exports to Thailand have reportedly increased across the board, with improvements in 45 of the top 50 export items.

New construction and private sector investment in plant and equipment, reportedly, drive Thailand's rapid economic growth. Foreign investment has contributed the lion's share of overall investment and continues to be key, although Thai domestic investment also is expanding. Japan has by far the largest number of projects, with total investment value accounting for about 27 percent of new investment. The United States is the second largest investor with a total accumulated direct investment value of about \$13 billion, over half of which is in the energy and petrochemical sectors.

Because the Thai economy is dynamic and diverse, there are many industry sectors with attractive opportunities for U.S. companies. However, some real obstacles to expanding the U.S. share of the Thai market remain. Arbitrary customs valuation procedures constitute a major barrier to U.S. exports. For food products, the overall licensing process also poses an import barrier because of its cost, duration, and requirement for proprietary information. Also, inadequate protection for U.S. copyright, patent, and trademark holders has been one of the most prominent obstacles. Although Thailand has adopted intellectual property protection laws and a body of regulations, enforcement of this protection is uneven; piracy and infringement are still costly problems to U.S. and other suppliers. There are also some restrictions on foreigners working in Thailand. Lastly, Thailand's distance and time difference from the U.S. inherently make it more difficult to do business in Thailand, especially for the small and medium sized firms.

One of the missions of the US&FCS office in Bangkok is to help guide U.S. companies around these obstacles to increase their chances of export success in Thailand. US&FCS Bangkok does this with a staff of 23: three American officers, nine FSNs, six Thai PSCs, and five American PSCs. The post's fiscal year 1996 budget was \$820,000.

OBSERVATIONS AND CONCLUSIONS

I. POST'S TRADE PROMOTION EFFORTS BRING PRAISE AND HIGHLIGHT CONCERN

From our interviews with the US&FCS staff, embassy officials, other U.S. and Thai government officials, and U.S. companies, the US&FCS post in Thailand appears to be actively pursuing its mission and objectives of assisting U.S. firms in penetrating the Thai market. The post's core activities consist primarily of the gold key service, agent/distributor service, international market insights, industry sector analysis, trade opportunities program, international buyer program, customized market analysis, and assisting matchmaker business delegations and trade fair and mission attendees. (See Appendix II for a description of each core program or activity.) Assisting firms bidding for major projects in Thailand is also an important element of US&FCS's export promotion program. However, as discussed later in this report, despite the positive feedback from those clients and colleagues we interviewed, the post must address some serious internal management and external coordination problems, as discussed below.

A. Clients Generally Satisfied With US&FCS Trade Promotion Efforts

Business representatives were generally pleased with the services provided by the post. According to many sources, specialized client services, such as gold key services and matchmaker business delegations, are most effective because they bring U.S. clients in direct contact with local businesses. We also found that the foreign service nationals who anchor much of the US&FCS Thailand operations are, for the most part, well qualified for their assignments, supportive of US&FCS goals and objectives, and key factors in the post's operations.

Companies particularly commended the post's efforts to identify major projects in Thailand and advocate through direct promotional efforts on behalf of U.S. bidders. The embassy's fiscal year 1996 strategic plan lists advocacy as a major focus for the embassy as a whole. As in many countries around the world, advocacy for major projects in Thailand often will involve US&FCS, several other sections of the embassy, the Ambassador, the Deputy Chief of Mission, and high ranking officials from Washington, D.C. The US&FCS post in Bangkok identifies major projects, then provides information on the status of these projects, counsels firms on the procurement processes, and advocates through direct promotional efforts on behalf of U.S. bidders. These major projects can take years to develop, and the post has devoted significant effort to pursuing them for U.S. businesses.

While in Bangkok, we met with several U.S. firms that benefited from US&FCS advocacy. All of the firms commended the post for its efforts. For example, US&FCS helped organize a trip to the

United States for key Thai government officials to view U.S. technology and meet with potential U.S. bidders on a major energy production project. In another case, US&FCS and other sections of the embassy are working to permanently reduce certain tariffs after successfully advocating for a U.S. company to receive a temporary tariff reduction. The post also aggressively pursues potential projects eligible for grant funding from the U.S. Trade and Development Agency. Funding (ranging from \$50,000 to \$650,000) for studies or expert assistance on the technical, economic, and financial feasibility of major projects has proven to be an effective incentive for the host country to seek U.S. participation in these projects. Although there are other examples of US&FCS's successful advocacy efforts, we are concerned about how the post coordinates with the U.S. military on defense trade promotion.

B. US&FCS and JUSMAG Should Improve Coordination on Military Sales Promotion

Despite the many supportive comments from U.S. firms, there is one area of advocacy that should be better coordinated with other parts of the U.S. mission. Significant opportunities exist for sales of U.S. defense-related equipment and services, due in part to a traditionally close military alliance between the U.S. and Thailand. However, the sensitive nature and high dollar value of these procurements often necessitate U.S. government advocacy to secure the sale. Sales of U.S. military equipment and services to foreign governments can be facilitated through two methods: standard US&FCS advocacy and the Defense Department's foreign military sales program. US&FCS Thailand monitors and facilitates defense trade when the Thai government chooses to purchase directly from a commercial firm, while the Joint U.S. Military Advisory Group (JUSMAG) administers the foreign military sales program for government-to-government sales. For these sales, the Thai government formally requests to purchase military equipment or services from the U.S. government, which then subcontracts with a U.S. company as the supplier. The foreign military sales program operates under strict guidelines when government-to-government sales are initiated. However, there is a gray area of responsibility between JUSMAG and US&FCS in Thailand when the Thai government has not yet made a decision to buy from the U.S. government or directly from a private company.

In at least one case, the US&FCS post and JUSMAG in Bangkok have each advocated for a different U.S. firm bidding for the same procurement. The post and JUSMAG officials each claimed that there were advantages to having both agencies involved, particularly because US&FCS has special expertise in dealing with U.S. companies and JUSMAG has contacts in the Thai military. They believed that with both Commerce and Defense pursuing the sale, there was a greater likelihood that an American company would win the contract. It is true that the efforts of both agencies might help, but we are concerned that two U.S. agencies advocating for different firms may result in unequal treatment.

In response to a Trade Promotion Coordinating Committee recommendation, advocacy efforts government-wide are now coordinated by ITA's Advocacy Center within the Office of Trade Development. In addition to facilitating high level advocacy efforts from Washington, the Advocacy Center issues guidelines for U.S. government advocacy, including those activities performed by the embassies. The guidelines require an analysis of which advocacy efforts would be in the best interests of the government. Then, if there is more than one firm bidding on a project, advocacy on behalf of all U.S. bidders must be equal and non-discriminatory. To ensure that firms are treated equally, federal agencies' advocacy efforts must be closely coordinated. Advocacy center officials have also stated that two federal agencies should not be advocating for different firms. The likelihood of unequal or discriminatory advocacy may be increased by disparate treatment of U.S. firms.

As evidenced by the creation of the Advocacy Center in November 1993, the U.S. government is making a concerted effort to better coordinate advocacy. At the embassy level, there are benefits to having several agencies involved in defense trade advocacy, but there should not be duplication of effort or unequal treatment of U.S. firms. Because existing Advocacy Center guidance does not specifically or adequately address this issue, the Advocacy Center should coordinate with the Department of Defense in Washington to clarify responsibilities for this and future military procurements. New guidance should then be distributed to the US&FCS posts and appropriate U.S. military officials at embassies overseas. The post should then meet with JUSMAG officials in Bangkok to reiterate and clarify each agency's responsibilities.

Although we did not conduct an evaluation of the Advocacy Center during this inspection, the OIG is currently reviewing the center in connection with its audit of ITA's Trade Development office.



In their response to our recommendations, US&FCS officials agreed that they need to provide the posts with clear directives from Headquarters on the subject of military sales. Their planned actions meet the intent of our recommendations. To this end, the Director General said that she directed the Deputy Assistant Secretary for International Operations to work with the ITA Advocacy Center and Department of Defense Headquarters to ensure that the directives to overseas posts on military sales are clear, and that the posts work as a team with other U.S. government agencies involved in military sales.

In addition, US&FCS officials also requested that we discuss further with the SCO the specifics of our example. After receiving the agency's comments, we contacted the SCO to clarify the specific example noted in the report. Although US&FCS stated in their response, "Neither we nor post are aware of such a case in the last 3 years," in response to our further inquiries, the SCO responded, "JUSMAG contacted the Supreme Command staff on [firm A's] behalf to find

out the facts and to encourage them to accept [firm A's]. A letter requesting such consideration was sent by FCS, signed by me, to the Supreme Command on" and "Meanwhile, [firm B] had also bid on the project and their bid had been accepted. They had early on received help from FCS in the form of a standard letter from me to the Supreme Commande requesting a chance to demonstrate their equipment." Discussions during our inspection with the SCO and JUSMAG representatives clearly revealed their respective beliefs that no harm would come from two agencies advocating for two different companies on the same project. We maintain that while benefits from such a strategy may be real, there is also a real risk that respective treatment may not be perceived as fair, and such a strategy should be reconciled with advocacy center guidelines.

We received no information that caused us to change our observations and recommendation on this issue.

II. POST MANAGEMENT HAS NOT ADEQUATELY ADDRESSED STAFF MORALE PROBLEMS AND AMBASSADOR'S CONCERNS

We found that the senior commercial officer in Thailand had not adequately resolved (1) severe morale problems among US&FCS staff at the post and (2) strained relations with the Ambassador and Deputy Chief of Mission (DCM).

Morale problems at post are not fully addressed

As part of our review, we met with each staff member in the commercial section, including FSNs and PSCs. We found that personality conflicts, resentment over staffing decisions, and ineffective management have combined to lower office morale and have had a negative impact on the Bangkok office. The staff at post expressed concerns about the perceived pay disparities between FSNs and American PSCs, especially considering the FSNs' experience, local contacts, and knowledge of the local market. Due to time limitations on site, we did not look for nor were we provided sufficient evidence to support claims that some PSCs were not performing or were not as competent as FSNs. Many of the problems cited by the FSNs are longstanding and predate the current SCO. However, because many FSNs at post perceive that they are not being treated fairly, it is incumbent upon the SCO to meet with the staff and address their concerns. The SCO was aware of these problems. Unfortunately, she has not taken suitable actions to resolve the problems or ease some of the tension. Instead, the problems have been allowed to fester. The SCO must be held accountable for effective management of the post's staff.

Discontent and conflict among US&FCS staff have had a negative impact on the office's productivity. Interaction among some staff is limited and not all staff are participating in the development of new initiatives. As a result, employees (1) are not effectively used in a planning process for current and future products and services and (2) lose the opportunity to share ideas, gain additional experience, and learn from others. The SCO must effectively manage the post's human resources and be responsible for building and maintaining a professional working relationship among the staff.

Relations strained between the embassy front office and SCO

In addition to not addressing internal personnel problems, the SCO has not fully addressed concerns raised by the Ambassador and DCM. Both of these Department of State officials told us of their concerns that extend beyond personality conflicts. They stated that the senior commercial officer (1) operates a frenzied operation, (2) does not accept responsibility for US&FCS mistakes, (3) at times, is unprofessional with members of the Ambassador's staff, (4) is frequently late in submitting various requested reports, and (5) too often submits documents that are either inappropriately formatted or not in the proper electronic form as requested. In our efforts to look further into these concerns, (1) we found, as we report on page 10, that the SCO needs to better analyze, prioritize, and plan work to improve upon the often rushed and chaotic state in which the post now operates; (2) the Ambassador confided in us several examples of the SCO's unprofessionalism with his staff that gave us cause for concern; and (3) the SCO admitted that the commercial section has been late with assignments and some documents submitted to the Ambassador were improperly formatted. The SCO explained that staff constraints coupled with a heavy workload are the reasons for these problems. Despite these concerns, the Ambassador and DCM feel that the SCO's management style is more of an irritant than a serious issue and usually simply causes frustration and inefficiency, as work must be redone. They stated that these internal problems are normally invisible to the U.S. and Thai business clients.

These problems have, however, resulted not only in the post's unnecessary waste of time and frustration, but also in potentially embarrassing situations (see advocacy letter incident discussed below) and loss of respect and subsequent cooperation from other embassy sections. The SCO and her key staff must have a good professional relationship with key embassy officials, including the Ambassador. The Ambassador and DCM can be productive assets in the US&FCS's efforts to expand U.S. trade with Thailand. The SCO should be working to build a cooperative and mutually supportive relationship with the Embassy's leadership. This includes making sure that the post follows appropriate Embassy guidelines for correspondence and reports, including submission of draft communication in electronic format; meeting assigned deadlines; and conducting business in an orderly and professional manner.

Although the agency agreed with our recommendation, agency officials stated that “we believe our SCO in Bangkok already understands her accountability for effective management of all post resources including personnel--her work plan states this clearly.” The response also cited several cases where the SCO used awards, appraisals, or reprimands to address outstanding, as well as poor performers. This may be true. However, we strongly believe that incorporating more specific language in the SCO’s work plan allows the regional director greater ability to manage the SCO’s performance and better ensures that an SCO will work hard to promote close cooperation between a post’s staff and maintain high office morale.

In their response, US&FCS officials state that the “SCO in Bangkok categorically denies any awareness of cultural or racial conflict in her office either past or present.” The response also states that the SCO spoke with several FSNs, who were willing to speak, and reconfirmed her understanding that office conflicts were not race or culture related. The response also acknowledged that it’s very difficult for Thais to express their concerns to their boss directly. Consequently, we have adjusted our final report and removed references to the SCO’s knowledge of race and cultural conflicts. We should note, however, that discussions regarding cultural conflicts were held with the deputy SCO while we were on site.

Lastly, we are pleased that the SCO is organizing a retreat for the entire staff with a facilitator running the meetings specifically designed to get people to express their concerns. The inspection team recommended to the SCO, while on site, that she explore other ways to encourage the staff to express their concerns and to further integrate them into the planning process, possibly through an off-site retreat.

III. POST’S RESOURCES ARE NOT EFFECTIVELY MANAGED

In addition to improving relationships with embassy leadership and the US&FCS staff, the SCO needs to do a better job of managing the post’s services and products. We found that the SCO does not effectively analyze, prioritize and plan the post’s work to better service U.S. firms doing business in Thailand. More specifically, (1) the U.S.-Asia Environmental Partnership staff was not effectively integrated within the US&FCS program; (2) the commercial library was not an effective use of the post’s limited resources; and (3) we found other areas where available resources were not fully utilized, adequately explored, or effectively promoted.

Neither the SCO nor her deputy have adequately assessed and prioritized the post’s products and services to ensure efficient and quality assistance to U.S. businesses. Currently, the post attempts to do everything for everyone; this results in a sometimes chaotic atmosphere that, in addition to

lowering morale and raising concerns of the Ambassador, leads to inefficiency and missed opportunities.

In one example noted by the DCM, a request from US&FCS for the Ambassador to write an advocacy letter on behalf of a U.S. firm was received too close to the deadline for which the letter was needed. Consequently, the Ambassador's staff did not have sufficient time to adequately review the request. The Ambassador, relying on the counsel of the SCO, signed and sent the letter. Subsequently, it was determined that US&FCS could have brought the letter to the Ambassador's attention earlier and that the Ambassador probably would not have signed the letter as written if his staff had sufficient time to perform up-front research. The Ambassador cited this as an example of the chaotic and rushed nature of the commercial section.

The SCO argues that the level of activity in Thailand is high and she simply does not have the time to perform the necessary analysis we suggest to more efficiently manage the post. We would argue, however, that she cannot afford to do careless work and alienate the embassy, nor can she ignore the delicate balance that her leadership must provide to ensure that the post's core work and special assignments are accomplished with the resources available. The SCO's inadequate management of post resources, in the face of high demand for its services, has limited the SCO's ability to be proactive or innovative. There is much opportunity for improvement in Thailand.

A. US-AEP Staff Could Contribute More to the US&FCS Program

The U.S.-Asia Environmental Partnership (US-AEP) is a cooperative effort, led by the U.S. Agency for International Development (USAID), to promote sustained development while improving the environment in Asia. Twenty-five federal, state, and private sector programs contribute to the project in a variety of ways, including collecting and disseminating information on U.S. environmental companies or opportunities in Asia, facilitating technology transfer, and sponsoring training opportunities for Asian private and public sector officials. US&FCS supports the environmental technology representatives located in nine Asian countries,¹ the Asian Development Bank, and the World Bank. These representatives function much like commercial specialists, but they also promote longer term environmentally sound development, consistent with USAID's objectives, by sponsoring visits and training by host country officials in the United States and advocating for more effective environmental regulations throughout Asia.

US&FCS's support of the technology representatives is determined by an interagency agreement between USAID and the Department of Commerce. According to the agreement, the designated

¹These countries include Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand. There is also a US-AEP technology representative in Sri Lanka, who is supported only by USAID because US&FCS does not have operations in that country.

countries will have at least one technology representative, a deputy representative, and an administrative assistant. The two representatives should have technical and business competence in environmental technologies. All three positions report to the SCO, but are dedicated only to promoting exports of U.S. environmental technologies. Over the next two fiscal years, US&FCS will assume a greater portion of funding for the program (from about 37 percent to 75 percent). Of the total fiscal year 1997 budget for the technology representative program (\$2,310,839), Thailand's budget is \$213,483. US&FCS will contribute \$178,483 for the Thailand operations.

Lacking a deputy and an administrative assistant for almost one and a half years, the technology representative alone conducted the environmental technology promotion program in Thailand. Coordinating closely with the SCO, the technology representative performed standard US&FCS services, such as preparing industry subsector analyses and international market insights, counseling businesses, and coordinating U.S. Trade and Development Agency grants. He also promoted special US-AEP programs, such as U.S. training opportunities and exchange programs for Thai officials. Compared to other US-AEP technology representatives, the Thailand representative reported significantly fewer activities during the past year, which may be explained, in part, by the lack of staff. In April 1996, the SCO hired an US-AEP administrative assistant and, at the time of this report, was filling the deputy position.

When US-AEP is fully staffed, one US-AEP administrative assistant supports two US-AEP professionals, compared to five US&FCS administrative support positions (budget analyst, administrative assistant, receptionist/clerk, and two secretaries) supporting 16 US&FCS professionals and two drivers. In addition, US-AEP has significantly more office space per person than US&FCS (2,400 square feet for 3 people compared to 4,807 square feet for 23 people).

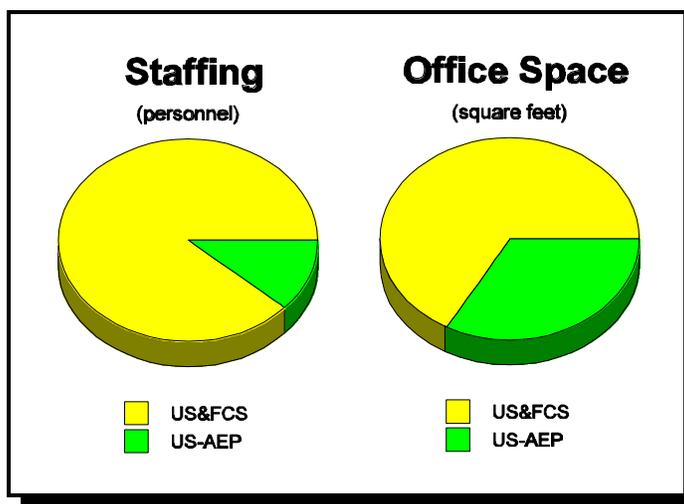


Figure 2

Although the additional staff should increase activity relating to environmental technologies, there is some question whether three positions and the associated operational costs dedicated to environmental technologies is an appropriate use of resources. As discussed on page 10, the post currently does not adequately analyze, prioritize, or plan its activities. Without a clear understanding of what activities and industries should take priority, the post cannot be certain that three full-time positions dedicated to environmental technologies are the best use of its resources.

Opportunities for environmental technology exports to Thailand certainly exist, as evidenced by the post's designation of pollution control equipment as a best prospect industry. In addition, environmental technologies affect almost every industry sector. However, these export opportunities depend on the effectiveness of the host country's environmental regulatory program and its willingness and ability to use environmental technologies. Therefore, on a country-by-country basis, US&FCS should determine whether its export promotion efforts sufficiently benefit from its 75 percent of funding for the US-AEP program. If the post is not sufficiently benefitting from this resource, US&FCS should consider reducing proportionately either the US&FCS share of funding or the size of the US-AEP staff to better match the U.S. environmental export opportunities in each country.



In responding to our recommendations, US&FCS officials reiterated the importance of the environmental sector to the current administration and restated their belief that this sector offered significant commercial opportunities for U.S. companies.

We understand and concur with the importance of the environmental sector to our Nation, both economically and ecologically. We are not suggesting that U.S. public commitments to the global environment be decreased. We simply question whether US&FCS resources, as used to partially fund the US-AEP program, are being used efficiently or congruently with the US&FCS's mission. US&FCS should be funding programs that most effectively further the agency's trade promotion strategic goals, and let other agencies support other goals as appropriate.

B. Library Resources Could Be Put to Better Use

As a result of US&FCS's comprehensive strategic review completed in 1992, the agency has stated that publicly accessible commercial libraries are an "elective" service—not part of its core products and services. US&FCS has discouraged posts from maintaining them except for internal use. A report from that review stated that the direct support provided by a commercial library to U.S. visitors is minimal. The report went on to suggest that, except for posts where the benefits of a commercial library that is open to the public can be demonstrated, US&FCS libraries should be closed to the public.

It is not clear who from the public is actually benefiting from the library in Thailand. Although the library maintains a visitors log and the librarian is required to tally monthly the number of visitors and phone calls by reported sector of interest, individual visitor information is not maintained outside the log book and the book is disposed of when full, without any useful analysis of its data.

The inspection team examined the visitor log book to see how useful it might be in evaluating the library's use. During the eight business days preceding and coinciding with the inspection visit, the visitor log recorded 62 visitors, 30 of them not identifying their industry or product of interest, 18 identifying themselves as first-time visitors (28 left that column blank), and 10 provided too little information under "address with phone number" to allow for follow-up. Through casual conversation with some visitors, we determined that some of them were students simply doing class research.

In addition, the commercial library is not actively used by US&FCS staff to provide support to US&FCS core programs. US&FCS staff do not use the library's reference materials, and the librarian is already providing support to other US&FCS programs (e.g. gold key service). As currently utilized, the space, funds for subscriptions, and staff time would be put to better use supporting other US&FCS functions that have demonstrated their usefulness in assisting U.S. businesses export to Thailand. The library resources could be used in a cooperative effort with USIS, as outlined below.

C. Other Available Resources Not Fully Utilized, Adequately Explored, or Effectively Promoted

Opportunities for further innovations exist to improve the assistance US&FCS offers U.S. firms attempting to do business in Thailand. Taking advantage of these opportunities could also alleviate some of the workload burden on the US&FCS staff, thereby allowing them to focus their energies on priority activities. The following are other areas the post should explore to better assist U.S. companies entering into the Thai export market.

The U.S. Information Service has programs that are potentially useful to US&FCS.

The U.S. Information Service (USIS) has expressed interest in providing specialized library service support to US&FCS. Specifically, USIS says it can provide US&FCS library customers with on-line and walk-in access to CD-ROM information, collocated reference material, support for a US&FCS homepage accessible via the World Wide Web, and any other mutually agreeable and appropriate library service that US&FCS desires. USIS is conveniently located to both the embassy and the US&FCS office. At the time of the inspection, no discussions between USIS and US&FCS about such possibilities had taken place.

USIS also described its exchange program for foreigners to visit the U.S. to pursue small group and individually planned cultural and educational exchanges.² Every agency at the post is invited to suggest themes and nominate candidates for the program each year. US&FCS has yet to make a nomination. USIS officials described this as another opportunity worth exploring so that influential Thai government officials can be exposed to the advantages of working with U.S. businesses.



In response to our recommendation, US&FCS officials stated that it was their “understanding that USIS no longer maintains a full library with books and periodicals, but has only four computer terminals with experts that can access on-line data bases through Internet and other sources, and a few bookcases of reference publications.”

It was our understanding, after meeting with the USIS representative, that USIS is in the process of planning to expand its activities in Bangkok and would consider exploring alternatives with US&FCS. Assuming this is true, it would benefit US&FCS to explore how it can take advantage of USIS resources including technology, new location, and other information resources in Thailand. Officials at post said that they held some discussions with USIS about using its multipurpose room and CD-ROM information. We would encourage further cooperation. The Director General also noted that she had asked the Deputy Assistant Secretary for International Operations to review the worldwide issue of the role of commercial libraries and to provide clearer guidance to posts on this issue.

Teams initiative not well known or used at post.

There are opportunities elsewhere in ITA to increase the impact of some of the core services the post determines are priorities. ITA has established several “Teams” of trade specialists and other officials throughout the country, who share particular interest or expertise in a region of the world or industry sector. Key staff contacts from support offices, such as Export Promotion Services and the Office of Trade Development, are also assigned to each Team to ensure direct and responsive communications with headquarters. The Teams are responsible for developing a strategic plan, including an independent budget and targeted activities, to support their goals as laid out in their plan. There is an Asia Pacific Team in each US&FCS region of the United States and six industry-specific Teams (Environmental Technologies, Health care Technologies, Information Technologies, Service Industries, Minority Export Development, and Defense Diversification). These specialized networks of domestic office trade specialists can be an

²Entitled the International Visitors program, USIS’s parent organization, the U.S. Information Agency, conducts the program, bringing host country officials from around the world to the United States.

effective stateside resource to assist the post in several of its activities, such as the international buyer program, matchmaker trade delegation support, and trade show recruitment.

A goal of the Teams initiative is to have overseas posts more involved, by either working with posts periodically on special promotion events or having overseas staff permanently assigned to the Teams of particular interest to each post. The US&FCS post in Bangkok is aware of the US&FCS Teams, and the embassy's fiscal year 1996 strategic commercial plan includes support for the Asia Pacific, Health care, Information, and Environmental Teams. However, there is little evidence that the Teams are understood or utilized by the staff. Once the US&FCS post in Bangkok prioritizes its activities, it should consider how these Teams should be tapped to support the post.



In responding to our draft report, the Director General stated that "CS/Bangkok has already begun to work more closely with the ITA teams. In March post put on a U.S. pavilion at Meditech '97, an international medical show in Bangkok, working with the Medical Teams with great success. CS/Bangkok's awareness of this program has grown considerably in the last few months and will be focussing more on Team initiatives that are appropriate for Thailand."

Other opportunities for further innovation exist.

US&FCS could consider preparing a handbook or some other written material to guide U.S. businesses through taking advantage of the U.S.-Thai Treaty of Amity and Economic Relations of 1966 (which enables U.S. businesses to establish local offices not subject to Thailand's Alien Business Law). Although the treaty is mentioned in the country commercial guide, U.S. firms would benefit from more practical information. The post should also consider working with the embassy's economic section and the SCOs in other ASEAN countries to prepare a handbook or other written material introducing U.S. businesses to the potential for arbitrage opportunities in the new ASEAN free trade area; that is, exploring favorable import/re-export duties and regulations among ASEAN nations to bring their products to the local markets via the lowest cost route. The opportunity also exists for US&FCS to encourage and provide incentives for large U.S. firms already present in Thailand to provide trade leads and create opportunities for smaller U.S. firms as suppliers and subcontractors on major projects and contracts.

On a positive note, the Bangkok post has started to take advantage of the computer skills of a recent addition to its American officer staff. The officer is attempting to automate the post's follow-up on Gold Key Services. Though still being tested at the time of the inspection, the newly-designed database application would serve to record Gold Key Service client and contact information and automatically generate follow-up queries at prescribed intervals. Not only will the proposed system minimize factual errors and forgotten follow-up, but the automation and reliance on template letters will free up staff resources for other activities. If the system is

successful and if it is technically feasible and cost effective, the system could be replicated and used at other posts.

IV. HEADQUARTERS MANAGEMENT FAILED TO PROVIDE ADEQUATE OVERSIGHT OF THE POST

US&FCS's overseas operations are managed by the Office of International Operations. The Deputy Assistant Secretary for International Operations oversees four regional directors, who are responsible for monitoring US&FCS operations in their geographic regions and serve as headquarters points of contact for their overseas posts. Thailand is one of 13 countries in the East Asia and the Pacific region.³ As a BEM, Thailand and nine other countries⁴ in this region have been identified as priorities for ITA export promotion activities. Nevertheless, headquarters management has neither given priority attention to nor corrected management problems in Thailand that adversely affect that post's effectiveness.

The former regional director⁵ failed to provide necessary oversight and to hold the SCO accountable for post management weaknesses. In particular, the former regional director failed to fully carry out some of the following major duties described in his own position description:

- ! Ensure that the post's annual country commercial guide and work plan use US&FCS resources efficiently.
- ! Identify systemic or recurring problems with a post's implementation of US&FCS programs.
- ! Negotiate problematic and precedent-setting program and personnel-related issues with senior State Department officials concerning issues relating to specific posts.
- ! Conduct periodic on-site post management reviews of each post's operations, personnel, and administration to determine that set goals and workloads are realistic and operations are efficiently and effectively run.

³The region includes: Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Taiwan, Thailand, Vietnam, and the Asian Development Bank.

⁴The BEMs in US&FCS's East Asia and the Pacific Region include: the ASEAN countries where US&FCS has operations (Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam), the Chinese Economic Area (China, Hong Kong, and Taiwan), and South Korea.

⁵The former regional director served in that position from October 1993 until October 1996.

The fulfillment of these duties would encourage efficiency and accountability and provide a conduit for innovations and lessons learned that could benefit other parts of US&FCS.

The former regional director told us that he was not aware of many of the specific problems identified by our inspection team. Yet, because he was the SCO in Bangkok for four years prior to being the regional director—immediately preceding the current SCO—he was aware of FSN concerns over the pay structure and the possible conflict between FSNs and American PSCs. The post size also doubled since he left, suggesting the possibility that prior personnel-related issues could have worsened or new issues could have emerged. (See figure 3 below.) Despite the dramatic growth in personnel at post and the former regional director’s knowledge of the post’s persistent problems, the former regional director never visited the post during three years that he was responsible for the region. By not visiting the post, he did not have the in-depth discussions with the American and Thai staff that could have alerted him to the growing interpersonal strains so that he could help the SCO deal with them.

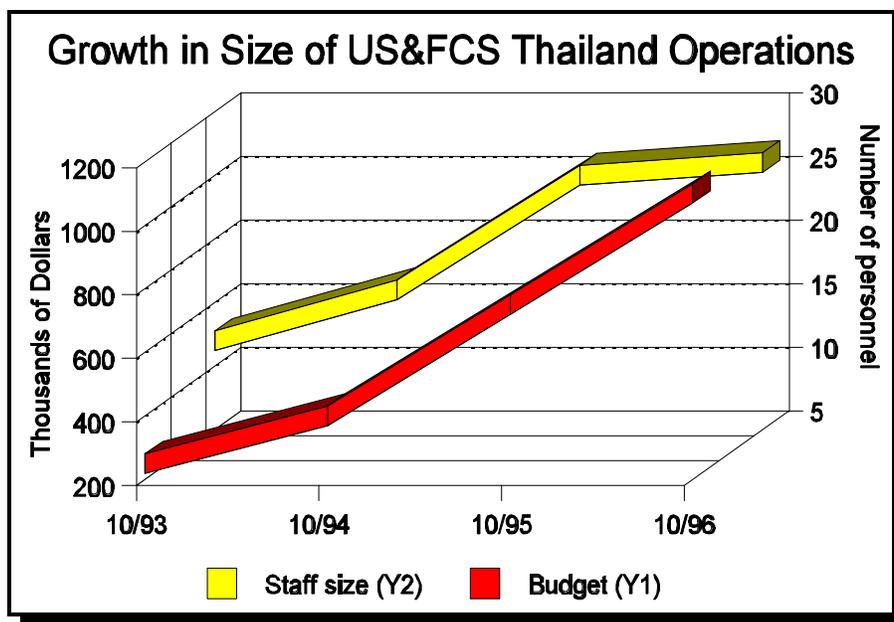


Figure 4

The former regional director told us that other demands on his time had prevented him from paying more attention to the post’s problems and making oversight visits to the post. He stated that he had received little feedback on the current SCO’s ability to deal with personnel problems and other concerns. He claimed that if post outputs were maintained and no complaints were forthcoming from clients, there was no basis to report poor performance or otherwise bring any adverse action against the SCO.

We disagree. Although regional directors may be tasked by several different ITA offices on high profile projects, their primary and most critical responsibilities are to oversee commercial officers and operations in the field and strengthen their ability to promote U.S. exports. Overseas staff are in daily contact with foreign government and business representatives, U.S. businesses, and other U.S. government agencies. Competition in overseas markets is fierce. There can be small differences between the steps taken to make a potential business transaction successful and the steps resulting in failure. While a high level of successful U.S. business activity can mask failures, every missed overseas transaction translates into less economic activity back in the United States. And in Asia, where business relationships can be more important to closing a deal than low bid competition, each failure makes it more difficult for the next potential transaction with that contact to succeed.

Few, if any, of the regional director's other functions and responsibilities are as important as effective oversight and management of assigned posts. Other tasks, like policy support, can be carried out by other staff within ITA during times of urgency. High profile issues and events beyond the Office of International Operations will benefit from regional director input and support, but only regional directors are explicitly responsible for and in a position capable of providing essential program oversight and direction to officers in the field. There is no other staff to "pick up the slack" and carry the burden of this management duty. There should be no excuse for regional directors, and by extension their senior management, not being knowledgeable about the performance of individuals who they are charged with evaluating.

When any evaluator of officer performance is either complacent about the significance of performance ratings or hesitant to document weak performance, the ability of US&FCS to sustain its high level of services is compromised. One step US&FCS should take to increase the perceived importance of regional management is to update its *Operations Manual* to include a new section covering the functions of regional directors within the Office of International Operations. This section is conspicuously absent from the manual, particularly because regional management of US&FCS domestic operations is addressed elsewhere. A clear statement of the overseas regional directors' responsibilities would reinforce their importance to US&FCS as a whole.



In response to our recommendation that the Director General ensure that management oversight of overseas posts is a primary focus of OIO and the regional directors, agency officials stated that they "fully support this recommendation, and the present DAS/OIO has already incorporated such responsibilities into work plans for her RD's as well as her own." The Director General "will instruct OIO and HRD to draw up revised position descriptions for the DAS/OIO as well as the RD's emphasizing this primary focus."

The Director General also agreed to “instruct the US&FCS’ Office of Planning to update the US&FCS Operations Manual” and, in conjunction with OIO, draft a new section on the functions of the regional directors.

V. EXPORT LICENSING CHECKS NOT CONDUCTED ACCORDING TO PRESCRIBED PROCEDURES

We found that, contrary to specific guidance, US&FCS foreign service nationals are conducting pre-license checks and post-shipment verifications (collectively known as “BXA checks”) requested by the Department of Commerce’s Bureau of Export Administration (BXA). In addition to using authorized personnel, the post needs to improve its reporting to BXA and expand its information gathering on individual checks by more actively involving other sections or agencies in the embassy.

According to BXA’s handbook, *How to Conduct Pre-License Checks and Post-Shipment Verifications* (March 1996), BXA checks are performed to verify the legitimacy of export transactions within BXA’s export licensing jurisdiction. BXA licensing officers and export enforcement special agents or analysts, as well as other federal agencies involved in the licensing process, can request that a post conduct a BXA check on a foreign company or organization. Pre-license checks determine if an overseas person or firm is a suitable party to a future transaction involving controlled U.S.-origin goods or technical data. Post-shipment verifications confirm whether goods exported from the United States were received and are being used in accordance with the provisions of the export license.

From October 1995 through August 1996, the post performed five pre-license checks. The post concluded that the foreign company or organization was a favorable recipient of U.S. technology in three cases and that the foreign company was an unfavorable recipient in two cases. One pre-license check was pending at the time of our visit and three other pre-license checks were canceled by BXA. The post also conducted one post-shipment verification, which was favorable.

All of the BXA checks, except the post-shipment verification, were conducted solely by foreign service nationals, in violation of BXA’s policy. The BXA handbook refers to a March 31, 1995, cable sent by BXA to all US&FCS posts, which transmitted BXA’s policy on foreign service nationals conducting BXA checks. The cable clearly states that BXA checks should be conducted by U.S. citizens who are U.S. government employees.⁶ Three disadvantages of foreign nationals conducting the checks are listed, including (1) credibility of the check, (2) possible reluctance to testify against a fellow citizen in a U.S. court, and (3) lack of access to classified material. Only

⁶According to BXA officials, personal service contractors, regardless of their citizenship or security clearance, should not perform BXA checks.

BXA has the authority to determine whether special circumstances outweigh these concerns. The US&FCS post in Bangkok could seek a waiver from BXA to allow its foreign service nationals to conduct one particular or all BXA checks. However, as of the date of this report, BXA has granted few waivers. Unless BXA expressly authorizes this post to use foreign service nationals, American officers should perform all BXA checks.⁷

The BXA handbook states that BXA will not normally consider checks conducted solely by foreign nationals complete. Two of the six responses sent by the post did not clearly state whether the person who conducted the check was an American officer or foreign service national. Without a clear statement in the response cable, indicating who conducted the BXA check and the position held by that person, BXA cannot accurately determine whether the check was properly completed. Therefore, the post should state in the body of the response cable the employee's name, title, and employment status (either American officer or foreign service national), as shown in the sample response cable in the BXA guidance.

Notwithstanding the issue of who conducted the BXA checks, our review of the post's files and interviews with staff disclosed an adequate amount of information gathering. Some files contained correspondence with the subject company or organization and copies of documentation of the transaction at issue. In most of the responses to BXA, the post adequately described how the checks were conducted, including the types of documents reviewed. In addition, as required by BXA, six of the eight responses confirmed that an on-site review was conducted. The other two responses indicated that the Department of State was conducting a check on the subject company, so that an on-site review by US&FCS was unnecessary. However, there are opportunities to improve the quality of the information gathered.

We found that in some cases the subject company or organization had been consulted about alternative uses of the controlled item—obviously, an unreliable source. Other sections or agencies within the embassy, such as the JUSMAG or the political section, could provide valuable insight into how a controlled item may be inappropriately used or diverted. The post should use these contacts or communicate with BXA directly for additional information. The embassy's blue lantern implementation plan, which outlines how the Department of State conducts its checks on munitions export licenses, could help the post identify other U.S. government information sources. The plan indicates which embassy sections or agencies participate in the Department of State checks. In addition to technical advice on the item at issue, they might also have information on the specific companies or organizations involved in the transaction. Because the post conducts only a few BXA checks per fiscal year, the benefits of access to better information would likely outweigh the burden of consulting the other agencies.

⁷Since our on-site review in Thailand, we were informed that an American officer assisted a foreign service national on the pending pre-license check mentioned above. The BXA guidance acknowledges that foreign service nationals can conduct BXA checks with an American officer present.

In their response to our draft report, US&FCS officials stated that the post is immediately implementing our recommendations to have American officers conduct BXA checks, clearly document BXA cable responses, and consult the embassy's blue lantern procedures.

VI. STAFF TRAINING CONCERNS NOTED

Several current Thai FSNs participated in US&FCS's market research course held in Thailand in 1995. Though they largely enjoyed the course, they reported that, in their view, the course simply addressed US&FCS headquarter's need to have standard formats for written reports. The course did not meet their expectations, and they believed that training in methods, techniques, and strategies of collecting and analyzing market information would have been more useful. The staff in Bangkok suggested that if US&FCS was not prepared to offer or prepare such a course, US&FCS might consider hiring local experts from the private sector to provide the course. We do not know whether it would be best for US&FCS to provide more training of the sort described, to create "mentoring" relationships between newer staff and more experienced staff, to better recruit staff with the desired skills, or simply to work with the staff to build their confidence in their current abilities. But it is clear that the SCO should communicate more effectively with her staff about training needs and ways to meet those needs.

The US&FCS post in Thailand had recently converted its computing operating system to Microsoft Windows. As expected, many of the staff expressed a frustration with the change, as they are not yet aware of the opportunities and usefulness of the software upgrade. The former regional automation coordinator visited the post for one week to install and configure the upgrade, but she spent little time on formal training for the staff. The office since then hired a PSC to establish a contacts management database for the office, and who also provided some informal support to the remaining staff. But additional practical training is needed if the staff is expected to achieve proficiency in the use of Windows.

In response to recommendations in our draft report, the SCO reported that the post is in the process of developing a new training plan. The response also stated that "Headquarters is seeking to provide appropriate training for the worldwide services (e.g., procurement) and will ensure that CS/Bangkok is included in any such training plan.

RECOMMENDATIONS

We recommend that the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service direct appropriate officials to:

1. Work with the ITA Advocacy Center and the Department of Defense in Washington to (1) clarify responsibilities for military procurements and (2) issue new guidance if necessary to the US&FCS posts and appropriate U.S. military officials at embassies overseas to better coordinate advocacy efforts on behalf of U.S. firms involved in military sales. Work with the embassy's Joint U.S. Military Assistance Group to ensure that defense trade advocacy efforts in Thailand are conducted appropriately and fairly.
2. Take the necessary steps so that the work plans of SCOs in the region (and of their deputies, as appropriate) clearly indicate that as managers of post programs they are accountable for effective management of all the post resources, including personnel. This includes: rewarding worthy performance, correcting poor performance, and achieving improvements through the effective use of the performance appraisal system and the application of appropriate awards or corrective actions.
3. Hold the senior commercial officer responsible for building a professional working relationship with the Ambassador, DCM, and their staff; and direct the regional management in the Office of International Operations to closely monitor the senior commercial officer's efforts.
4. Immediately follow the Thailand Ambassador's preferred reporting and communication formats and guidelines, including the submission of draft communications in electronic format.
5. Determine, on a post-by-post basis if necessary, whether US&FCS resources are better spent on a partially USAID-funded US-AEP staff, which is constrained to work solely on environmental technologies; a fully US&FCS-funded staff able to cover multiple business sectors as warranted; or some combination of the two. Based on this determination, consider proportionately reducing either the US&FCS share of funding or the size of the US-AEP staff to better match the U.S. environmental export opportunities in each country. In addition, determine whether the post can better utilize its total square footage in Malaysia by reallocating space between US&FCS and US-AEP staff.
6. Either close or better manage the post's commercial library and its resources, based on an analysis of the library's purpose, current and potential usage, and how it and the information it collects could be better used to achieve the post's objectives.

7. Determine how, if at all, US&FCS can take advantage of USIS resources, including technology, new location, and other information resources in Thailand, to better serve US&FCS objectives.
8. Explore additional ways that the post can provide useful services to U.S. businesses, including:
 - working with the embassy’s economic section and the SCOs in other ASEAN countries to prepare a handbook or other written material introducing U.S. businesses to the potential for arbitrage opportunities presented by the new ASEAN free trade area,
 - encouraging large U.S. firms already present in Thailand to provide trade leads and create opportunities for smaller U.S. firms as suppliers and subcontractors on major projects and contracts, and
 - exploring how the ITA Teams initiative could be tapped to support the post.
9. Identify and nominate appropriate host country officials as candidates for the U.S. Information Agency-sponsored International Visitors program each year, and suggest to the U.S. Information Agency appropriate trade and business-oriented themes that would have long-term benefits for potential U.S. exports.
10. Ensure that management oversight of overseas posts is a primary focus of the Office of International Operations and the regional director position, and is not compromised for other priorities. Hold the Deputy Assistant Secretary for International Operations and regional directors accountable for proper oversight of post management and overall operations.
11. Take the necessary steps so that the work plans of the Office of International Operations’ regional directors clearly indicate that, as managers of SCOs, they are accountable for rewarding worthy performance, correcting poor performance, and achieving improvements through the effective use of the performance appraisal system and the application of appropriate awards or corrective actions. Revise the Deputy Assistant Secretary’s work plan, as necessary, to reflect a similar accountability for the management of the performance of the regional directors.
12. Reinforce the regional directors’ authority over and accountability for their regions by updating the *US&FCS Operations Manual* to include a new section covering the functions of regional directors within the Office of International Operations.
13. Immediately have American officers conduct all pending and future pre-license checks and post-shipment verifications for BXA unless a waiver is received from BXA.

14. In all cables responding to BXA's request for pre-license checks and post-shipment verifications, clearly state the name, title, and employment status (either American officer or foreign service national) of the US&FCS employee who conducted the checks.
15. Consult the embassy's blue lantern implementation plan, which outlines how the Department of State conducts its checks on munitions export licenses, to help the post identify other U.S. government information sources, such as the JUSMAG or the political section, for insight into how a controlled item may be inappropriately used or diverted.
16. After determining the post's training needs, in consultation with post staff and the regional director, prepare a plan to accomplish these needs in a reasonable time frame and seek headquarters approval. The plan for training should be communicated to all post staff and periodically updated.

APPENDIX I

LIST OF ACRONYMS

ASEAN	Association of South East Asian Nations
BEM	Big Emerging Market
BXA	Bureau of Export Administration
DCM	Deputy Chief of Mission
FSN	Foreign service national
ITA	International Trade Administration
JUSMAG	Joint United States Military Assistance Group
OIG	Office of Inspector General
PSC	Personal service contractor
SCO	Senior Commercial Officer
US-AEP	United States-Asia Environmental Partnership
USAID	United States Agency for International Development
US&FCS	United States and Foreign Commercial Service
USIS	United States Information Service

APPENDIX II

LIST OF US&FCS SERVICES

Industry Sector Analysis (ISA)—market research reports produced on location in leading overseas markets. Reports cover market size and outlook, characteristics, and competitive and end-user analysis for a selected industry sector in a particular country. ISAs are available on the National Trade Data Bank and the Economic Bulletin Board.

International Market Insights (IMI)—short profiles of specific foreign market conditions or opportunities prepared in overseas markets and at multilateral development banks. These non-formatted reports include information on dynamic sectors of a particular country. IMIs are available on the National Trade Data Bank and the Economic Bulletin Board.

Customized Market Analysis (CMA)—market research made to order. A CMA report assesses the market for a specific product or service in a foreign market. The research provides information on sales potential, competitors, distribution channels, pricing of comparable products, potential buyers, marketing venues, quotas, duties and regulations, and licensing or joint venture interest.

Trade Opportunity Program (TOP)—sales leads from international firms seeking to buy or represent U.S. products or services. TOP leads are printed daily in leading commercial newspapers and distributed electronically via the Department of Commerce Economic Bulletin Board.

Agent/Distributor Service (ADS)—customized overseas search for qualified agents, distributors, and representatives for U.S. firms. Commercial officers abroad identify up to six foreign prospects that have examined the U.S. firms' product literature and expressed interest in representing the U.S. firm's products.

Gold Key Service—custom-tailored service that combines orientation briefings, market research, appointments with potential partners, interpreter service for meetings, and assistance in developing follow-up strategies. Gold Key Service is offered by US&FCS in export markets around the world.

Matchmaker Trade Delegations—"match" U.S. firms with prospective agents, distributors, and joint venture or licensing partners abroad. The US&FCS staff evaluates U.S. firms' products and services for marketing potential, finds and screens contacts, and handles all event logistics. U.S. firms visit the designated countries with the delegation and, in each country, receive a schedule of business meetings and in-depth market and finance briefings.

International Buyer Program (IBP)—supports selected leading U.S. trade shows in industries with high export potential. Department of Commerce offices abroad recruit foreign buyers and distributors to attend the U.S. shows while program staff helps exhibiting firms make contact with international visitors at the show. The IBP achieves direct export sales and international representation for interested U.S. exhibitors.



ATTACHMENT

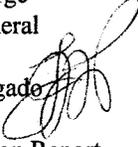
**UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration**

Washington, D.C. 20230

ASSISTANT SECRETARY AND DIRECTOR GENERAL OF THE
U.S. AND FOREIGN COMMERCIAL SERVICE

APR 10 1997

MEMORANDUM FOR: Frank DeGeorge
Inspector General

FROM: Lauri Fitz-Pegado 

SUBJECT: Draft Inspection Report
USFCS Post in Thailand
International Trade Administration
(IPE-9286)

This responds to your March 10, 1997 request that I notify your office of the actions we have taken or propose to take in response to your recommendations regarding USFCS operations in Thailand. I am pleased that your team found clients generally satisfied with CS/Bangkok services and I agree with the team that the knowledge and dedication of our staff in Thailand are indeed impressive. The management issues you raise, however, need to be addressed. As you will see below, we have already taken steps to implement most of your recommendations. In a few cases (as noted below), we would appreciate additional information and guidance from the team to help us better understand the problem and come up with a solution.

Before turning to a point-by-point discussion of your recommendations, I would like to offer two general comments. First, both the SCO and the present RD have noted that the IG team visited post during an unusually busy week -- in fact the week was one of the busiest post has ever seen. In addition to hosting the IG team, post was involved in two major trade missions, four Gold Key Services, the visit of 12 officers from surrounding posts for ICASS training, the visit of the new RD, the visit of the DOC Thai Desk Officer, three TDA grant signings, and drafting two major speeches for the Ambassador. In fact, post was so concerned about the crushing workload that particular week, that it had asked the IG team to reschedule its visit (perhaps a week earlier or later). When this proved impracticable, post asked the team to take the unusually heavy workload into consideration when coming to conclusions or making recommendations. Both the SCO and the Deputy SCO have stated that they were disappointed the team did not engage them more, to learn their views on post management issues.

Finally, both the SCO and the Ambassador are aware that CS/Bangkok is sometimes spread very thin even during periods of "normal" workload. Both have repeatedly asked for an additional American officer to be assigned to Bangkok. So far, FTE considerations and hiring constraints have not allowed us to respond favorably. Should our FTE situation improve, the addition of one more officer might help alleviate some of the concerns you have outlined below.

cc: Stuart Eizenstat



Recommendation 1: Work with the ITA Advocacy Center and DOD in Washington to (1) clarify responsibilities for military procurements and (2) issue new guidance if necessary to the USFCS posts and appropriate U.S. military officials at embassies overseas to better coordinate advocacy efforts on behalf of U.S. firms involved in military sales. Work with the Embassy's Joint U.S. Military Assistance Group to ensure that defense trade advocacy efforts in Thailand are conducted appropriately and fairly.

We agree that we need clear directives from Headquarters on the subject of military sales. I have directed my DAS for International Operations to work with the Advocacy Center and DOD in Washington to ensure that our directives to posts on military sales are clear, and that our posts work as a team with other USG organizations involved in military sales.

However, we have a question regarding the final part of this recommendation (to work with the Joint U.S.-Military Advisory Group [JUSMAG] to ensure that defense trade advocacy is conducted appropriately and fairly). This recommendation may be based on an inaccurate understanding of how JUSMAG and USFCS Thailand interact. The statement is made on page 6, Section B, on coordination on military sales promotion, that "in at least one case, the USFCS post and JUSMAG in Bangkok have each advocated for a different U.S. firm bidding for the same procurement." Neither we nor post are aware of such a case in the last 3 years. In order to respond more fully to this recommendation, we would appreciate a little more information from the IG team. (Our SCO has stated that if the report is referring to the ongoing advocacy to support U.S. bidders for wheeled armored personnel carriers (APCs), CS/Bangkok will be glad to explain what really went on so the team can see that this was not a case of supporting two different companies.)

In general, since there are gray areas as the report indicates, post's current standard procedure is to contact JUSMAG whenever CS/Bangkok is contacted by a U.S. company requesting advocacy to discuss the situation, make sure our involvement is appropriate and develop a strategy. Often post will include a JUSMAG representative and the Political Military (POL-MIL) officer in our meetings with a U.S. firm. In all cases that post is aware of, action that is taken has been discussed with and agreed upon by JUSMAG, and POL-MIL if appropriate. All advocacy letters are cleared by all the players -- who often decide that both JUSMAG and CS should take action, but the nature of the action for each is different. JUSMAG is able to set up appointments, speak to top military decision makers, and certify technical information on U.S. military usage of a U.S. company's products. CS's strength is in preparing advocacy letters for our own or the Ambassador's signature. Post also prepares routine letters certifying basic information given to us by the U.S. company such as the name of their authorized agent, or information on their product, or letters which request a schedule to perform trials. Post does this for anyone who asks as a basic service since the Thai military seems to require such formal letters. Post's policy on advocacy is to support all known U.S. companies who are bidding until such time as there is a clear single U.S. company still in the competition. It is post's understanding that JUSMAG also follows this policy and post has encouraged them to do so.

Recommendation 2: Take the necessary steps so that the work plans of SCO's in the region (and of their deputies, as appropriate) clearly indicate that as managers of post programs they are accountable for effective management of all post resources, including personnel. This includes rewarding worthy performance, correcting poor performance, and achieving improvements through the effective use of the performance appraisal system and the application of appropriate awards or corrective actions.

The Commercial Service agrees with this recommendation, but we believe most of the recommended actions have been or are being taken by both the SCO in Bangkok and the new regional director. We believe our SCO in Bangkok already understands her accountability for effective management of all post resources including personnel -- her work plan states this clearly. The specific actions mentioned -- rewarding worthy performance, correcting poor performance, effectively using the performance appraisal system and applying appropriate awards or corrective actions -- are utilized frequently by CS/Bangkok. The SCO notes that during her tenure, she has promoted 6 people; fired or caused to leave people whose work was substandard by working closely with post personnel and using reprimands, marginal evaluations, etc. She also turned the performance of one employee around from marginal to outstanding in the space of a year and recommended 6 FSN's for cash awards or performance step increases. She expects to recommend at least 2 more staff members for performance awards this years.

None of this, however, would seem to address adequately the problems of morale cited in Section II of the report (pages 7-8), primarily caused by bringing on board American PSCs in lieu of much needed American officers. The FSN's understandably resent local-hire Americans being paid at officer pay scales when they are neither officers nor as knowledgeable about the host country market as some FSN's. The Commercial Service would like to pay our FSN's more, but the classification system and ceilings set by State limit that option. We note that this issue is one faced worldwide by the CS at this time and we are working hard to find a solution.

Our SCO in Bangkok states that she is well aware of these concerns and has spent a lot of time trying to figure out the best balance in using both American PSCs and FSN's that will provide those skills that Americans can offer in English writing and management without insulting or aggravating the sensitivities of the FSN's. We have sought FSN suggestions and made several staffing adjustments trying to improve the situation and we believe morale has improved, particularly as people know and understand each other better as they work together longer. Our current RD notes that at the time of the IG team visit, several PSC's had only recently come on board. We believe that in the six months which have passed since the team's visit, PSC and FSN employees have begun to work together in more harmony and morale has improved at post.

On page 8 the report also refers to cultural and racial conflicts among the local staff implying that the SCO was aware of such problems yet took no action. Our SCO in Bangkok categorically denies any awareness of cultural or racial conflicts in her office either past or present. After the IG report suggested such cultural or racial conflicts existed, our SCO checked with several FSN's

who are willing to speak of such things and reconfirmed her understanding that any conflicts among local staff are based on personality conflicts, not race or culture. According to our SCO, some conflicts do exist, but are largely the result of the PSC-FSN pay disparity described above, or the result of long-standing employees who have developed their differences over time. However, these latter employees are currently working together as needed and conducting themselves professionally.

The report on page 8 notes that many FSN's perceive they are not being treated fairly. This is unfortunate if true and something which our SCO in Bangkok will take immediate steps to address. Our SCO states she has sought to convey to the FSN staff through her actions and handling of evaluations, rewards, etc., that everyone will be judged equally on their performance and that good performance will be rewarded while bad performance will be penalized. It is possible the arrival of American PSCs has undermined the effort to promote equity in CS/Bangkok.

Lastly, the report on page 8 cites limited interaction among some staff and lack of some staff participating in the development of new initiatives. Our SCO states she has tried to bring the entire FSN staff into the planning process and regularly solicits opinions in weekly staff meetings and in special brainstorming sessions. Recently our SCO changed the format of staff meetings to allow more input from FSN's, more sharing of ideas and more education both from each other and from outside speakers. Our SCO is planning to organize a retreat for the entire staff with a facilitator running the meetings specifically designed to get people to express their concerns (very difficult for Thais to do to their boss directly) and work together to develop suggestions for solutions and for program improvements. This retreat should take place by July 1997 if funds permit.

Implementing this recommendation fully also has implications for headquarters (see recommendations 10 and 11).

Recommendation 3: Hold the SCO responsible for building a professional working relationship with the Ambassador, DCM, and their staff; and direct the regional management in the Office of International Operations to closely monitor the SCO's efforts.

Our SCO has been made aware of concerns of the Ambassador and the DCM expressed following last year's MPR report and she has taken a number of steps to correct those problems. Our SCO reports that, judging from feedback received recently from the Ambassador and DCM, her remedies appear to be working. On March 28, 1997 our SCO states that she met with the Ambassador specifically to discuss concerns raised in the inspection report and to gain additional feedback. The Ambassador told our SCO that most of the problems of formatting and lateness seemed to have occurred early last year (1996) and he had not noticed problems recently. The Ambassador also informed our SCO that the problem of getting Word Perfect instead of Word computer diskettes of work for his approval has been solved.

OIO believes the situation has improved since last year, but I have instructed OIO/EAP to continue to monitor the situation. We have debriefed recent USDOC travelers to post to gather their impression of post "atmospherics." In addition, current plans call for our EAP Associate Director for Thailand to visit post within the next few months for an on-the-spot review of the situation.

Recommendation 4: Immediately follow the Thailand Ambassador's preferred reporting and communication formats and guidelines, including the submission of draft communications in electronic format.

CS/Bangkok has implemented this recommendation (see above).

Recommendation 5: Determine, on a post-by-post basis if necessary, whether USFCS resources are better spent on a partially USAID-funded US-AEP staff, which is constrained to work solely on environmental technologies; a fully funded USFCS staff able to cover multiple business sectors as warranted; or some combination of the two. Based on this determination, consider proportionately reducing either the USFCS share of funding or the size of the US-AEP staff to better match the U.S. environmental export opportunities in each country. In addition, determine whether the post can better utilize its total square footage in Thailand by reallocating space between USFCS and US-AEP staff.

The Commercial Service believes that the US-AEP office working under post management represents a significant resource commitment to the environmental sector. This commitment is reflective of the Administration's priorities for fostering long-term sustainable development and for promoting technology transfer. These goals have been repeated by the President, the Vice-President and the Secretary and will result in significant commercial opportunities for US companies. In FY95, Congress appropriated approximately \$1.3m to OIO for environmental programs. Indeed, ITA established a separate office in Trade Development just to promote environmental technologies. As a longer term goal, we are very supportive of encapsulating a strong environmental thrust in our program. For this reason, rather than cutting resources to AEP, we propose expanding the responsibilities of AEP personnel to include delivery of the full range of Commercial Service programs in industrial sectors where clean technologies are a priority, such as pulp and paper.

Recommendation 6: Either close or better manage the post's commercial library and its resources, based on an analysis of the library's purpose, current and potential usage, and how it and the information it collects could be better used to achieve the post's objectives.

The Commercial library operation has been under review for some time and CS/Bangkok has a number of proposals to improve the effectiveness of the facility that will move it away from being a library into a true multi-purpose resource for American business. CS/Bangkok is moving the library resources to larger, more multiple-purpose space across the hall, planning to hold events (e.g., seminars, catalog shows) in the space and generally become more pro-active in generating

usage. CS/Bangkok has promoted the former librarian to manage the operation and she has already come up with excellent proposals for improvement. The Commercial Service agrees that the facility was not used well in the past, but believe there is good cause to continue having such a facility with the new focus. CS/Bangkok will be instituting a better registration system for visitors that should help with follow-up. To better serve CS/Bangkok internal needs, they are creating a Thailand reference center for use by their staff within their existing office space.

In addition, we believe OIO could provide clearer guidance to posts on the role of commercial libraries. I have directed the DAS/OIO to review the issue of commercial libraries worldwide and to provide appropriate guidance to the field.

Recommendation 7: Determine how, if at all, USFCS can take advantage of USIS resources, including technology, new location, and other information resources in Thailand, to better serve USFCS objectives.

It is our understanding that USIS no longer maintains a full library with books and periodicals, but has only 4 computer terminals with experts that can access on line data bases through the Internet and other sources, and a few bookcases of reference publications. The USIS facility is located in another building with limited access and limited space available -- housing our library resources in a multi-purpose room at the CS office (see above) is much more convenient for clients and gives us more program flexibility. Note: CS/Bangkok has had a home page with its own program information as part of USIS's world wide website since early 1996, so this action has already been taken. USIS and CS/Bangkok had discussions about co-location of libraries and sharing information with the current PAO's predecessor when we thought CS would move to the same building. CS/Bangkok is having discussions about using the USIS multipurpose room and some CD-ROM information.

Recommendation 8: Explore additional ways that the post can provide useful services to U.S. businesses, including:

- *working with the embassy's economic section and the SCO's in other ASEAN countries to prepare a handbook or other written material introducing U.S. businesses to the potential for arbitrage opportunities presented by the new ASEAN free trade area.*
- *encouraging large U.S. firms already in Thailand to provide trade leads and create opportunities for smaller U.S. firms as suppliers and subcontractors on major projects and contracts, and*
- *exploring how the ITA Teams initiative could be tapped to support post.*

Our SCO states that CS/Bangkok is always searching for ways to provide more useful services to U.S. businesses. The ideas presented in the IG recommendation have merit and CS/Bangkok will follow up -- along with a variety of other ideas CS/Bangkok already has developed. For example, post has almost completed a handbook answering basic "how to" questions (including Treaty of Amity questions) that CS/Bangkok frequently gets from U.S. companies, as well as a fax out

system to local U.S. company offices on major project opportunities in surrounding countries.

CS/Bangkok has already begun to work more closely with the ITA teams. In March post put on a U.S. pavilion at Meditech '97, an international medical show in Bangkok, working with the Medical Teams with great success. CS/Bangkok's awareness of this program has grown considerably in the last few months and will be focussing more on Team initiatives that are appropriate for Thailand.

In addition, headquarters is also seeking ways to explore additional ways EAP posts can enhance the services provided to U.S. businesses. At a recent SCO conference, for example, EAP SCO's met with members of the Asia Pacific Team to develop a joint strategy for the upcoming year. And OIO/EAP is working with CS/Jakarta, which proposes to contract with a local research firm to prepare a handbook introducing American businesses to emerging business opportunities in the ASEAN region. This handbook will be distributed to District Offices and other Posts in the region -- including CS/Bangkok.

Recommendation 9: Identify and nominate appropriate host country officials as candidates for the USIA-sponsored International Visitors program each year, and suggest to USIA appropriate trade and business-oriented themes that would have long-term benefits for potential U.S. exports.

Our SCO reports that every year CS/Bangkok reviews the instructions on which candidates should be targeted. Recently, trade and business were not on the list. CS/Bangkok has found that it can send most of their contacts to the U.S. through TDA and US-AEP orientation visits and training programs. However, CS/Bangkok will continue to review the IV program options each year and consider candidates.

Headquarters will continue to encourage posts to take advantage of this excellent program whenever appropriate.

Recommendation 10: Ensure that management oversight of overseas posts is a primary focus of the Office of International Operations and the regional director position, and is not compromised for other priorities. Hold the Deputy Assistant Secretary for International Operations and regional directors accountable for proper oversight of post management and overall operations.

We fully support this recommendation, and the present DAS/OIO has already incorporated such responsibilities into workplans for her RD's as well as her own. I will instruct OIO and HRD to draw up revised position descriptions for the DAS/OIO as well as the RD's emphasizing this primary focus.

Recommendation 11: Take the necessary steps so that the work plans of the Office of International Operations' regional directors clearly indicate that, as managers of SCO's, they

are accountable for the effective use of the performance appraisal system. Revise the OIO Deputy Assistant Secretary's work plan, as necessary, to reflect a similar accountability for the management of the performance of the regional directors.

We fully support this recommendation. (See discussion above.)

Recommendation 12: Reinforce the regional directors' authority over and accountability for their regions by updating the USFCS Operations Manual to include a new section covering the functions of regional directors within the Office of International Operations.

I will instruct the USFCS' Office of Planning to update the USFCS Operations Manual, and OIO will work with OP to draft a new section on the functions of the regional directors within the Office of International Operations.

Recommendations 13, 14, & 15: Immediately have American officers conduct BXA checks, clearly document BXA cable responses, and consult embassy's blue lantern procedures.

Post is immediately implementing above recommendations.

Recommendation 16: After determining the post's training needs, in consultation with post staff and the regional director, prepare a plan to accomplish these needs in a reasonable time frame and seek headquarters approval. The plan for training should be communicated to all post staff and periodically updated.

Our SCO reports that post is in the process of developing a new training plan per the recommendation. As soon as it is complete post will seek headquarters approval. At the same time, Headquarters is seeking to provide appropriate training for the worldwide service (e.g., procurement) and will ensure that CS/Bangkok is included in any such training plan.