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***INTERNATIONAL TRADE  
ADMINISTRATION***

*The American Institute in Taiwan Commercial  
Section Needs to Place Greater Emphasis on  
Trade Promotion and Improve Internal Controls*

*Audit Report No. BTD-10220-9-0001 / March 1999*

*Office of Audits, Business and Trade Audits Division*



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## **EXECUTIVE SUMMARY**

The “Chinese Economic Area,” which includes China, Hong Kong, and Taiwan, is the largest of the “big emerging markets,” equal to the seventh largest economy in the world and constituting the third largest trading partner for the United States. Taiwan, an important component of the Chinese Economic Area, has a high per capita gross domestic product, low inflation, full employment, and a robust growth rate, but is natural-resource poor and is reliant upon imports to meet its domestic consumption and industrial needs. Over four decades, Taiwan transformed itself from an underdeveloped, agricultural island to an economic power that is a leading producer of high-technology goods.

On January 1, 1979, the United States recognized the People’s Republic of China as the sole legal government of China and acknowledged the Chinese position that there is but one China and Taiwan is part of China. Therefore, official diplomatic recognition shifted from Taipei to Beijing. To maintain ties with Taiwan, President Carter signed the Taiwan Relations Act into law and the American Institute in Taiwan (AIT) was established in April 1979. AIT is a nonprofit, private corporation that undertakes a wide range of activities representing U.S. interests, including commercial services, economic and political reporting, agricultural sales, travel services, cultural exchange, and military sales. AIT has locations in Taipei, a branch office in the city of Kaohsiung in southern Taiwan, and a headquarters office located in Arlington, Virginia. AIT, while not an embassy, functions very similar to an embassy.

The AIT Commercial Section receives most of its funding through AIT (which receives funds through the Department of State) and a portion through the Department of Commerce under the terms of a Memorandum of Understanding (MOU). The AIT Commercial Section operates similar to other United States and Foreign Commercial Service (US&FCS) overseas posts in terms of delivery of products and services to U.S. exporters.

The Office of Inspector General (OIG) conducted a performance audit of the AIT Commercial Section operations in Taiwan, performing its fieldwork during September 29 - October 3, 1997. Our audit focused on the general management and organization of the AIT Commercial Section, the effectiveness of its program in serving the needs of U.S. exporters, its relationship with the Department, and the integrity of the overall internal control environment.

We were pleased to find that the Senior Commercial Officer (SCO) has made organizational changes that have resulted in improved operations, as well as a motivated and productive staff. The Commercial Section maintains strong, productive relations with its clients, multiplier organizations, and other AIT agencies. In addition, the Commercial Section has been successful in its delivery of US&FCS products and services, producing a high volume of quality research products and timely services for its clients. We also noted a high level of client satisfaction with

the products and services. However, our audit identified the following issues that warrant management attention.

## **I. General Management and Organization**

The relationship among the Commercial Section, the Department of Commerce, and AIT/Washington needs improvement. The Memorandum of Understanding between AIT and US&FCS — a document that provides the basic financial, programmatic and management tenets of the relationship between AIT and US&FCS — needs to be revised. US&FCS headquarters needs to provide additional management support of the AIT Commercial Section to remedy problems associated with the development of the MOU and the relationship between the organizations. The MOU inadequately defines, and US&FCS and AIT officials disagree over, the nature of related costs and positions for which US&FCS is responsible. Furthermore, inexperienced Commercial Officers and inadequate Chinese language skills among many of the officers threaten the effectiveness of the operation. In addition, management weaknesses in terms of appropriate skills and qualifications in trade promotion leadership and the United States-Asia Environmental Partnership (U.S.-AEP) program need to be addressed (see pages 6-10).

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

The Commercial Section is devoting significant time and resources toward trade policy matters at the expense of its trade promotion program. In fact, the Commercial Section is leading AIT's efforts on a number of trade policy issues. This attention to trade policy is manifested in the relatively low level of attention devoted to its Trade Center—the most public and visible component of its operations. The Trade Center facility and materials on display appear dated, and the center is kept closed except for brief periods when it is used by clients. In addition, the Commercial Section's pricing policy for services provided to the U.S. business community, as well as for trade events, needs immediate review to bring the pricing policy into compliance with departmental cost-recovery guidelines. During FY 1995 - FY 1997, the Commercial Section averaged a profit of 11.65 percent on trade events it sponsored. Profits on individual trade events ranged from \$5 to \$27,745 (see pages 17-23).

In addition, while the Commercial Section has generated a high dollar figure of “success” stories, the number of success stories is small and reflects too many large company, advocacy-related projects.<sup>1</sup> Insufficient attention is being paid to programs that assist small and medium-

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<sup>1</sup>Success stories are a performance measure of export actions in which the Department played a role. Success stories result from trade event activities, products, services, or counseling and describe the type of assistance provided to the company by US&FCS.

sized companies. During FY 1996 and FY 1997, large companies represented over 40 percent of the success stories. By concentrating so heavily on these projects, the Commercial Section is not achieving a high number of successes with ITA targeted small and medium-sized firms (see pages 18-19 and 22-23).

In addition, the Commercial Section is providing inadequate support for the Bureau of Export Administration's (BXA's) licensing and shipment needs. Specifically, the AIT Commercial Section is not responding in a consistently timely manner and not following requirements for on-site verifications; 64 percent of Pre-License Checks (PLCs) and 75 percent of Post-Shipment Verifications (PSVs) were not completed within established time frames. In addition, a contract employee was allowed to conduct PLCs in lieu of an American officer as required (see page 23).

### III. Internal Control Environment

Internal controls and financial management practices of the Commercial Section are inadequate, ineffective, and are not adequately emphasized by Commercial Section management. We found problems that need resolution by Commercial Section management (see pages 30-35):

- Source financial documentation is not efficiently maintained. As a result, totals for revenues and expenditures cannot be quickly or accurately provided to management. Furthermore, in the absence of cuff records, reconciliation to information maintained by AIT/Taiwan is not possible (see page 30).
- Key duties are not separated and supervisory review of internal controls is limited and ineffective. The trade center assistant position combines functions of an administrative Foreign National (FN), a class B cashier, a receiving clerk, and other support staff. We found the same situation in terms of management of the Section's imprest fund where all petty cash disbursement activities are performed by the trade center assistant who handles three other duties: cash disbursements to employees, reimbursement requests, and fund reconciliations (see page 31).
- There is a lack of proper imprest fund procedures in place. Also, spot checks of the petty cash fund are infrequent and are not recorded (see page 31).
- The Commercial Section is not following proper procedures on the reporting and use of funds generated by its trade events. During FY 1997, the Commercial Section used trade event funds generated from multiple, individual events to purchase office equipment and services valued at approximately \$72,000. Departmental guidelines requires approval for such purchases from the ITA Trade Event Board (see page 31).

- Systematic analysis of obligations and disbursements does not take place. For instance, procedures are not in place to ensure that the “Budget Execution, Status of Funds - FMC60 Report” is reviewed for unobligated funds that may be outstanding. As a result, the Commercial Section cannot determine if prior year funds available (unobligated) and prior year unliquidated obligations are still valid, and runs the risk of failing to obligate funds prior to the end of the fiscal year and then losing the authority to obligate them (see page 32).

Some of these problems were exacerbated by inadequate communication and information flow between the Commercial Section and AIT’s Budget & Finance (B&F) Section and an inadequate accounting system which is unable to provide timely financial information.

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

1. Coordinate the renegotiation of the MOU between US&FCS and AIT to include requirements and mechanisms that will allow both organizations to:
  - Identify and actively pursue the information necessary to determine whether AIT is attempting to fully fund the Commercial Section.
  - Clearly identify which positions are to be paid for by US&FCS.
  - Agree on a schedule of associated and administrative support costs that are to be covered by reimbursable agreements. US&FCS should develop a mechanism for systematically reviewing these charges.
  - Include specific guidance for billing and payment terms associated with the MOU. The revised guidance should include references to the type of support documentation that must accompany billings and the extent to which payment, in the absence of such support documentation, will or will not be made.
2. Implement a personnel placement strategy that promotes a wider range of experience and appropriate language skills among the officers assigned to the AIT Commercial Section.
3. Reevaluate the administrative and financial management structure of the Commercial Section in order to ensure that responsibility for day-to-day financial management is adequately performed and that appropriate supervision is maintained at all times. For senior Commercial Section staff, administrative training with respect to the implementation and monitoring of internal control procedures should be provided.
4. Reevaluate pricing policies to be in conformance with departmental cost recovery guidelines as they relate to trade events and business facilitation services.

5. Implement procedures to ensure that appropriate cuff records regarding all accounting transactions are maintained, including summaries by event along with running balances of collections and expenditures.
6. Implement procedures to ensure that appropriate information is being maintained to perform periodic reconciliations to AIT's Budget and Finance (B&F) section and State Department reports in order to confirm that all transactions generated at post are being captured in the RAMC 60 and 62 "Status of Funds" reports.

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In its reply to our draft report, US&FCS stated that it has taken steps to address all but two of our recommendations, and provided a rationale for those with which it disagreed or sought additional information. In each case, we have responded to US&FCS's proposed actions or their rationale for disagreeing with the finding and recommendation. US&FCS identified a number of steps it has already taken to implement the recommendations. These include the following: (1) amending the memorandum of understanding with the AIT and revising MOU language for more specificity; (2) developing an island-wide trade promotion program targeted for U.S. small and medium-sized enterprises; (3) reviewing the AIT Trade Center facility to make better use and improve the appearance of the facility; (4) taking a number of measures to improve the internal control environment; and (5) improving access to better communication and technology capabilities that will increase the effectiveness and efficiency of the Commercial Section.

We appreciate the commitments made by US&FCS to seek direct funding from Congress for commercial operations in Taiwan. We encourage US&FCS to pursue this funding course and, at the same time, seek further revisions, amendments and enforcement of the MOU with AIT. We are reiterating our recommendations without change in the final report. Summaries of US&FCS's response for each set of findings and recommendations are on pages 13, 25, and 37, and we have attached US&FCS's complete response to the report.

## INTRODUCTION

Pursuant to the authority of the Inspector General Act of 1978, as amended, and the requirements of the Omnibus Trade and Competitiveness Act of 1988 and the Export Enhancement Act of 1992, the Office of Inspector General conducted a performance audit of the American Institute in Taiwan (AIT) Commercial Section and its related functions. Field work was conducted from September 29 through October 3, 1997.

Performance audits are objective and systematic examinations of an organization, program, activity, or function in order to provide information to improve accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action. By identifying systemic strengths and weaknesses, the Office of Inspector General (OIG) will help the Department's managers implement more efficient and effective operations to better serve the Department's customers.

We discussed our observations with the AIT/Taiwan Director and held an exit conference with the AIT Senior Commercial Officer (SCO) and the United States and Foreign Commercial Service (US&FCS) Regional Director for East Asia-Pacific on October 3, 1997. During our exit with the SCO, he noted his general agreement with the findings and recommendations presented in this performance audit report.

## PURPOSE AND SCOPE

The purpose of this performance audit was to evaluate the effectiveness of the Department's operations in Taiwan, primarily carried-out and implemented through the Commercial Section's offices located in the cities of Taipei and Kaohsiung.<sup>2</sup> The objective of the review was to review AIT's financial management system, internal control environment, and the role the post is playing in delivering US&FCS products and services and participating in major policy and program initiatives, plus its affect on developing U.S. exports.

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

- General management and organization
- Program activities and performance measurement
- Internal control environment

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<sup>2</sup>The OIG discloses that audit team members formerly worked for ITA; however, they had no material involvement with AIT operations.

We reviewed the policies, procedures, and practices being implemented by the AIT Commercial Section to determine if it is effectively and efficiently meeting its mission: to assist U.S. companies, particularly small and medium-size enterprises, with export assistance. We also determined whether the AIT Commercial Section's goals and objectives are being achieved, and are in line with US&FCS objectives. In addition, we evaluated the effectiveness and efficiency of operations and assessed their compliance with applicable laws, regulations, and procedures.

In accordance with General Accounting Office's *Standards for Internal Controls in the Federal Government*, we reviewed the agency's internal control environment relating to administrative and financial management. We conducted extensive testing to achieve our objective of determining the effectiveness of administrative and financial management controls.

More specifically, we tested the AIT Commercial Section's operations for compliance with GAO's *Policy and Procedures Manual for Guidance of Federal Agencies* and the Federal Managers' Financial Integrity Act of 1982 requirements. Due to the relative lack of computer-generated data at AIT, we did not rely extensively on this data to draw our conclusions concerning internal controls. Data that was available was used to draw some conclusions about AIT's internal controls; however, we did not test the reliability of the data or the underlying computer systems.

Instead, the report findings and recommendations draw upon significant tests of records; physical evidence; documentary evidence, including accounting records and memorandums; and analytical evidence based on the data obtained. We also conducted interviews with Department personnel, clients, and other organizations involved in trade promotion. The audit involved an extensive review of programmatic, management, administrative, and financial issues.

The audit also considered ITA's headquarters and domestic office activities and AIT Washington, D.C. office activities that are coordinated and implemented with its Commercial Section. The audit was conducted in accordance with generally accepted government auditing standards and was performed under the authority of the Inspector General Act of 1978, as amended, and Department of Commerce Organization Order 10-13, dated May 22, 1980, as amended.

## **BACKGROUND**

### **TAIWANESE MARKET**

The "Chinese Economic Area," which includes China, Hong Kong, and Taiwan, is the biggest of the "big emerging markets," equal to the seventh largest economy in the world and constituting the third largest trading partner for the United States. Taiwan, an important

component of the Chinese Economic Area, has a high per capita gross domestic product, low inflation, full employment, and a robust growth rate, but is natural-resource poor and is reliant upon imports to meet its domestic consumption and industrial needs. These factors, combined with a growing trend toward economic liberalization, mean continued opportunities for American businesses.

Over four decades, Taiwan transformed itself from an underdeveloped, agricultural island to an economic power that is a leading producer of high-technology goods. Taiwan has moved from being a recipient of U.S. aid in the 1950s and early 1960s to an aid donor and major foreign investor, especially in Asia.

Taiwan is the world's 13th largest economy with the world's third largest foreign exchange reserves and \$220 billion in two-way trade. The Taiwanese economy is expanding at a 6 percent annual rate while maintaining full employment and low inflation. Taiwan's high level of imports —\$101 billion in 1996 — reflects its status as a resource-poor trading entity. The island imports nearly all of its energy needs, most of the raw materials needed to maintain industrial production, and a wide range of manufactured and agricultural goods.

Taiwan is the United States' seventh largest export market and the United States remains Taiwan's largest overall trading partner. In 1997, U.S. exports totaled almost \$22 billion while the U.S. imports from Taiwan were valued at more than \$29 billion.

In recent years, U.S. economic dealings with Taiwan have focused on expanded market access for American goods and services. AIT has been engaged in a series of trade negotiations that have focused on protection of intellectual property rights, and issues relating to Taiwan's accession to the World Trade Organization (WTO), as well as other market access issues. Taiwan's bid to join the WTO and its desire to become an Asia-Pacific "regional operations center" are spurring economic liberalization moves. In 1991 Taiwan, under the name "Chinese Taipei," became a member of the Asia-Pacific Economic Cooperation (APEC)<sup>3</sup> forum, of which the U.S. is also a member. While significant portions of its economy are still in public sector hands, Taiwan is moving steadily toward liberalization and is continuing to reduce tariff and non-tariff barriers to imports.

## **THE AIT COMMERCIAL SECTION**

On January 1, 1979, the United States recognized the Government of the People's Republic of China as the sole legal government of China and acknowledged the Chinese position that there is but one China and Taiwan is part of China. Therefore, official diplomatic recognition shifted

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<sup>3</sup>Asia-Pacific Economic Cooperation (APEC) was formed in 1989 in response to the growing interdependence among Asia-Pacific economies to advance economic dynamism and a sense of community.

from Taipei to Beijing. However, Taiwan continues to enjoy Export-Import Bank financing, Overseas Private Investment Corporation guarantees, most-favored-nation (MFN) status, and ready access to U.S. markets. To maintain commercial ties with Taiwan, President Carter signed the Taiwan Relations Act into law, and the American Institute in Taiwan (AIT) was established shortly after in April 1979. AIT is a nonprofit, private corporation that undertakes a wide range of activities representing U.S. interests, including commercial services, economic and political reporting, agricultural sales, travel services, cultural exchange, and military sales. AIT has locations in Taipei, a branch office in the city of Kaohsiung in southern Taiwan, and a headquarters office located in Arlington, Virginia. AIT, while not an embassy, functions very similar to an embassy.

The AIT Commercial Section receives most of its funding through AIT (which receives funds through the Department of State) and a portion through the Department of Commerce under the terms of a Memorandum of Understanding (MOU). It operates similar to other US&FCS overseas post in terms of delivery of US&FCS products and services to U.S. exporters.

The Omnibus Trade Act of 1988 requires AIT to staff the Commercial Section commensurate with the US&FCS post in Seoul, Korea. At the time, AIT did not have the financial resources to fully staff its Commercial Section and it entered into an MOU in July 1990 with US&FCS under which additional positions would be funded by US&FCS through reimbursement. To the extent that AIT promised in each successive MOU to seek funding from US&FCS for the additional positions, the MOU reflects an interim arrangement that appears to have become semipermanent. The current MOU was signed by US&FCS and AIT/Washington in May and June 1997. Pursuant to the MOU arrangement, AIT pays the majority of the Commercial Section's costs, while US&FCS agrees to fund certain positions and associated costs.

AIT is also unique in terms of the status of officers assigned to its operations by the Department. US&FCS Commercial Officers assigned to the Commercial Section must resign and then become employees of AIT, although they have reemployment rights with US&FCS.

The AIT Commercial Section ranks sixth on the US&FCS Overseas Resource Allocation Matrix (ORAM) out of 69 posts.<sup>4</sup> The Commercial Section operates in two cities in Taiwan -- the main office is located in the Taiwan World Trade Center in Taipei, and a second office is located in the port city of Kaohsiung in southern Taiwan. The main office in Taipei is where most commercial activity occurs. Six of the seven Commercial Officers and 19 of the 21 Foreign Nationals (FNs) are located in Taipei. The Commercial Section's Trade Center facility is located on the seventh floor of the Taiwan World Trade Center in Taipei. The Trade Center has facilities which the Commercial Section and its clients utilize for trade and product promotion, technical seminars, training programs, and hospitality events.

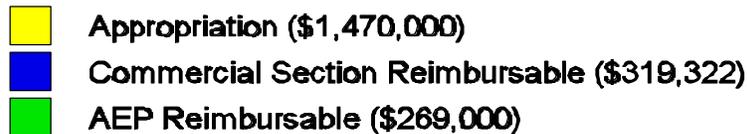
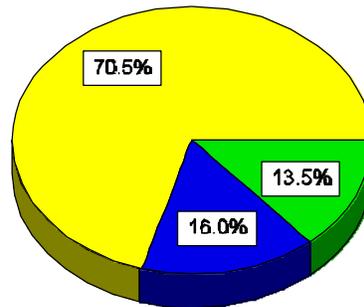
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<sup>4</sup>The ORAM is a US&FCS tool to guide management in overseas resource allocation decision making.

In FY 1997, total operating funds for the Commercial Section were \$2,058,322, including reimbursables for the United States-Asia Environmental Partnership (U.S.-AEP) program.<sup>5</sup> The reimbursable portion paid by US&FCS for the AIT Commercial Section consumes less than 1 percent of the total overseas budget of the US&FCS.

### Commercial Section Operating Funds

FY 1997 Total - \$1,995,322



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<sup>5</sup>The United States-Asia Environmental Partnership is an interagency program led by the U.S. Agency for International Development. Established in 1992, the program is designed to assist in addressing environmental degradation and sustainable development issues in Asia and the Pacific. U.S.-AEP technical representatives are located in 10 Asian posts to facilitate implementation of the program's activities.

## FINDINGS AND RECOMMENDATIONS

During our audit, we found notable strengths in several areas. At the same time, we also identified weaknesses. Management should address several areas of concern in order to increase the quality and productivity of the AIT program. In addition, improvements in internal controls are needed to ensure timely recording of financial transactions and to safeguard assets. We have categorized our findings and recommendations into three broad areas:

- General management and organization
- Program activities and performance measurement
- Internal control environment

### I. GENERAL MANAGEMENT AND ORGANIZATION

Progress in the management and organizational structure in the AIT Commercial Section has been made, but improvements are still needed. The SCO has made organizational changes that have resulted in improved operations, as well as a motivated and productive staff. The Commercial Section has fostered a positive atmosphere around its operations, maintaining strong, productive relations with its clients, multiplier organizations and other AIT agencies.

Nevertheless, additional improvements are needed. The relationship among the Commercial Section, the Department of Commerce, and AIT/Washington, embodied in the Memorandum of Understanding between AIT and US&FCS, needs improvement. Furthermore, inexperienced Commercial Officers and inadequate Chinese language skills among many of the officers hamper the effectiveness of the operation. In addition, management weaknesses in trade promotion leadership and the U.S.-AEP program need to be addressed.

#### A. MOU Between US&FCS and AIT Is Unclear and Ineffective

We found that the MOU between US&FCS and AIT does not contain clear terms or conditions, resulting in disputes over positions covered and associated costs to be reimbursed and potentially improper payments. In addition, US&FCS has not adequately monitored the agreement to followup on the clause requiring AIT to find a permanent source of funding to replace US&FCS' temporary funding of AIT Commercial Section positions. Therefore, a temporary arrangement has continued for over seven years, with no resolution planned.

### MOU Terms and Conditions Need Clarification

The MOU terms and conditions do not clearly identify (1) the number of positions US&FCS is to fund for AIT's Commercial Section, (2) specify what associated costs will be reimbursable, or (3) require adequate billing documentation be submitted with each request for payment. In effect, US&FCS does not know what it is paying for or whether its reimbursement to AIT is reasonable and justified. Until recently, US&FCS has made little effort to manage the agreement or to address the flaws in the terms and conditions.

The MOU does not clearly identify reimbursable positions and is considered vague or unclear by US&FCS and Commercial Section officials. This lack of position identification has become a point of disagreement between all the parties involved. AIT/Washington and AIT/Taiwan officials do not agree as to which positions are the responsibility of AIT and US&FCS, respectively. For example, correspondence from the Executive Director of AIT/Washington refers to certain commercial officer positions to be reimbursed by Commerce, but statements by the AIT/Taiwan General Services Officer to the OIG during our review cited different positions to be covered by Commerce under the MOU. The SCO agreed and stated that the MOU does not define which positions are to be covered. Clearly, there is no consensus among the parties on which positions are to be covered by AIT and which are to be reimbursed by Commerce.

In addition, US&FCS and AIT disagree over the nature of costs associated with the MOU for which US&FCS is responsible. Reimbursable costs are defined in the MOU as all associated and administrative support costs, including salary, benefit allowances, travel, housing, furniture and furnishings, and equipment and supplies. Under the MOU, US&FCS is charged for direct salary costs and has also been charged an annual \$55,496 fee for administrative support. The MOU does not specify how this overhead charge is calculated nor has AIT ever provided the details to support this figure. Correspondence between US&FCS and AIT shows that there is no consensus as to how certain charges should be treated. For example, matters such as whether the administrative support cost could be prorated were not provided for in the MOU and therefore had to be negotiated.

As a result of the ambiguity of the agreement, AIT has also attempted to include charges that are not clearly defined as reimbursable or has not adequately supported its billings with documentation. For example, the budget reflected charges for market promotion, maintenance and repair, and household furnishings. The SCO argued that market promotion expenses are paid for out of corresponding trade event collections, and in the past have never been considered a reimbursable cost. With respect to the latter two charges, the SCO argued that they were already included in the administrative support fee. It would appear that AIT may be double billing US&FCS for these expenses.

US&FCS has made payments to AIT under the MOU without adequate billing documentation to determine accuracy. US&FCS received a January 10, 1997, request from AIT to remit 50 percent of the estimated total FY 1997 reimbursable costs. Having made certain adjustments to these estimated charges, US&FCS remitted its payment to AIT on July 9, 1997. US&FCS did not have detailed fiscal information for FY 1996 or FY 1997 when this payment was made. While US&FCS management acknowledged that it did not have detailed support documentation for these charges, this payment was described as a good faith effort. In September 1997, US&FCS paid the remaining balance of the charges that it agreed fell under the reimbursable agreement. In addition, in September 1997, US&FCS disputed charges totaling \$119,000 from AIT, citing disagreement over which positions are to be covered and the fact that the billing contained no detail or documentation to support this figure.

In effect, US&FCS made payment without knowing whether the AIT charges were legitimate. While AIT believes that its new financial management system will provide more and better financial information to US&FCS, the terms for payment are not specific enough in the current MOU. We believe that no payments should be made without detailed financial information. Without such documentation, US&FCS cannot adequately ensure that it is paying for appropriate items.

In a separate inspection, our office has found that ITA lacks formal written guidelines for undertaking agreements such as MOUs. Without guidelines for executing agreements, ITA is vulnerable in many ways as is demonstrated in the subject MOU. We will address this issue in a separate report and will recommend that ITA develop policies and procedures that address key elements in the agreement process: completeness of content; budgetary, procurement, and legal reviews; and full cost recovery.

We believe that contributing to the disagreements concerning positions and costs under the MOU is the absence of meaningful communication between parties to the MOU. For example, while correspondence from the SCO to US&FCS indicates that the SCO was concerned with a number of MOU-related issues, he stated that his input was ignored for more than two years by the previous US&FCS Regional Director and he was not substantively involved in drafting the MOU signed in June 1997. US&FCS headquarters officials also noted the poor communication between the organizations, the need to improve relations with AIT and the lack of information flow from AIT concerning its commercial operations, which is the basis for the MOU. AIT officials in Washington noted that there was disagreement between themselves and US&FCS concerning position coverage, billing terms and there were problems in overall relations between the organizations.

### Full Funding for AIT Not Resolved

US&FCS did not aggressively monitor the terms of both the agreement and the needs of the Commercial Section. As noted above, the MOU states that US&FCS will be absolved of its funding responsibilities when AIT receives full funding (through the State Department) for the Commercial Section. The MOU between US&FCS and AIT, however, continued for seven years with no US&FCS evaluation of the extent to which AIT is seeking additional funding. The MOU did not require AIT to request full funding for the Commercial Section, nor did it explain how AIT and/or US&FCS will monitor steps taken to meet this objective. Having made no attempt in the past to monitor AIT's funding requests, US&FCS continued to finance an agreement which was designed to be temporary.

US&FCS adopted a "laissez faire" attitude toward the MOU. US&FCS senior management indicated that, since US&FCS gets a fully operational Commercial Section at a fraction of its full cost, a less aggressive stance when negotiating with AIT is appropriate.<sup>6</sup> The SCO suggested that AIT's MOU negotiating strategy may assume that US&FCS does not consider the MOU arrangement to be a high priority, given the small amount of US&FCS money involved in supporting the Commercial Section (relative to the entire US&FCS budget). To the extent that the SCO has already warned US&FCS that AIT will likely attempt to shift more of its costs to client agencies, the passive US&FCS approach does not adequately consider the long-term opportunity cost to US&FCS of future staff time spent negotiating issues that could be clearly defined in the MOU.

We believe that the flaws in the MOU require the parties to renegotiate it as soon as practicable.

### **B. Officers' Inexperience Limits Potential Success of Operation**

With the exception of the SCO, all of the Commercial Officers in Taipei are serving in their first overseas assignment. In addition, according to the SCO, four of the seven officers lack adequate Chinese-speaking skills. This is due to the transfer of several qualified officers from Taiwan to mainland China prior to the SCO's arrival in Taipei. Commercial Section management, staff, and partner organizations agree that the current officers' poor language skills and inexperience hamper their effectiveness in the field.

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<sup>6</sup>The total paid by US&FCS for FY 1997 for the Commercial Section (inclusive of U.S.-AEP) equaled \$588,322 (based on September 30, 1997 letter from US&FCS to AIT/Washington). This represented approximately 29 percent of the total costs of the Commercial Section.

### Officers possess limited field experience

According to the SCO and Deputy SCO (DSCO), the environment and the complexity of the market make Taiwan a difficult first assignment for a non-Chinese-speaking officer. The personnel placement strategy of US&FCS management has not accounted for this condition. Instead, US&FCS has continued to assign junior officers to the Taipei office, despite the fact that qualified officers have applied for the post. While the SCO has made a concerted effort to broaden the exposure of his staff, leading the junior officers on a series of visits that introduced them to key contacts in their sectors, he has acknowledged that the output of the Commercial Section could be higher with more experienced officers.

Partner organizations have also questioned whether the Commercial Section staff is experienced enough to positively affect business opportunities for American firms and stressed the need for more high-level contacts between the Commercial Section and the Taiwanese government. To establish these contacts and extend outreach, we believe that additional field experience among the officers is necessary.

### Officers lack adequate language skills

Exacerbating the problem created by the lack of experience among the officers, US&FCS management has assigned personnel with inadequate Chinese-speaking skills. All but one of the officer positions in Taiwan are language-designated. Similar to mainland China, English is not widely spoken by the local business community. As a result, it is exceedingly difficult for the junior officers to foster relationships that create opportunities for U.S. companies. To expand such opportunities and perform effective trade promotion, the language-speaking capabilities of the officers must significantly improve.

## **C. Key Areas Need Management Improvements**

Vacancies in the leadership of key functional areas are negatively impacting the operational effectiveness of the Commercial Section's trade promotion efforts. Specifically, we believe that the areas of trade promotion and the U.S.-AEP program require special management attention. In addition, inadequately trained personnel in the Commercial Section's administrative and financial areas have resulted in a high-risk environment.

### Trade promotion function is inadequately staffed

Despite repeated requests from the post, US&FCS management has not filled the trade promotion coordinator position with an experienced officer for more than two years. In the

absence of such an officer, however, the SCO has not adjusted the office structure to address the deficiency in this vital program area.

Under the current organizational structure of the Commercial Section, the staff member in charge of trade events and trade promotion coordination is a temporary employee. Though both the SCO and several officers made special note of the time and effort contributed by this individual, he has no prior experience in trade promotion, and management has not provided him with sufficient training. Exacerbating the problem, the Commercial Section lacks an effective countrywide trade promotion plan or a Commercial Section-partner organization joint marketing strategy to guide these operations. The end result is a trade events program that is not as effective as it could be. We believe this approach negatively impacts the level of service that Commercial Section clients receive and has resulted in a low number of success stories generated by the Commercial Section (see page 19 for further detail on this issue).

Inadequate language skills and market knowledge hampering  
United States-Asia Environmental Partnership program

The market for environmental technology products in Taiwan is the third largest in Asia, and thus presents major opportunities for companies in the environmental sector. Though the U.S.-AEP program was set up, at least in part, to assist U.S. firms in this industry, the technical representative who leads the program does not possess the language skills, local market knowledge, or contacts necessary to actively monitor market developments.

Though U.S.-AEP has achieved success stories, several U.S. state trade promotion offices complained that the technical representative is not attentive to the ever-changing industry regulations, and is unable to identify developing opportunities for U.S. companies. According to these offices, the successes that American environmental firms achieve are largely the result of market conditions, rather than effective promotion and outreach from the U.S.-AEP office.

The SCO has acknowledged U.S.-AEP's need to expand outreach efforts and establish a greater number of industry contacts. The technical representative's inability to speak Chinese will make the SCO's involvement in this process essential. We believe greater management participation is also necessary to bring higher visibility to the U.S.-AEP program in Taiwan and to restore the program's reputation with partner organizations.

Administrative/financial operations of the Commercial Section  
are inadequately staffed and managed

The Commercial Section does not have adequately trained and experienced personnel operating and managing its administrative and financial operations. While we did not find any evidence of

wrongdoing, weaknesses in this area have resulted in poor internal control practices and management, resulting in a high-risk internal control environment.

The two key personnel in this operation, the trade center assistant and the Deputy SCO, have not received adequate financial and administrative management training. The Commercial Section currently relies on one staff member — a trade center assistant— to administer day-to-day financial management responsibilities. The position represents a combination of administrative assistant duties, secretarial duties, and accounting duties. The Deputy SCO is responsible for supervising this individual as well as oversight of the administrative functions.

Commercial Section management believes that many of the financial management problems (See page 24) associated with the trade center assistant are caused by more than just a lack of adequate training.

[REDACTED]

**b(6)**

[REDACTED]

## RECOMMENDATIONS

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

1. Coordinate the renegotiation of the MOU between US&FCS and AIT to include terms and conditions that clearly:
  - Agree on a timeframe for AIT to fully fund the Commercial Section.
  - Clearly identify which positions are to be paid for by US&FCS.
  - Agree on a schedule of associated and administrative support costs that are to be covered by reimbursable agreements. US&FCS should systematically review these charges.
  - Include specific terms for billing and payment terms associated with the MOU, including the type of support documentation that must accompany billings.
2. Ensure that US&FCS and the AIT Commercial Section develop a system to verify the validity of MOU billing statements.

3. Ensure that the US&FCS assigns a permanent trade events officer to the post.
4. Ensure that the AIT Commercial Section develops a countrywide trade promotion plan by April 1999.
5. Instruct the Commercial Section to develop a plan by April 1999 for improving the U.S.-AEP program and expanding outreach efforts of the technical representative.
6. Reevaluate the administrative and financial management structure of the Commercial Section in order to ensure that responsibility for day-to-day financial management is carried out by adequately trained personnel and that appropriate supervision is maintained at all times. For senior Commercial Section staff, administrative training with respect to the implementation and monitoring of internal control procedures should be provided.

### **US&FCS's Response to Draft Report and OIG Analysis**

US&FCS agrees with, or has taken action consistent with, all of the OIG recommendations in this area. US&FCS reports that they have achieved close to full staffing of the Commercial Section in Taiwan, an improvement over what the OIG observed a year ago.

A summary of US&FCS's position on each recommendation, as stated in the draft report, is presented with OIG comments on the US&FCS response.

#### **Recommendation #1:**

*Coordinate the renegotiation of the MOU between US&FCS and AIT to include terms and conditions that clearly:*

- *Agree on a timeframe for AIT to fully fund the Commercial Section.*
- *Clearly identify which positions are to be paid for by US&FCS.*
- *Agree on a schedule of associated and administrative support costs that are to be covered by reimbursable agreements. US&FCS should systematically review these charges.*
- *Include specific terms for billing and payment terms associated with the MOU, including the type of support documentation that must accompany billings.*

US&FCS Response (in order of the recommended terms and conditions):

(1) US&FCS has long sought to heighten and specify AIT's commitment to the Commercial Section. AIT has always claimed to be underfunded and, in the past year, has claimed that it cannot continue to support the costs of the commercial and agricultural sections in Taiwan. While Congress's funding has increased recently, we suspect that the amount dedicated by AIT to the Commercial Section is less than Congress intended. US&FCS is therefore pursuing two options: (1) seeking direct funding from Congress and OMB (yielding to AIT's claim of underfunding), (2) while continuing to challenge AIT's contention, and pressing for a base transfer of funds, supplemented by a US&FCS contribution.

(2) The current MOU identifies the positions which each organization is responsible to fund. One of the positions is under dispute (the executive officer), and AIT refuses to discuss updating the MOU as proposed by US&FCS. US&FCS will continue to seek resolution of this matter.

(3) AIT has undertaken a review of the administrative costs charged to other agencies, including US&FCS. US&FCS will examine the new schedule closely before agreeing to it. US&FCS will seek a reimbursable agreement, appended to a revised MOU, identifying the charges and agency obligations.

(4) AIT has implemented, after much delay, a new accounting system, and US&FCS looks forward to the first billing. While the current MOU seems to adequately address this issue, US&FCS will include more specific language relating to the billings in a revised MOU.

OIG Comment: We concur with US&FCS's response to our recommendation. We are encouraged by the initiative to address the MOU in greater detail and include all parties in the negotiations.

Recommendation #2:

*Ensure that US&FCS and the AIT Commercial Section develop a system to verify the validity of MOU billing statements.*

US&FCS Response: US&FCS agrees that AIT's inability to produce final figures led to US&FCS making payments on the basis of estimates rather than actual invoices. US&FCS was reluctant to hold AIT hostage for its shortcomings; AIT would then threaten to suspend services.

This practice, though flawed, appeared acceptable as long as the estimates were in line with anticipated costs. US&FCS headquarters and the Commercial Section will follow Departmental guidelines and good judgment to validate or reject the new billing statements.

OIG Comment: We are encouraged that US&FCS will follow Departmental guidelines to validate or reject future billing statements. We look forward to more specificity pertaining to our recommendation in the US&FCS audit action plan.

Recommendation #3:

*Ensure that the US&FCS assigns a permanent trade events officer to the post.*

US&FCS Response: US&FCS concurs that the trade promotion function merits a full-time officer, but US&FCS has very few such officers who are experienced and Chinese-fluent. The solution, which has worked satisfactorily, has been to hire extremely capable local candidates under the SCO's supervision. US&FCS believes it is effective until a suitable career officer becomes available.

OIG Comment: We appreciate the difficulty in hiring an officer with the appropriate background. Nevertheless, the importance of the Taiwanese market should make this a top priority for US&FCS. Therefore, we reiterate our recommendation included in the Draft Report.

Recommendation #4:

*Ensure that the AIT Commercial Section develops a countrywide trade promotion plan by April 1999.*

US&FCS Response: US&FCS acknowledges that at the time of the OIG visit, the trade promotion program was not working at full capacity because the PCO position in Kaohsiung had been vacant for an extended period. US&FCS now has an island-wide program. AIT maintains offices in Taipei and Kaohsiung. The main office is located in the Taipei World Trade Center, owned by the China External Trade Development Association (CETRA). CETRA manages the major exhibitions in which the Commercial Section participates and promotes AIT events throughout the island. US&FCS will look for additional promotional opportunities.

OIG Comment: We concur with US&FCS's response to our recommendation and we are encouraged that the post is developing and implementing a more comprehensive trade promotion program.

Recommendation #5:

*Instruct the Commercial Section to develop a plan by April 1999 for improving the U.S.-AEP program and expanding outreach efforts of the technical representative.*

US&FCS Response: At the time of the OIG visit, the technical representative had been on the job for only five months. Since that time, he has had thirteen additional months of intense on-the-job training, which has eliminated many problems. He has prepared a "Taiwan Environmental Market Summary," appeared at numerous trade conferences and events, and established high-level contacts that are invaluable in helping U.S. companies. In his first full year on the job, the USAEP-Taiwan office recorded \$30 million worth of sales for SMEs, 150 percent greater than for the previous four years combined. The technical representative has written a comprehensive FY 1999 work plan for the office that has drawn high praise for its ambition and depth from several agencies and organizations.

OIG Comment: We concur with US&FCS's response to our recommendation.

Recommendation #6:

*Reevaluate the administrative and financial management structure of the Commercial Section in order to ensure that responsibility for day-to-day financial management is carried out by adequately trained personnel and that appropriate supervision is maintained at all times. For senior Commercial Section staff, administrative training with respect to the implementation and monitoring of internal control procedures should be provided.*

US&FCS Response: The OIG team recognized that there is no sign of mismanagement or wrongdoing within the Commercial Section's internal financial operation. It also made it clear that the DSCO and administrative assistant need extensive training to avoid poor practices and reduce the risk of error. US&FCS agrees on that need and is arranging for training. Still, as a privately-run corporation operating under State Department guidelines, AIT operates many of its accounting responsibilities and functions, not the Commercial Section, as stated in the report. Budgetary and contracting authority is exercised by the AIT, so the Commercial Section's power is comparable to that of a Class-B subcashier.

OIG Comment: We concur with US&FCS's response to the recommendation and look forward to the training plans to be presented in the audit resolution plan.

## II. PROGRAM ACTIVITIES AND PERFORMANCE MEASUREMENT

The Commercial Section has been successful in the delivery of US&FCS products and services, although there are areas that need improvement. The Commercial Section is producing a high volume of quality research products and timely services for its clients. We also noted a high level of client satisfaction with the products and services.

However, we found that the post is devoting significant time and resources to trade policy matters at the expense of its trade promotion program. In fact, the Commercial Section is leading AIT's efforts on a number of trade policy issues. This attention to trade policy is manifested in the relatively low level of attention devoted to its Trade Center—the most public and visible component of its operations. The Trade Center facility and materials on display appear dated, and the center is kept closed except for brief periods when it is used by clients. In addition, the Commercial Section's pricing policy for services provided to the U.S. business community, as well as for trade events, needs immediate review to bring the pricing policy into compliance with departmental guidelines.

In addition, while the Commercial Section has generated a high dollar figure of success stories, the number of success stories is small and reflects too many large company, advocacy-related projects. Insufficient attention is being paid to programs that assist small and medium-sized companies. Finally, the Commercial Section is providing inadequate support for BXA's licensing and shipment needs by not responding in a consistently timely manner and not following requirements for on-site verifications.

### A. Post Heavily Engaged in Policy Matters at the Expense of Trade Promotion

The AIT Commercial Section is heavily involved in policy matters and has, in fact, taken the lead on some policy issues for AIT's Economic (ECON) Section. While we acknowledge that important work on market access and trade barrier issues cannot be divorced from pure trade promotion work, we maintain that, under the Omnibus Trade and Competitiveness Act of 1988 and the Export Enhancement Act, AIT's principal function as an agent of US&FCS is to carry out trade promotion functions. We believe trade promotion activities should be the primary focus of the AIT Commercial Section, and this critical function should receive more resources. We noted the following evidence concerning the Section's role in trade policy matters:

- The Commercial Section is taking the lead on trade policy issues in the areas of telecommunications, pharmaceuticals, government procurement, liberalization issues, and health care reform.

- US&FCS headquarters regional management described the Commercial Section as fully involved in many policy issues.
- The Commercial Section's FY 1997 Strategic Commercial Plan is heavily tilted toward describing the Section's goals in terms of trade policy initiatives and, in comparison, describes very little in terms of plans and goals concerning trade promotion activities.
- Interviews with the Commercial Section's management and staff found estimates of time spent on trade policy issues to range from 10 to 40 percent, with higher level and more experienced officers spending an even larger percentage of their time on policy matters.

The effect of concentrating significant resources of the Commercial Section on trade policy issues is to have fewer resources available to augment trade promotion, which we earlier noted as having inadequate resources. We acknowledge that there are significant trade issues affecting the ability of U.S. firms to enter the Taiwanese market. However, we believe that it is the responsibility of the AIT ECON Section to take the lead on trade policy issues and that the Commercial Section must focus its attention on trade promotion activities.

#### **B. Post Is Not Focusing Sufficiently on Small and Medium-Sized Companies**

Though the total dollar-value of the Commercial Service's success stories is high, the actual number of success stories for the AIT Commercial Section is low compared to commercial offices in other Asian countries, such as Japan and Korea. A primary reason for this is that the Commercial Section focuses much of its time and effort on assisting large, old-to-market companies to secure big-dollar contracts through advocacy. By concentrating so heavily on these projects, the Commercial Section is not achieving a high number of successes with small and medium-sized firms.

During FY 1996, the Commercial Section reported 22 success stories that totaled \$4.4 billion in U.S. companies' sales. In FY 1997, the Commercial Section achieved 31 success stories with an estimated value of \$3.1 billion in U.S. sales. In comparison with US&FCS Korea, which has roughly the same staff size as Taiwan, there is an approximate equality of dollar figures in success stories, but AIT has only about one-quarter of the number of success stories.

During FY 1996 and FY 1997, large companies represented over 40 percent of the success stories. The multimillion, even billion, dollar contracts that these companies compete for usually require long-term effort. Providing effective advocacy on these projects consumes a substantial amount of the Commercial Section's time. As a result, the Commercial Section spends less time developing opportunities for small and medium-sized, new-to-market, and new-to-export firms. We believe these companies have the greatest need for export and market guidance and could benefit most from the Commercial Section's products and services.

In general, the International Trade Administration (ITA) stresses assisting small and medium-sized enterprises over large enterprises. We believe such an approach is consistent with the intent of Congress. According to the Export Enhancement Act of 1988, the basic purpose of US&FCS is to promote the export of U.S. goods and services, particularly by small and medium-sized businesses. The post should redirect more of its attention toward small and medium-sized enterprises.

In addition, our interviews with the staff indicate that the Commercial Section does not effectively follow up with small and medium-sized firms to ensure customer satisfaction. According to the industry teams in the Commercial Section, this type of follow-up work takes low priority on the scale of duties that are performed by staff members. The Commercial Section's lack of routine follow-up suggests that the office may be missing the successes of satisfied customers.

### **C. Trade Center Is Not Used Effectively as a Marketing Tool**

The AIT Commercial Section maintains a Trade Center facility, essentially a conference/exhibit room, on the seventh floor of the Taipei International Trade Center Exhibition Hall. The Trade Center is adjacent to the office complex where the Commercial Section maintains its offices. The first six floors of "storefront" space surrounding the Hall are used by local export-oriented companies. The top floor is used by groups promoting imports to Taiwan. We noted offices representing the trade interests of a large number of American states, such as Indiana, Arizona, Hawaii, and Louisiana, and others representing foreign interests, such as Oman, Ireland, and the Philippines.

The Trade Center facility is not used effectively as a marketing tool and may actually be detrimental to the Commercial Section's outreach and trade promotion activities. The Trade Center's competition—for example other countries who have facilities in the building—maintain more visibly active and professional looking facilities than does AIT, and by extension, the United States. The Trade Center is usually kept dark and locked, except during the brief times it is being used by Commercial Section clients. It is not well integrated with the rest of the Commercial Section's operations. The furnishings and decor in the facility appeared dated. Some of the materials that were on shelves lining the facility, such as catalogues representing U.S. firms, also appeared to be dated. The facility does not compare well with the attractive, lit, and inviting facilities representing other countries or U.S. states.

Commercial Section management agreed that the Trade Center could use a “face-lift,” but also stated that the necessary funds are not available. The SCO stated that he viewed the Trade Center as an asset to give up should the Commercial Section be forced to take budget reductions.

However, we believe that the Trade Center could fulfill a more critical and visible component of the Commercial Section’s outreach program. Instead of using the Trade Center as an expendable asset, the Commercial Section should put more emphasis and resources into fuller utilization of the facility. The facility could contribute much more to the Section’s marketing and outreach programs, leveraging multiplier partnerships, as well as hosting trade events, conferences, and seminars.

**D. The Commercial Section Does Not Apply Federal and Departmental Guidelines Regarding Cost Recovery**

We also found that cost recovery analyses related to Trade Center operations are not being performed, nor is there a methodology in place to perform such analyses. As a result, revenues from Trade Center events run the risk of not fully covering the expenses attributable to the running the facility. Our analysis indicates that AIT is exceeding full cost recovery requirements.

The Commercial Section consistently overcharges U.S. companies

The Commercial Section is consistently generating surpluses on trade events staged for U.S. companies. Federal regulations state that collections must bear a close relationship to the cost of the specific program activity undertaken. During FY 1995 - FY 1997, the Commercial Section averaged a profit of 11.65 percent on trade events it sponsored. Profits on individual trade events ranged from \$5 to \$27,745.<sup>7</sup>

For example, for the majority of FY 1997, the Commercial Section provided cubicle space in its primary offices to a Gold Key participant. For what amounted to an 11-month sub-lease, the Gold Key participant paid \$47,515. Federal cost recovery guidelines require that business assistance activities are to be self-sustaining and dedicated principally to the recovery of all associated direct costs.<sup>8</sup> While the Commercial Section incurred additional overhead expenses

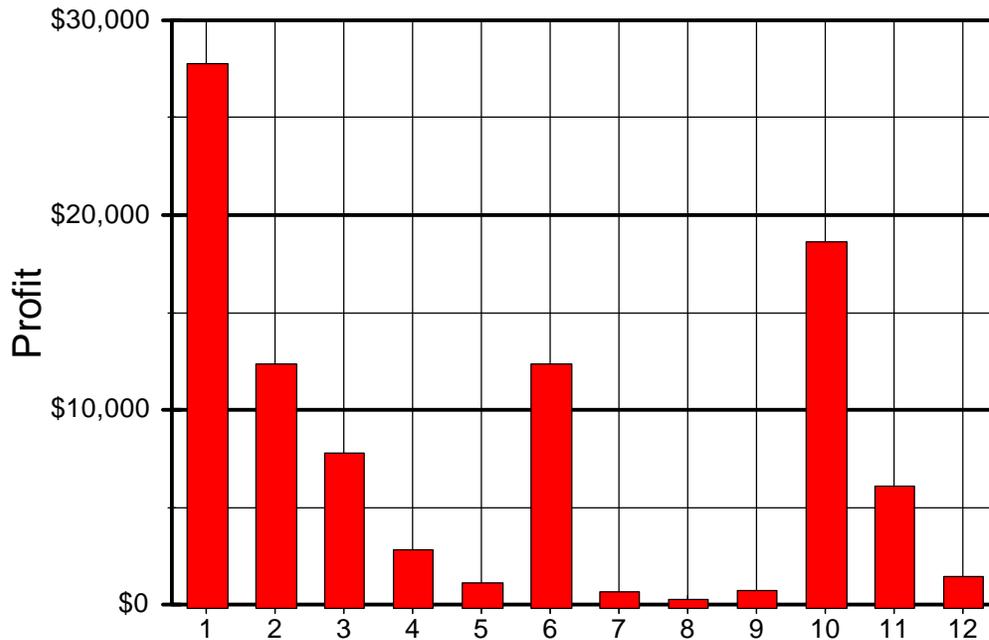
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<sup>7</sup>Surpluses earned during FY 1997 were used to off-set Trade Center costs in our cost recovery calculation.

<sup>8</sup>US&FCS Operations Manual, Chapter 315.1, “Scheduling and Budget Procedures for Export Promotion Activities,” 8/92.

(electricity, phone usage, and photocopying) associated with this arrangement, the primary cost (the leasing cost per square foot) was unchanged, as this was a fixed cost. When comparing its leasing cost per square foot (\$1,510) to what it charged the Gold Key participant, we have calculated that the primary fixed cost was recovered at a rate of more than 31 times the Commercial Section's costs.

### Profit on Trade Events FY 1995 - FY 1997



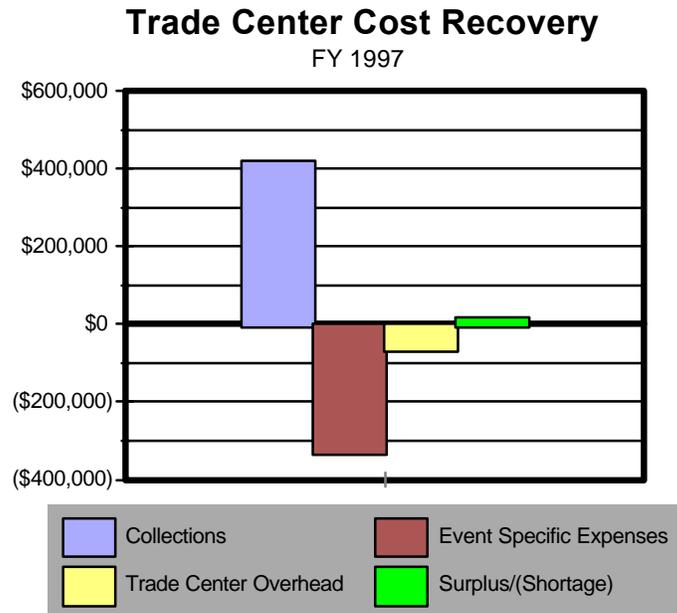
#### The Commercial Section is not following cost recovery guidelines

The Commercial Section was unable to demonstrate that expenses generated by the Trade Center were being recovered by facility revenues. According to Federal regulations, events staged at a fixed U.S. Government facility should collectively recover all the facility's costs, including overhead costs.<sup>9</sup> Based on our review, the Commercial Section is not maintaining or reviewing cost and revenue information associated with Trade Center operations. Without this information and a sound cost recovery methodology in place, an analysis of Trade Center cost recovery cannot be performed and conformity with Federal regulations cannot be determined. Commercial Section management explained this deficiency by stating that they were not aware of the above-referenced cost-recovery requirement.

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<sup>9</sup>31 U.S.C. Sec. 9701, "Fees and charges for Government services and things of value."

Due to the significant trade event surpluses generated by the Commercial Section, as discussed below, we determined that Trade Center expenses were being recovered, ending with a surplus of more than \$23,000.



However, without adequate planning, the Commercial Section cannot ensure that the Trade Center will continue to recover the cost of its services or that it is not overcharging.

#### **E. The Commercial Section Needs to Broaden Its Focus**

The Commercial Section is focusing its trade promotion efforts in Taiwan almost exclusively on large companies in the Taipei area. In addition, according to staff interviewed, few of the officers and FNs are involved in regional trade promotion activities. The reason for this is two-fold: regional planning is minimal, and no regular line of communication exists with the US&FCS domestic teams. We believe that a broader focus on trade promotion within the country, and throughout the Asia-Pacific region, would boost operational effectiveness.

##### In-country approach caters to large firms

The Commercial Section focuses its trade promotion efforts in the Taipei area because most companies with operations in Taiwan have administrative or representative offices in Taipei.

This strategy caters more to the larger, old-to-market firms. Significant opportunities for small and medium-sized companies in other Taiwanese markets often do not receive attention.

Specifically, during FY 1997, trade promotion and outreach to the Kaohsiung area in southern Taiwan suffered as no significant services or products were generated by the Commercial Section, due mainly to the absence of an officer in Kaohsiung. After the departure of the previous officer in Kaohsiung, US&FCS management took eight months to place a new officer at post.

Though the recently arrived Principal Commercial Officer has undertaken an ambitious outreach program, we believe Commercial Section management could focus greater attention on opportunities outside of Taipei. In particular, according to partner organizations and staff in Kaohsiung, the U.S.-AEP program is neglecting the Kaohsiung area, despite a concerted effort by Commercial Section Kaohsiung and those partner organizations to have U.S.-AEP broaden its focus outside of the Taipei region. As a result, a booming market for environmental technologies remains largely untapped by U.S. firms.

#### Efforts to develop regional opportunities should be expanded

Few regional opportunities outside Taiwan have been targeted and included in the Commercial Section's strategic planning process. Though the SCO has made efforts to initiate a common strategy for the Chinese Economic Area (mainland China, Hong Kong, and Taiwan), little emphasis has been placed on developing Asia-Pacific regional strategies. In addition, according to our interviews, the staff's contact with US&FCS domestic teams is sporadic. As a result, there is no joint strategy development for common growth markets. Thus, potential U.S. exporters are less aware of regional export opportunities.

Partner organizations have stressed the need for greater regional interaction to better service export-ready firms with an interest in more than one Asian market. We believe that the Commercial Section, in cooperation with regional management and the domestic teams, should make a greater effort to use their successes as the basis for developing more regional trade promotion opportunities. Such an approach is consistent with the National Export Strategy, which intends for the more developed U.S. trading partners to serve as gateways to less traditional markets in the region.

#### **F. Post Needs to Better Manage BXA-Related Responsibilities**

BXA relies on US&FCS posts and AIT to assist in fulfilling its export control activities. Specifically, BXA requests the posts to perform Pre-License Checks (PLCs) and Post-Shipment

Verifications (PSVs) to verify the legitimacy of certain export transactions.<sup>10</sup> However, we found that the Commercial Section is not following required procedures in its role in supporting the BXA's requirements for PLCs and PSVs.

If not done timely, legitimate U.S. business transactions could be delayed or lost (in terms of a PLC), or for a PSV, an untimely response could prevent BXA from taking action to interdict diversion activity. Taiwan is considered a major diversion point internationally.

During FY 1997, a high percentage of all requests for support for PLCs/PSVs was not completed and transmitted to BXA within procedural timeframes by the AIT Commercial Section. We found that 64 percent of all PLCs and 75 percent of all PSVs were not completed within established timeframes.<sup>11</sup> AIT management stated that they had not done an adequate job monitoring these activities and were not aware that there was a timeliness problem.

Furthermore, AIT/Kaohsiung allowed a contract employee to conduct PLCs during FY 1997, in lieu of an American officer as required. We were told that this was during the period when no Commercial Officer was present in Kaohsiung during FY 1997, but of the two PLCs that were completed by the contract employee, both cables identified the contract employee as a Commercial Officer, which tended to obscure the identity of who actually conducted the PLCs. BXA officials advised that, with waiver, contract employees and/or FNs can conduct PLCs, but always under the supervision of an American officer. In this case, neither requirement was met by the Commercial Section.

## RECOMMENDATIONS

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

1. Redirect the Commercial Section's attention toward trade promotion activities and ensure that the Commercial Section develops a marketing strategy targeted toward small and medium-sized firms.
2. Analyze the AIT Trade Center facility to determine if there are additional opportunities for utilization of the facility, to improve the marketing strategy and presentation of the

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<sup>10</sup>Pre-License Checks determine if an overseas person/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 U.S. were received and are being used in accordance with the provisions of the export license.

<sup>11</sup>PLCs need to be completed within 28 calendar days from receipt of the action cable from BXA. PSVs are required to be completed within 60 calendar days from receipt of the action cable from BXA.

- facility, and to decide whether it would be beneficial to assign personnel to the facility on a full-time basis.
3. Implement procedures to ensure that the SCO or DSCO reviews all revenues and expenses associated with operating the Trade Center, and develops a methodology to set surcharge fees related to achieving cost recovery.
  4. Reevaluate pricing policies to be in conformance with departmental cost recovery guidelines as they relate to trade events and business facilitation services.
  5. Explore opportunities to increase the number of trade events held in Taiwan outside the Taipei area, especially in Kaohsiung.
  6. Ensure that the AIT Commercial Section incorporates a regional focus into the strategic plan and develops regional initiatives that implement the National Export Strategy.
  7. Ensure that the Commercial Section monitor PLC and PSV workload so that timeliness is maintained.
  8. Ensure that contract employees do not conduct PLCs or PSVs, unless a specific waiver is granted by BXA. Ensure that, in cases where American officers do not conduct on-site visits associated with PLCs or PSVs, that this is clearly identified in AIT's output.

### **US&FCS's Response to Draft Report and OIG Analysis**

US&FCS agrees with, or has taken action consistent with, all of the OIG recommendations in this area. US&FCS, however, stated that while the overarching goal of the US&FCS is to promote the export of U.S. goods and services, to carry out this mission US&FCS must be prepared to make use of the entire spectrum of trade policy and traditional policy/trade promotion activities. US&FCS believes that while the Commercial Section's role in market-access issues has been reduced due to the wrap-up of negotiations in February 1998, the Commercial Section will continue to have a role to play in policy negotiations in support of U.S. industry. A summary of US&FCS's position on each recommendation, as stated in the draft report, is presented with OIG comments on the US&FCS response.

#### **Recommendation #1:**

*Redirect the Commercial Section's attention toward trade promotion activities and ensure that the Commercial Section develops a marketing strategy targeted toward small and medium-sized firms.*

US&FCS Response: US&FCS has developed an island-wide trade promotion program that, in 1998, included four major U.S. pavilions at international exhibitions, as well as a multi-state catalog exhibition. In addition, the post organized an “America Week” product promotion that included 52 new-to-market firms, almost exclusively focusing on small and medium-sized firms.

OIG Comment: We are encouraged by the recent trade promotion efforts and agree that the AIT Commercial Section is working to meet the intent of our recommendation.

Recommendation #2:

*Analyze the AIT Trade Center facility to determine if there are additional opportunities for utilization of the facility, to improve the marketing strategy and presentation of the facility, and to decide whether it would be beneficial to assign personnel to the facility on a full-time basis.*

US&FCS Response: US&FCS is reviewing options to make better use of and to improve the appearance of the AIT Trade Center facility. However, improvements and additional contractual staff will require an expenditure of funds generated by trade promotion events; AIT has been unwilling to release additional funds to US&FCS for these purposes.

OIG Comment: We concur with US&FCS’s response to the recommendation and encourage US&FCS to continue its pursuit of AIT for a release of funds for AIT Trade Center improvements and contractual staff.

Recommendation #3:

*Implement procedures to ensure that the SCO or DSCO reviews all revenues and expenses associated with operating the Trade Center, and develops a methodology to set surcharge fees related to achieving cost recovery.*

US&FCS Response: US&FCS clarifies the technical definition of the AIT Trade Center to be a multipurpose room, rather than a trade center *per se*. However, US&FCS understands the value of such a facility for small and medium-sized exhibitors and maintains the Trade Center primarily for them. US&FCS recognizes the need for a strong trade promotion staff and, the SCO has proposed using residual funds from trade events to hire two local staff members to promote such events.

OIG Comment: We concur with US&FCS’s response to our recommendation.

Recommendation #4:

*Reevaluate pricing policies to be in conformance with departmental cost recovery guidelines as they relate to trade events and business facilitation services.*

US&FCS Response: US&FCS states that the fees collected by the Commercial Section reflect its intention to improve the Trade Center and to hire additional trade event support staff. US&FCS further explains that because of the disputes associated with the MOU between AIT and US&FCS, it has been unable to direct these proceeds toward the intended purposes. However, March 1998 amendments to the MOU direct that proceeds from trade events organized by the Commercial Section be returned to ITA in accordance with ITA's standard practice for collections and obligations reporting.

OIG Comment: We concur with US&FCS's response to our recommendation.

Recommendation #5:

*Explore opportunities to increase the number of trade events held in Taiwan outside the Taipei area, especially in Kaohsiung.*

US&FCS Response: US&FCS held a highly successful trade event in Kaohsiung in September 1998, and earlier in 1998 another successful trade promotion event took place in the city. US&FCS states that the SCO is committed to helping U.S. firms take advantage of business opportunities in Southern Taiwan and now considers the commercial staff allocation in Kaohsiung at full strength, and that this will give Kaohsiung more importance in the Commercial Section's island-wide commercial strategy.

OIG Comment: We concur with US&FCS's response to our recommendation.

Recommendation #6:

*Ensure that the AIT Commercial Section incorporates a regional focus into the strategic plan and develops regional initiatives that implement the National Export Strategy.*

US&FCS Response: US&FCS disagreed with this finding, stating that the AIT Commercial Section has a large trade promotion program and that much of the program's success has been predicated on working with U.S.-based Commercial Service teams. Throughout 1998, the SCO's trade promotion program has emphasized the importance of enlisting the support of

Export Assistance Centers in the United States to promote not only Taiwan but regional export opportunities.

OIG Comment: At the time of our field work, our interviews with Commercial Section staff indicated that there was little exposure and coordination with U.S.-based Commercial Service teams. We commend US&FCS and the SCO for the improved integration and focus of the program and concur that the actions meet the intent of our recommendation.

Recommendation #7:

*Ensure that the Commercial Section monitor PLC and PSV workload so that timeliness is maintained.*

US&FCS Response: US&FCS states that because of Taiwan's political status, massive volume of international trade, location and transportation links, there is an assumed substantial risk of misuse of controlled U.S. exports to Taiwan. In an attempt to support the Bureau of Export Administration's efforts to safeguard U.S.-high technology exports, the Commercial Section has agreed to perform PLC and PSV investigations. US&FCS noted, however, the AIT Commercial Section is not technically obligated to perform these activities, nor does it receive funding for the routine costs associated with performing the investigations.

In consultation with appropriate Commercial Section staff, the SCO has promulgated procedural guidelines for the completion of PLCs and PSVs. Further, the SCO recognizes that in most cases, non-technical AIT staff are very limited in their abilities to discern subtle discrepancies or suspect patterns of conduct pertaining to high-technology exports and componentry. To address this concern and guarantee the efficacy of AIT's investigative activities, the SCO has enlisted other AIT personnel that may be more technically astute to review the results of the investigations.

US&FCS agrees with the OIG analysis pertaining to timeliness. However, for those investigations not meeting timeliness requirements, US&FCS identifies circumstances explaining tardiness.

Since the OIG review, the AIT has instituted a policy of advising BXA whenever delays are anticipated. In addition, BXA has indicated to US&FCS that it is pleased with the AIT Commercial Section support.

OIG Comment: The OIG review and analysis pertained to timeliness issues only, rather than policy issues pertaining to whether US&FCS is technically required to perform such

investigations. We are pleased that US&FCS has now instituted a policy to inform BXA in advance of any potential delays. US&FCS should also ensure the technical competency of those individuals conducting and reviewing the investigations.

Recommendation #8:

*Ensure that contract employees do not conduct PLCs or PSVs, unless a specific waiver is granted by BXA. Ensure that, in cases where American officers do not conduct on-site visits associated with PLCs or PSVs, that this is clearly identified in AIT's output.*

US&FCS Response: US&FCS agrees with the Draft Report indicating that two PLCs were performed in southern Taiwan by a contract employee. This individual is a trained U.S. citizen on a long-term contract with AIT and was the acting Principal Commercial Officer for much FY 1997. The SCO concurs, however, that the response cable should have noted that the performing officer was a contract employee.

OIG Comment: We reiterate our recommendation expressed in the Draft Report.

### III. INTERNAL CONTROL ENVIRONMENT

Internal controls and financial management practices of the Commercial Section are inadequate, ineffective, and are not adequately emphasized by Commercial Section management. We found problems that need quick resolution by Commercial Section management:

- Source financial documentation is not efficiently maintained.
- Key duties are not separated and supervisory review of internal controls is limited.
- Proper imprest funds procedures are not in place.
- Proper procedures are not followed on the reporting and use of funds generated by trade events.
- Inadequate communication and information flow between the Commercial Section and AIT's Budget & Finance (B&F) Section impedes effective financial management.
- AIT/Taiwan B&F's accounting system, as it existed during our review, does not meet Chief Financial Officer (CFO) Act requirements and is was not able to efficiently provide needed information for US&FCS to manage its operations.
- Systematic analysis of obligations and disbursements does not take place.
- The information technology profile of the Commercial Section is inadequate and unable to support operations.

#### A. Sufficient Financial and Accounting Information Is Not Being Maintained

The Commercial Section does not maintain records to support its financial and administrative operations. With respect to trade events, business services, publications, Gold Keys, and sub-leasing of Trade Center space, the Commercial Section does not maintain a log of any category of collections. Though source documentation of financial transactions is held at the post, records are not adequately maintained by the trade center assistant. Source information is filed loosely in folders, with no summary or explanation provided. For example, the trade events folder combined collection and procurement documents, with no running balance of either maintained.

Without this financial information, the Commercial Section was unable to perform a reconciliation against State Department reports (i.e., the Regional Administrative Management Center (RAMC) 60 and 62 "Status of Funds" reports). For example, neither AIT/Taiwan B&F

nor the State Department's RAMC 60 "Status of Funds" report could be reviewed for accuracy without a log of source information. Also, AIT/Taiwan B&F information and the State Department's RAMC 60 "Status of Funds" report were not routinely provided to the Commercial Section.

As a result, totals for revenues and expenditures cannot be quickly or accurately provided to management. Furthermore, in the absence of cuff records, reconciliation to information maintained by AIT/Taiwan is not possible. As previously noted, this is the result of a lack of adequate management experience pertaining to administrative functions.

#### **B. Key Internal Control Duties Are Not Adequately Separated**

The Commercial Section is characterized by inadequate separation of key duties, which increases the risk of fraud and abuse. The trade center assistant position combines functions of an administrative FN, a class B cashier, a receiving clerk, and other support staff. We found the same situation in terms of management of the Section's imprest fund where all petty cash disbursement activities are performed by the trade center assistant who handles cash disbursements to employees, requests for reimbursement, and reconciliations of the fund.

While there did not appear to be misuse of funds as a result of the collapsing of various duties, the trade center assistant position clearly violates separation of duties principles. In the absence of strong supervisory oversight, the risk of abuse already inherent in the trade center assistant position remains high.

#### **C. Lack of Proper Imprest Fund Procedures in Place**

The Commercial Section has not instituted proper procedures to manage its imprest fund account equal to about \$1,667.<sup>12</sup> While we performed a cash count of the petty cash fund and found the appropriate amount accounted for in cash and vouchers, and determined that the proper authorization had been obtained for the petty cash vouchers, no log of petty cash transactions is maintained, nor are there monthly accountability reports or formal reconciliations. Also, spot checks of the petty cash fund are infrequent and are not recorded.

#### **D. Commerce Guidelines for Trade Event Reporting and Use of Trade Event Funds Not Followed**

AIT Commercial Section does not observe standard trade event procedures prescribed by US&FCS/Export Promotion Services (EPS) for monitoring trade event activity and funds. In

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<sup>12</sup>At the time of our review, \$1 U.S. equaled about NT\$30 (New Taiwan Dollars).

addition, the Commercial Section has used funds generated by trade events to purchase capital equipment. Although sanctioned by previous US&FCS headquarters management and provided for in the MOU, the purchase of this equipment with surplus trade event funds violates US&FCS guidelines.<sup>13</sup>

The Trade Event Management System (TEMS) monitors mandatory weekly collections reports, monthly obligation reports, and the status of events taking place all over the world. The Commercial Section is not following required procedures for reporting trade event activity. For example, trade events took place without being entered into the TEMS and events that were initially entered into the system and subsequently took place in Taiwan had no associated final event report. Monthly obligation reports or weekly collections reports for trade events were not submitted by the Commercial Section to EPS nor, as discussed above, are financial records being maintained in order to generate such reports.

Finally, we found that the Commercial Section routinely purchases capital equipment with trade event funds without authorization from the ITA Trade Event Board, as required under departmental guidelines. During FY 1997, the Commercial Section used trade event funds generated from multiple, individual events to purchase office equipment and services valued at approximately \$72,000. Departmental regulations require approval from the ITA Trade Event Board for purchases valued greater than \$250 (recently changed to \$1,000) for equipment that must be used in direct support of a specific trade event.

The SCO, referencing a clause in the MOU, believes that trade events which are AIT-initiated do not have to follow any of the standard departmental guidelines. However, EPS officials advised us that AIT was not exempt from departmental reporting guidelines in this area and should follow the same rules as any other post. EPS officials also stated that the Commercial Section did not consult them regarding exemption from EPS reporting rules. In order to promote consistency among all trade events, the MOU should be clarified to require adherence to standard departmental guidelines.

#### **E. Commercial Section Lacks Information Needed to Control Operations**

Commercial Section management officials complained that, until recently when a new B&F officer was in place, there was a lack of communication between the Commercial Section and B&F concerning timely financial information. Commercial Section management stated that they repeatedly, but unsuccessfully, requested financial reports and budget information; the lack of financial information adversely affected the Commercial Section's ability to manage its financial

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<sup>13</sup>US&FCS Administrative and Financial Management Training Manual, "Trade Event Management" chapter; 3/25/96.

and administrative operations. This was confirmed by other AIT officials who noted that there were similar complaints regarding the previous AIT/Taiwan B&F officer.

In addition, we were advised by AIT officials that the State Department Financial Management System (FMS) is not capable of maintaining standard financial statement information such as accrual accounts, accounts receivables, and accounts payables. As a result, financial reporting information cannot be generated in a cost effective or timely manner. Without such basic functions, the FMS does not allow serviced agencies to meet the requirements of the CFO Act. Furthermore, basic control techniques, such as reviewing the accounts receivable listing to ensure timely collections or performing fluctuation analyses on account balances, cannot be implemented. Also, reporting objectives, such as providing management with useful information in a timely manner, cannot be achieved.

To address these problems, AIT is planning to replace its current accounting system with a new accounting software package that specializes in non-profit accounting. Because the package is an "off-the-shelf" system, it should require minimal customization. The system itself will consist of a relational database with query features to aid in the extraction of desired information. It also has functions that will facilitate the generation of financial statement reports which will assist AIT in meeting the requirements of the CFO Act. We noted that AIT will hire a certified public accountant for two years in order to assist with the installation and setup of the new system. We believe that the Commercial Section should provide input with respect to how the new accounting system will service their financial information needs.

#### **F. Gold Key Service Violated Lease Agreement**

During FY 1997, the Commercial Section violated its lease agreement by sub-leasing cubicle space to a Gold Key participant. The lease agreement signed by AIT to occupy space on the 32<sup>nd</sup> floor of the World Trade Center prohibits sub-leasing. Specifically, the lease states that:

*"The Lessee shall not have the whole or any part of the premises (sic) subleased, sublet or lent to any third party nor use the same in the name of any third party. In case of the existence of any one of these circumstances, the Agreement shall be automatically terminated."*

By subletting this space, the Commercial Section violated its lease agreement and, therefore, risked automatic termination of its lease. Before this type of service can be offered again, the Commercial Section must obtain the lessor's approval.

**G. Prior Year Unliquidated Obligations and Unobligated Authorizations Exist**

As noted above, AIT/Taiwan does not provide the Commercial Section with basic financial information. Consequently, the Commercial Section cannot adequately review the RAMC 60 “Status of Funds” report in order to identify items that may require further attention. For instance, procedures are not in place to ensure that the “Budget Execution, Status of Funds - FMC60 Report” is reviewed for unobligated funds that may be outstanding. As a result, the Commercial Section cannot determine if prior year funds available (unobligated) and prior year unliquidated obligations are still valid, and runs the risk of failing to obligate funds prior to the end of the fiscal year and then losing the authority to obligate them. Additionally, procedures are not in place to ensure that unusual items on the report, such as liquidations occurring more than two years after the initial obligation, are identified and reviewed by management for appropriateness.

Prior year obligated funds of \$38,043 have not been disbursed for accounts dating from FY 1993 through FY 1996.

<b>Prior Year Unliquidated Obligations</b>					
Category	FY 1993	FY 1994	FY 1995	FY 1996	Subtotals
Operations & Administration/Reimb.	\$1,368	\$27,448	\$6,564	\$0	\$35,380
Trust Fund	0	355	1,017	1,291	2,663
				<b>Total</b>	<b>\$38,043</b>

In addition, we noted prior year funds equaling \$1,336 have not been obligated by the Commercial Section.

<b>Prior Year Unobligated Funds</b>				
Category	FY 1994	FY 1995	FY 1996	Subtotals
Operations & Administration/Reimb.	\$1,146	\$0	\$0	\$1,146
Trust Fund	0	\$40	\$150	\$190
			<b>Total</b>	<b>\$1,336</b>

US&FCS management needs to annually determine the unliquidated obligations and deobligate funds as needed.

## H. Information Technology Deficiencies Need to Be Addressed

The AIT Commercial Section is being hampered by inadequate systems that are unable to fully support operations. Specifically, the office does not have Internet connectivity at each of its workstations, and the current system configuration is not compatible with local language requirements. What was most noticeable was the lack of adequate support from both AIT/Washington and US&FCS headquarters in assisting the Commercial Section in solving these issues.

### US&FCS Headquarters not ensuring that the Commercial Section has useful information technology tools

The Commercial Section currently has an Internet connection to only one computer. We believe, as does Commercial Section management, that, given the industry specialization for the FNs and officers, greater Internet connectivity would assist staff in their trade promotion work. In addition, we found that there were no bilingual capabilities with the WordPerfect software that is resident on the current system. Management and staff noted that software that is available to allow staff to produce correspondence and reporting in Chinese characters operates on a Microsoft platform and is incompatible with the current Local Area Network (LAN). Management also noted that material available in many databases is in Chinese, and is, again, incompatible.

Management has recognized these problems and requested that US&FCS approve an internal Local Area Network (LAN) to coexist with the BANYAN LAN, which would allow both bilingual capabilities and direct Internet access. However, management noted that it took US&FCS more than six months to act upon this request, and when it did, provided a short reply which denied this request, but did not provide any additional options or offers of assistance. US&FCS' response was inadequate and has required the Commercial Section to spend time developing a solution to its problems in this area.

### Decision on LAN support has not been made timely

The Commercial Section does not currently possess the in-house expertise to support its information technology operations. AIT/Taipei provides some assistance but cannot provide the day-to-day assistance that is necessary to maintain the Commercial Section's operations, particularly given the physical separation of the two organizations. Commercial Section management recognized this and developed a plan to hire a LAN manager position for its operations. However, we were told both by the Commercial Section and by AIT information technology specialists that the position description for this position has not been acted upon by AIT/Washington, although the request has been with AIT since May 1997.

## RECOMMENDATIONS

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

1. Implement procedures in the AIT Commercial Section to ensure that appropriate cuff records regarding all accounting transactions are maintained, including summaries by event along with running balances of collections and expenditures.
2. Reorganize the organizational structure of the Commercial Section so that the trade center assistant is delegated only appropriate responsibility.
3. Separate the responsibilities surrounding the imprest fund so that conflicting duties, such as the cash count, reconciliation functions, cash maintenance, and disbursement functions, are performed by different employees. Surprise cash counts by another staff member should be performed periodically, and the SCO or the DSCO should review all petty cash reconciliations that are performed.
4. Revise MOU to require adherence for current trade event reporting and procedures with departmental trade event guidelines.
5. Ensure that Commercial Section management is involved in the implementation of the new accounting system. Input regarding the types of information the Commercial Section will need in order to more effectively operate should be provided to the implementation team.
6. Notify lessor that certain services may constitute a sub-leasing arrangement and determine whether lessor grants permission to the Commercial Section to engage in such activity.
7. Implement procedures to ensure that appropriate information is being maintained to perform periodic reconciliations to B&F and State Department reports in order to confirm that all transactions generated at post are being captured in the RAMC 60 and 62 "Status of Funds" reports.
8. Implement procedures to ensure that the SCO or the DSCO review the FMC60 "Status of Funds" report at least semiannually in order to improve financial management and to ensure that funds can be properly obligated prior to the end of the fiscal year.
9. Implement procedures to ensure that unusual items such as obligations that remain outstanding for more than two years, obligations occurring outside the year of

expenditure authority, or disbursements occurring two or more years after the establishment of the obligation, are identified and investigated.

10. Provide guidance to the Commercial Section regarding unobligated funds that have expired. A determination should be made on whether the funds can be used by the post, or whether they must be returned to the entity that issued the cable.
11. Assist the AIT Commercial Section in finding a solution to provide access to each officer and FN to the Internet and provide bilingual software.
12. Assist the Commercial Section in obtaining approval of a LAN Manager position for its operations.

### **US&FCS's Response to Draft Report and OIG Analysis**

US&FCS agrees with, or has taken action consistent with, all but two of the OIG recommendations in this area. US&FCS did note, however, that the OIG may have underestimated the difficulties that US&FCS's management team has encountered in seeking a full measure of cooperation from the AIT, under whose direct control US&FCS staff operates in Taiwan. US&FCS acknowledges, on the other hand, that the problems posed by this relationship require a parallel, cooperative approach, in Washington and in Taipei, which US&FCS is pursuing. A summary of US&FCS's position on each recommendation, as stated in the draft report, is presented with OIG comments on the US&FCS response.

#### **Recommendation #1:**

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

**US&FCS Response:** US&FCS agrees that the administrative assistant should keep more timely and detailed records and the assistant has been instructed to do so.

**OIG Comment:** We concur with US&FCS's response to our recommendation.

#### **Recommendation #2:**

*Reorganize the organizational structure of the Commercial Section so that the trade center assistant is delegated only appropriate responsibility.*

US&FCS Response: US&FCS considers the recommendation too narrow an approach, in light of the necessities imposed by staff limitations and managerial requirements. US&FCS states that redesigning administrative functions would require adding at least one, if not several, unneeded employees.

OIG Comment: As stated in the Draft Report, while there did not appear to be a misuse of funds as a result of the collapsing of various duties, the trade center assistant position clearly violates separation of duties principles. In the absence of strong supervisory oversight, the risk of abuse already inherent in the trade center assistant position remains high. Therefore, we reiterate our recommendation.

Recommendation #3:

*Separate the responsibilities surrounding the imprest fund so that conflicting duties, such as the cash count, reconciliation functions, cash maintenance, and disbursement functions, are performed by different employees. Surprise cash counts by another staff member should be performed periodically, and the SCO or the DSCO should review all petty cash reconciliations that are performed.*

US&FCS Response: US&FCS asserts that the DSCO and Financial Management Officer do conduct spot reconciliations. US&FCS further explains that the administrative assistant has a small imprest fund for which only small reimbursements can be made. In addition, she has no procurement authority, and contrary to what the Draft Report states, has no receiving authority. US&FCS does agree with the Draft Report that better logs of petty cash transactions should be maintained.

OIG Comment: Field work interviews indicated that the administrative assistant was in fact receiving payments and that few cash counts existed. The DSCO informed the OIG team that he conducted his first cash count the week prior to the team's arrival. We reiterate our recommendation.

Recommendation #4:

*Revise MOU to require adherence for current trade event reporting and procedures with departmental trade event guidelines.*

US&FCS Response: US&FCS, as indicated in previous responses to the Draft Report recommendations, is seeking to amend its MOU with AIT to ensure that the Commercial Section

reporting on trade events conform with ITA's standard practice. The chief obstacle to new amendments has been AIT's refusal to cede control of revenues it prefers to use for its own purposes, i.e., as part of general funds to benefit the entire AIT operation. In view of AIT's lack of cooperation, US&FCS has indicated that it may consider such funds part of the payment due each year to AIT and might deduct these sums from the invoice presented by AIT. US&FCS will continue to press AIT to recognize that departmental procedures should apply in the disposal of funds generated from trade events organized by the Commercial Section.

OIG Comment: We concur with US&FCS's response to our recommendation.

Recommendation #5:

*Ensure that Commercial Section management is involved in the implementation of the new accounting system. Input regarding the types of information the Commercial Section will need in order to more effectively operate should be provided to the implementation team.*

US&FCS Response: US&FCS recognizes the necessity of being engaged in this process and notes that the preliminary budget formats seen by the SCO reflect US&FCS's needs. US&FCS also recognizes that the new system, while representing a great improvement over previous practices, has possible shortcomings. US&FCS is closely monitoring and plainly communicating these issues to AIT. AIT's responsiveness in its implementation, however, is not within US&FCS's control.

OIG Comment: We concur with US&FCS's response to the recommendation.

Recommendation #6:

*Notify lessor that certain services may constitute a sub-leasing arrangement and determine whether lessor grants permission to the Commercial Section to engage in such activity.*

US&FCS Response: US&FCS notes that the Commercial Section has two leases: one for the seventh-floor multifunction room, and this lease does allow subleasing; the second lease is for the 32<sup>nd</sup>-floor office space, where the Commercial Section is the sole lessee. The Commercial Section did provide space to a long-term client in FY 1997, but did not actually lease space to the client. The Department's OGC has reviewed this situation and has declined to terminate the arrangement. At any rate, this arrangement with the client has concluded. US&FCS appreciates the OIG's careful review of the Commercial Section's lease, and, if US&FCS should ever consider the need for sub-leasing space, will seek the lessor's approval first.

OIG Comment: The lease under consideration was the second lease US&FCS refers to: the 32<sup>nd</sup> -floor office space for the Commercial Section. We stated in the Draft Report that the Commercial Section was subletting space and violated its lease agreement, therefore, risking termination of its lease. Field work interviews and additional documentation support our finding as stated. We are pleased that US&FCS has sought OGC review and concur with US&FCS's response to our recommendation.

Recommendation #7:

*Implement procedures to ensure that appropriate information is being maintained to perform periodic reconciliations to B&F and State Department reports in order to confirm that all transactions generated at post are being captured in the RAMC 60 and 62 "Status of Funds" reports.*

US&FCS Response: By addressing recommendations #1 and #2 of this section, US&FCS has responded to this recommendation.

OIG Comment: We concur with US&FCS's response to recommendation #1; however, as previously stated, we do not concur with its response to recommendation #2.

Recommendation #8:

*Implement procedures to ensure that the SCO or the DSCO review the FMC60 "Status of Funds" report at least semiannually in order to improve financial management and to ensure that funds can be properly obligated prior to the end of the fiscal year.*

US&FCS Response: US&FCS has repeatedly pressed this request on AIT's Financial Management Officer over the past three and one-half years, to no avail — with the result that effective reviews are unable to be conducted. US&FCS hopes that the new system will enable it to exert authority over the timely disposition of funds.

OIG Comment: We concur with US&FCS's response to the recommendation.

Recommendation #9:

*Implement procedures to ensure that unusual items such as obligations that remain outstanding for more than two years, obligations occurring outside the year of expenditure*

*authority, or disbursements occurring two or more years after the establishment of the obligation, are identified and investigated.*

US&FCS Response: Although cooperation between the Commercial Section and the Financial Management Officer has improved markedly over the past year, it remains difficult to obtain timely, complete, and accurate information under the system being phased out and during the transition to the new system. US&FCS expects that the new system will enable better control over the disposition of funds.

OIG Comment: We concur with US&FCS's response to the recommendation.

Recommendation #10:

*Provide guidance to the Commercial Section regarding unobligated funds that have expired. A determination should be made on whether the funds can be used by the post, or whether they must be returned to the entity that issued the cable.*

US&FCS Response: At AIT's insistence, funding authorizations are made exclusively by AIT from its Washington headquarters, not through US&FCS. Through ITA, US&FCS transfers funds to AIT via a Washington bank account, and AIT allocates funds to the Commercial Section accordingly. Thus, the responsibility for accounting for unobligated funds and disposing of them falls to the AIT in Taipei and AIT in Washington. As stated in previous responses, the AIT has refused to cede control of trade event revenues generated by the Commercial Section. Again, as stated in previous responses, US&FCS may consider such funds to be part of the payment due each year to AIT and deduct these sums from the invoice presented by AIT.

OIG Comment: We concur with US&FCS's response to the recommendation.

Recommendation #11:

*Assist the AIT Commercial Section in finding a solution to provide access to each officer and FN to the Internet and provide bilingual software.*

US&FCS Response: US&FCS has been responsive to the OIG team's observation that the Commercial Section requires a system upgrade to match the staff's ability and to improve its productivity. The post has developed a complete upgrade program with the Information Management Officer. This plan, when implemented, will make the Commercial Section the first post worldwide to have internet access on each desktop. The Commercial Section is also the

first to install a remote-access server to allow its officers to work on their home computers as an extension of the office.

Regarding bilingual software, the Commercial Section is working on a pilot project that will allow simultaneous use of Chinese and English on the same server and to adapt the software to the US&FCS Lotus Notes System. This is intended to occur in the latter half of 1999. Finally, the Commercial Section is part of the State Department's ChinaNet project, which will provide bilingual access between Taiwan and Mainland China posts.

OIG Comment: We concur with US&FCS's response to the recommendation.

Recommendation #12:

*Assist the Commercial Section in obtaining approval of a LAN Manager position for its operations.*

US&FCS Response: The Commercial Section now has a fully qualified LAN Manager.

OIG Comment: We concur with US&FCS's response to the recommendation.



APPENDIX I

**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

DEC 23 1998

TO: George E. Ross  
Assistant Inspector General for Auditing

FROM: Awilda R. Marquez *ARM*

SUBJECT: US&FCS Response to Draft Audit Report BTD-10220-9-XXXX ("The AIT Commercial Section Needs to Place Greater Emphasis on Trade Promotion and Improve Internal Controls")

This memorandum responds to your Draft Audit Report, which summarizes OIG findings from a September 29 to October 3, 1997 inspection of the Commercial Section in Taipei and Kaohsiung, Taiwan.

**I) GENERAL COMMENTS:**

We appreciate the care which marked the IG Team's preparations for this inspection, particularly in seeking comprehensive documentation on the Commercial Section's activities and informing itself of conditions characteristic of doing business in Taiwan. In its presentation and thoroughness, this draft report also reflects the conscientiousness with which the Team members addressed and discharged their mission. We cannot but note, however, that more than a year has passed since the Team's visit to Taiwan. Much has happened during the intervening time, which has made some of the Team's recommendations moot. In several cases, the recommendations included in this report have already been addressed.

On the whole, we are pleased that the Team recognized the effectiveness of our commercial program in Taiwan, and the achievements of our staff over the past few years. We also believe that the Team, while seeking to paint a balanced picture of the Commercial Section's work, may have underestimated the difficulties that our own management team has encountered in seeking a full measure of cooperation from the American Institute in Taiwan (AIT), under whose direct control our staff operates in Taiwan. We acknowledge, on the other hand, that the problems posed by this relationship require a parallel, cooperative approach, in Washington and in Taipei, which we have been pursuing.



Before responding to the specific recommendations offered by the Team, we would like to make the following comments, which address some of the Team's more general observations:

- o We feel that the Commercial Section in Taiwan has performed very well indeed. This, the report argues, is the more remarkable since the staff is generally inexperienced and short on language skills. This fact is, to some extent, a reflection of the Foreign Service bidding process, the relatively small number of US&FCS officers with Chinese-language skills, and the rapid increase of our commercial representation in mainland China. We have sought to compensate for these factors by accelerating the recruitment and intake of officers on limited appointment who have private-sector experience and have lived and worked in greater China. As of this writing, we feel **we have achieved close to full staffing of the Commercial Section in Taiwan, an improvement over what the Team observed over a year ago.**
- o Not for the first time, we must take issue with the Team's criticism of the policy role assumed by the Commercial Section, especially the SCO. As we have stated elsewhere to answer similar criticism, in rapidly industrializing regions of the world such as greater China, it is programmatically ineffective, and ultimately counterproductive, to focus predominantly on trade-promotion activities without putting pressure on the national and local authorities to reduce trade barriers, open government procurement, enforce intellectual-property rights, etc., from straightforward trade promotion. As the latter cannot succeed on its own, i.e., without the former, the Commercial Section has a legitimate role to play in trade negotiations. Thus, **we see trade policy and trade promotion on a continuum of activities which, in the Taiwan economic and commercial environment, can be pursued together without detracting from our primary mission.** This is a programmatic policy decision that the Director General has established for such types of US&FCS missions.
- o The control the Commercial Section and US&FCS Washington are able to exercise on the disposal of the funds transferred to AIT is affected by the relationship between our two organizations. Tension often arises, on the one hand, from our requests for greater funding from AIT and better accounting of AIT's allocation of its budget for commercial activities, and, on the other hand, from AIT's reticence in providing the information which would enable us to make a fair assessment of the services we receive. This tension colors the relationship at all levels. We feel that, for the most part, the Team's recommendations for better accounting practices should be directed at AIT's management and personnel. Our Commercial Section, and especially the SCO, have long fought this battle and cannot be faulted for scoring but small, incomplete victories.
- o During the year that has passed since the Team's visit, several of its concerns have been addressed in the course of improving the Commercial Section's operations. Both the SCO and Washington management can take credit for these changes. Most notably, we believe that the Commercial Section has developed a solid, island-wide trade-promotion

program and in this process has drawn substantial support from our domestic teams. It is clear also that the SCO has taken great strides toward modernizing the telecommunications capabilities and potential of the Commercial Section. The US-AEP Technical Representative has made substantial progress in reaching out to U.S. business and increasing the visibility and effectiveness of U.S. environmental firms on the island. As noted above, we have seen to bringing the Commercial Section staff close to full strength.

Please see the following pages for more detailed discussions of each recommendation made by the Team.

## II) SPECIFIC COMMENTS

### Part I: General Management and Organization

Recommendation 1: Coordinate the renegotiation of the MOU between US&FCS and AIT to include terms and conditions that clearly:

- o Agree on a timeframe for AIT to fully fund the Commercial Section

Reply: Lack of transparency in the information available from AIT regarding organizational and budget matters has long been a point of contention between the US&FCS and our AIT colleagues. Several MOUs between the US&FCS and AIT since 1990 have attempted to heighten and specify the level of commitment made by AIT to support the commercial section in Taiwan. Funding, staffing, accountability and reporting channels for fiscal data are primary foci of the MOUs. AIT's elusiveness in all these areas has made it difficult to reach firm or durable agreements.

AIT has always claimed to be underfunded. In the past year, this claim has been expressed with greater stridency, and since last July AIT has added the argument that it cannot continue to support the costs of the commercial and agricultural sections in Taiwan. AIT proposed that the US&FCS and FAS seek direct funding from Congress, beginning now and in any case no later than FY 2000. AIT has indicated that it will not seek funding from Congress for the commercial and agricultural sections in FY 2000. Thus, far from recognizing the US&FCS's request for an increased share of resources, AIT has been moving in the opposite direction. The US&FCS has prepared a status report for the Office of the Under Secretary and proposed a plan of action for ITA to undertake in order to obtain supplemental funding from OMB for FY 2000.

Although we know that Congress has indeed reduced AIT's funding in the recent past, such funding has now gone up again. Meanwhile, AIT's internal allocation of its funds has never been entirely clear to us. This has raised suspicions, therefore, that the amount dedicated to supporting the Commercial Section is less than Congress intended and AIT can actually afford. Similarly, AIT has supplemented its Congressional funding with collections from visa fees, the disposition of which has varied over time. While part of these fee collections has been placed in escrow in a building fund at the State Department's direction, a certain portion has remained available to AIT, and this portion is now reported to have increased.

In our view, this leaves the following options: ITA/USDOC must either seek direct funding from Congress and OMB, thereby yielding to AIT's argument that it is unable to satisfy the US&FCS's (and FAS's) claim on its resources; or continue to challenge AIT's contention, and press for a base transfer of funds to be supplemented by a US&FCS contribution which will fluctuate according to AIT's ability to pay.

ITA is pursuing both options at once. Appealing to OMB is only prudent, however, in light of

AIT's unreliability as a source of funding.

- o Clearly identify which positions are to be paid for by US&FCS

Reply: The current MOU between the US&FCS and AIT, finalized in June 1997, includes the terms of a contract identifying the positions which each organization is responsible to fund. The inclusion of one of these positions among those for which AIT agreed to pay at the time has been disputed for the past year. In essence, AIT has declined to recognize the authority of its previous executive officer to enter into the agreement represented by the June 1997 contract. This dispute is unresolved at the moment. This is due mainly to AIT's refusal to discuss updating the MOU as proposed by the US&FCS (as part of a list of changes submitted in March 1998). Other than for this one disputed position, there is, in fact, agreement as to which positions are paid for by each organization. We will continue to seek resolution of this matter as part of our efforts to update the MOU.

- o Agree on a schedule of associated and administrative support costs that are to be covered by reimbursable agreements. US&FCS should systematically review these charges.

Reply: AIT has undertaken a review of the administrative costs it charges other agencies including the US&FCS. The US&FCS will examine the new schedule of charges closely before agreeing to the AIT proposal. We concur that it would be desirable to enter into a reimbursable agreement, appended to a revised MOU, identifying these charges and the US&FCS's obligations. We will seek such an arrangement with AIT.

- o Include specific terms for billing and payment terms associated with the MOU, including the type of support documentation that must accompany billings.

Reply: Recognizing the unreliability of its accounting system, 18 months ago AIT announced the implementation of a new system supported by a software package called Platinum. After much delay, this system is now in place, although still in an experimental stage of operation. We look forward to AIT's first billing submission based on the Platinum software. Although the current MOU contains language pertaining to AIT's submission of billings, we will include more specific language relating to the presentation and documentation of billings, based on the developments arising from use of the new system. For the time being, paragraph 2 e of the current MOU would seem to address this issue with appropriate clarity and forcefulness.

Recommendation 2: Ensure that US&FCS and the American Institute in Taiwan Commercial Section develop a system to verify the validity of MOU billing statements.

Reply: Both US&FCS Washington and the Commercial Section are prepared to follow Departmental guidelines and good judgment to validate or reject billing statements as required by the MOU. As stated above, we are still waiting for AIT to begin providing USDOC with detailed billings generated by the Platinum-based accounting system.

It is true that at times in the past the US&FCS has remitted payment to AIT on the basis of estimates rather than actual invoices. This was essentially due to AIT's inability to produce final figures and to the US&FCS's reluctance to hold AIT hostage for its shortcomings (in turn, AIT would threaten suspending its services to the Commercial Section for lack of payment by the US&FCS). This practice, albeit flawed, appeared acceptable as long as AIT's estimates were in line with anticipated costs. As the report notes, in summer 1997 the US&FCS declined to pay some of AIT's charges on the grounds that they were not justified by the terms of the MOU and contract which had then entered into effect.

Recommendation 3: Ensure that the US&FCS assigns a permanent trade events officer to the post.

Reply: SCO and post have thoroughly considered the best approaches to trade promotion in Taiwan. Under the current SCO, the trade-promotion program has grown steadily. While we concur with the inspection team that the trade-promotion function merits a full-time officer, it is a fact that the US&FCS has few experienced, Chinese-fluent career trade-promotion officers. The solution applied by our Commercial Section in Taiwan, which consists of hiring extremely capable local candidates working under the supervision of the SCO, has worked satisfactorily. Using this approach, US&FCS Taiwan has maintained one of the largest trade-promotion programs in the region. The US&FCS is also aggressively trying to recruit Chinese-fluent officer candidates. While this solution may not be ideal, we believe it is sufficiently effective to serve our trade-promotion purposes in Taiwan until a suitable career officer becomes available.

Recommendation 4: Ensure that the AIT Commercial Section develops a countrywide trade promotion plan by April 1999.

Reply: The AIT Commercial Section does have an island-wide promotion plan. Taiwan is a small island. There are two commercial centers, Taipei and Kaohsiung, and AIT maintains offices in both cities. The main office is located in the primary trade and exhibition facility on the island, the Taipei World Trade Center, owned by the China External Trade Development Association, or CETRA (Taiwan's version of the US&FCS). This organization is the partner for AIT's promotions. CETRA manages the major exhibitions in which the Commercial Section participates. Along with another large market-development partner, the Importers and Exporters Association, CETRA promotes AIT events throughout the island. This past year, AIT sponsored several events which took place outside of Taipei. These included numerous in-store events, two education exhibitions, food promotions, and a multi-state catalog show. We acknowledge that at the time of the Team's visit the trade-promotion program was not working at full capacity because the PCO position in Kaohsiung had been vacant for an extended period. We now have a solid island-wide program and continue to look for additional opportunities to promote U.S. goods and services.

Recommendation 5: Instruct the Commercial Section to develop a plan by April 1999 for improving the US-AEP program and expanding the outreach efforts of the technical

representative.

Reply: At the time of the Team's visit, the Technical Representative (TR) had only been on the job for five months. Since that time, he has had thirteen additional months of intense on-the-job training, which has eliminated many problems. For example, the TR was responsible for preparing a 50-page "Taiwan Environmental Market Summary" tracking developments in Taiwan's regulatory regime and major projects and identifying reputable local partners for U.S. companies. This Market Summary goes beyond what any other US-AEP posts have produced to help U.S. firms better understand the local market.

Regarding the need for the TR to expand outreach, the TR's contacts and understanding of the local market and Asia in general have now been recognized by regional and international organizations. He has given speeches at an APEC conference on infrastructure development (at which the TR was the co-leader of the U.S. delegation), to the Foreign Trade Association of California (the largest trade group in California), to the US-ROC Business Council, at numerous American Chamber sessions and at trade shows in the United States. Emphasizing the need to strengthen outreach, especially outside Taipei, the TR made arrangements for the PCO for Southern Taiwan to travel to the United States to undergo US-AEP training. Further, the TR has traveled to Southern Taiwan to help establish a state-of-the-art animal-waste treatment center which has heavy U.S. industry backing, and to speak at functions held by the local American Chamber of Commerce and meet with local and U.S. firms in the area.

The US-ROC Business Council was especially appreciative of the TR's efforts and stated in a thank-you letter that "your presentation at the Environmental Protection Workshop was superb and helped facilitate a great discussion afterwards. You were an invaluable addition to this year's Conference." Also, the TR organized a December 8, 1988 special forum for U.S. businesses to meet with the Vice Administrator of the Taiwan EPA and all of the EPA division chiefs. This was made possible by the very close working relationship between the TR and counterparts in the Taiwan EPA. These high-level contacts are invaluable in helping U.S. companies. In November, the TR initiated a four-state environmental matchmaker event during which he arranged more than 70 one-on-one meetings between U.S. companies and local buyers and potential partners. The American State Offices Association in Taiwan and the US-AEP office hope to make this a yearly event.

In the TR's first full year on the job, the USAEP-Taiwan office recorded \$30 million worth of sales for primarily small and medium-sized U.S. companies. This figure is 150 percent greater than that for the previous four years combined. The TR has written a comprehensive FY-99 work plan for the US-AEP-Taiwan office that won high praise for its ambition and depth from USAID, USDOC, USEPA, and other organizations. By any objective measure, the US-AEP-Taiwan office is one of the most successful in the program.

That the TR achieved all this without Chinese fluency is even more remarkable. Could he have done more if he had Chinese? One would assume so, and Chinese fluency will be one of the

skills expected of his successor. It is clear, however, that his outreach has been far ranging despite this shortcoming.

**Recommendation 6:** Reevaluate the administrative and financial management structure of the Commercial Section in order to ensure that responsibility for day-to-day financial management is carried out by adequately trained personnel and that appropriate supervision is maintained at all times. For senior Commercial Section staff, administrative training with respect to the implementation and monitoring of internal control procedures should be provided.

**Reply:** The Team has recognized that there is no sign of mismanagement or wrongdoing within the Commercial Section's internal financial operation. At the same time, the report makes it clear that the DSCO and administrative assistant both require extensive training so that we may avoid poor internal-control practices and reduce the risk of financial error. We agree on the need for additional training, and we are making arrangements to that end for both the SCO and the new DSCO. The administrative assistant recently attended a regional administrative-training session. The Commercial Section management has also spoken with this employee about the need for improving performance, and has taken up the issue with the post Personnel Officer. The SCO and Personnel Officer are looking at ways of changing the role of the administrative assistant or at replacing the incumbent. Still, as noted elsewhere, AIT is a privately-run corporation operating under guidelines set by the U.S. Department of State. Under such guidelines, many of the accounting responsibilities and functions the Team has attributed to the Commercial Section properly belong to the AIT Financial Management Office (FMO).

Thus, for the most part, the Commercial Section has no discretionary authority over the funds expended on its behalf. Budgets are prepared by AIT management and controlled by the AIT FMO. Likewise, procurement or contracting authority belongs to the General Services Officers. In these matters, the power given the Commercial Section is comparable to that of a Class-B sub-cashier. The IG Team's observations are predicated on the assumption that the Commercial Section can operate like other US&FCS posts, rather than under the FMO's control. Indeed, even if the Commercial Section duplicated the records kept by the FMO, all administrative authority would still inhere in the latter.

## **Part II: Program Activities and Performance Measurement**

**Recommendation 1:** Redirect the Commercial Section's attention toward trade promotion activities and ensure that the Commercial Section develops a marketing strategy targeted toward small and medium-sized firms.

**Reply:** In the year that has passed since the Team's visit, the SCO had led the Commercial Section in a concerted effort to assist small and medium-sized U.S. firms, as the Section's record of success stories well illustrates now. In FY 98, the section organized four major U.S. pavilions at international exhibitions. In addition, in collaboration with US&FCS/EPS, the Commercial

Section organized a very large multi-state catalog exhibition which drew a total of more than 1,200 companies in Taipei and Kaohsiung. To top this off, the Section organized an island-wide “America Week” product promotion focussed almost exclusively on small and medium-sized firms, with 52 NTM firms displaying their products during this event. All the events were well coordinated with EPS and/or the CS Teams. Again, there should be no question that **the Commercial Section has an island-wide promotion program, and, on balance, a very strong trade-promotion program.**

We also believe that trade policy and trade promotion are complementary activities, and as such, that neither detracts from the other. In Taiwan, these activities are important components of our efforts to help U.S. exporters.

While the overarching goal of the US&FCS is to promote the export of U.S. goods and services, to carry out this mission we must be prepared to make use of the entire spectrum of trade policy and traditional policy/trade-promotion activities. The appropriate “mix” of trade policy and traditional trade promotion will vary over time and with specific market conditions for each industry sector. It must also be noted that the Team arrived in Taipei at the height of Taiwan’s market-opening phase, when both sides were engaged in a rush to finalize bilateral World Trade Organization negotiations. These negotiations were wrapped up in February of 1998, and already we have seen a reduction in the section’s role in market-access issues. Still, the Commercial Section will continue to have a role to play in policy negotiations, in support of U.S. industry.

Recommendation 2: Analyze the American Institute In Taiwan Trade Center facility to determine if there are additional opportunities for utilization of the facility, to improve the market strategy and presentation of the facility, and to decide whether it would be better to assign personnel to the facility on a full time basis.

US&FCS/OIO and the Commercial Section are reviewing practical options to make better use of this facility and improve its appearance. We would like to assign additional staff to the Trade Center. For the most part, effective measures will require the expenditures of scarce financial resources. As noted below in our reply to recommendation 4, we would like to expend the funds generated by trade-promotion events to employ contractual staff at the Center. AIT’s unwillingness to release such funds has thus far thwarted the Section’s plans.

Recommendation 3: Implement procedures to ensure that the SCO and DSCO review the revenue and expenses associated with operating the Trade Center, and develop a methodology to set surcharge fees related to achieving cost recovery.

Reply: We must first point out that the Commercial Section does not operate a trade center per se. Rather, it operates a multipurpose room. There is a significant difference. When the American Institute in Taiwan was established, the trade center was necessary because Taiwan was totally focussed on exporting. There were no international exhibitions. Moreover, there were no moderately-priced hotel or private conference facilities. The American Institute in

Taiwan Trade Center provided these functions for visiting U.S. businessmen. Now with the existence of the World Trade Center and many quality hotels, this need has greatly diminished. Still, we understand the value of such a facility for our small and medium-sized exhibitors and we maintain it primarily for them. We recognize the need for a strong trade promotion staff and, as noted, the SCO has proposed using the residual funds from trade events to hire two local staff members to promote such events.

Recommendation 4: Reevaluate pricing policies to be in conformance with departmental cost recovery guidelines as they relate to trade events and business facilitation services.

The fees collected by the Commercial Section reflect its intention to give the multi-purpose room a facelift and to hire additional trade-event support staff. Because the American Institute in Taiwan views the funds generated by trade events as its own, however, the Commercial Section has been unable to tap these funds. This remains a disputed issue despite the stipulation, in paragraph 4 of the current MOU, that these funds are to be used in support of the commercial program. On the whole, the American Institute in Taiwan has viewed such revenues as a supplement to its income from other sources, to be commingled with general funds. This admittedly makes it difficult to relate the fees charged to commercial clients to the services actually provided. We have pressed the American Institute in Taiwan to address this issue, and will continue to do so, particularly by seeking to pay the salary of the Trade Event Coordinator from funds generated by trade events. Amended language incorporated into the proposed revisions to the MOU in March 1998 directs that proceeds from trade events organized by the Commercial Section be returned to ITA in accordance with ITA's standard practice for collections and obligations reporting.

Recommendation 5: Explore opportunities to increase the number of trade events held in Taiwan outside the Taipei area, especially in Kaohsiung.

The Commercial Section held a highly-successful multi-state catalog show in Kaohsiung in September, and earlier this year the Study USA program did outstanding business in this city. The SCO is committed to helping U.S. firms take advantage of business opportunities in Southern Taiwan, and, with the commercial staff in Kaohsiung at what we consider full strength, will give Kaohsiung a role of increasing importance in the Section's island-wide commercial strategy.

Recommendation 6: Ensure that the Commercial Section incorporates a regional focus into the strategic plan and develops regional initiatives that implement the National Export Strategy.

Reply: The Inspection Report notes that the Commercial Section underutilizes the CS teams and that there is little regional cooperation. This is at odds with the Section's experience. As stated in our response to recommendations I-1, I-2, and I-5, the Section has a large trade-promotion program and much of this program's success has been predicated on working with the domestic CS teams. The Section's promotion of "America Week" relied to a large extent on cooperation

with the EAP team and on the support of West-Coast EACs to recruit small, NTM U.S. firms for this showcase event. Throughout the past year, the SCO's trade-promotion program has emphasized the importance of enlisting the support of the EACs to promote not only Taiwan but regional export opportunities.

The American Institute in Taiwan was the regional lynchpin for this past September's multi-state catalog show in Kaohsiung and for the Association of Advanced Intensive English Language Program's visit, also this fall. Taiwan's strong economy was the drawing card which attracted U.S. participants and allowed these events also to be held in the weaker markets of South East Asia. Clearly the Commercial Section management places a priority on regional initiatives, and will continue to do so. Still, it should be noted that Asia, because of its large size, cultural and economic differences, is not as integrated as Western Europe or other regional markets. This places limits on the effectiveness of regional strategies.

Recommendation 7: Ensure that the Commercial Section monitor PLC and PSV workload so that timeliness is maintained.

Reply: Because of Taiwan's political status, massive volume of international trade, location, and transportation links, there is an assumed substantial risk of misuse of controlled U.S. exports to Taiwan. In an attempt to support BXA's efforts to safeguard U.S.-high technology exports, the Commercial Section has agreed to perform PLC and PSV investigations. (Note: the AIT Commercial Section is not technically obligated to perform these activities, nor does it receive funding for the routine costs associated with performing the investigations.)

AIT recognizes that the results of its BXA investigations have significant impact upon individual export transactions and upon strategic export policy. Thus AIT places the utmost importance upon completing thorough and diligent investigations in a timely manner. One Commercial Officer in Taipei oversees AIT's BXA activities, while one FN is detailed to assist with the investigations. AIT/Kaohsiung personnel are brought in on an as-needed basis when the investigated parties are located in Southern Taiwan. In consultation with the responsible Commercial Officer, the SCO has promulgated detailed procedural guidelines for the completion of PLCs and PSVs based upon the methodology prescribed in BXA's guide entitled "How to Conduct Pre-License Checks and Post-Shipment Verifications," published in August 1992 as amended. Further, the SCO recognizes that in most cases our non-technical AIT staff is very limited in its ability to discern subtle discrepancies or suspect patterns of conduct regarding highly-technical chemical, nuclear, biological warfare or missile-technology componentry. To address this concern and to guarantee the efficacy of AIT's investigative activities, the SCO has enlisted the coordination and oversight of AIT's defense intelligence unit (AIT/DIA) to review the results of each investigation. In several cases this unit has referred to BXA additional questions and concerns uncovered as a result of its oversight reviews.

During FY 97 AIT performed 15 PLCs and 9 PSVs. The IG cites eight PLCs and seven PSVs that "were not completed within the established timeframes." The Team's observations do not

account for complex circumstances underlying the raw numbers, including the fact that in most cases the tardiness of the responses was due to 1) delays stemming from the consignees' failure to cooperate and provide requested documentation; 2) delays stemming from non-receipt of BXA's original request cable; 3) delays stemming from AIT's failure to forward BXA's request cable to the Commercial Section in a timely manner – or a combination of all three. Despite these obstacles, six of the cited PLCs and PSVs were completed and submitted less than seven days late. Since the IG's inspection, AIT has instituted a policy of advising BXA by cable whenever such delays are anticipated.

Most significant, BXA senior management has indicated to the Director General of the US&FCS that it is pleased with the support BXA has been receiving from the commercial staff in Taiwan.

**Recommendation 8:** Ensure that contract employees do not conduct PLCs or PSVs, unless a specific waiver is granted by BXA. Ensure that in cases where American officers do not conduct on-site visits associated with PLCs or PSVs, this is clearly identified in AIT's output.

**Reply:** As noted in the Draft Report, two PLCs were performed in southern Taiwan by an FS-4 PIT Officer during FY 97. This individual is a trained U.S. citizen on a long-term contract with AIT and was acting Principal Commercial Officer for much of FY 97. The SCO concurs, however, that the response cable should have noted that the performing Officer was a PIT employee.

### **Part III: Internal Control Environment**

**Recommendation 1:** Implement procedures in the AIT Commercial Section to ensure that appropriate cuff records regarding all accounting transactions are maintained, including summaries by event along with running balances of collections and expenditures.

**Reply:** Post agrees that the administrative assistant should keep more timely and detailed records, especially running balances for events. The administrative assistant has been so instructed.

**Recommendation 2:** Reorganize the structure of the Commercial Section so that the trade center assistant is delegated only appropriate responsibility.

The main intent of this recommendation and subsequent recommendations in this section is that the administrative assistant devote far more time to accounting, such as maintaining cuff records and running balances--and, by implication, that other duties are not appropriate, either from a workload perspective or fiduciary perspective. We consider this too narrow an approach, in light of the necessities imposed by staff limitations and managerial requirements. Redesigning the administrative-assistant position would require adding at least one, if not several, unneeded employees, while AIT's unique structure greatly reduces the burden usually placed on

administrative assistants, since so much of their work is carried out by the administrative section. Thus we do not believe this employee's workload is excessive, or that the functions attached to this position present any serious internal conflicts. We have actually looked to broaden the administrative assistant's responsibilities.

Recommendation 3: Separate the responsibilities surrounding the imprest fund so that conflicting duties such as the cash count, reconciliation of functions, cash maintenance, disbursement functions, are performed by different employees. Surprise cash counts by another staff member should be performed periodically, and the SCO and the DSCO should review all petty cash reconciliations that are performed.

Reply: The DSCO and Financial Management Officer do conduct spot cash reconciliations. The administrative assistant has a small imprest fund which, under AIT's rules, i.e., the State Department rules, she can only use for the smallest of reimbursements. She has no procurement authority, and, contrary to what the Report states, has no receiving authority. Only the SCO and DSCO have receiving authority. We do agree with the Report that the administrative assistant should maintain better logs of her petty-cash transactions, although there has been no instance of petty-cash problems in the 20-year history of this position at AIT.

Recommendation 4: Revise MOU to require adherence for current trade event reporting and procedures with departmental trade event guidelines.

As noted in the reply to recommendation 4 of part II above, the US&FCS is seeking to amend its MOU with AIT to ensure that Commercial-Section reporting on trade events conform with ITA's standard practice. Thus, the Commercial Section would submit an event budget (Direct Project Fiscal Plan) to US&FCS headquarters, obtain approval of its projected expenditures, report collections and obligations, and return all surplus funds to the event-deposit fund. The chief obstacle to this proposal has been AIT's refusal to cede control of revenues it prefers to use for its own purposes, i.e., as part of general funds to benefit the entire AIT operations. In view of AIT's lack of cooperation, the US&FCS has indicated that it may consider such funds part of the payment due each year to AIT and might deduct these sums from the invoice presented by AIT. We will, however, continue to press AIT to recognize that departmental procedures should apply in the disposal of the funds generated from trade events organized by the Commercial Section.

Recommendation 5: Ensure that Commercial Section management is involved in the implementation of the new accounting system. Input regarding the types of information the Commercial Section will need to more effectively operate should be provided to the implementation team.

Reply: This is an ongoing process which to date has been handled between AIT's Financial Management Office and the contractor. The preliminary budget formats seen by the SCO seem to reflect our needs, and we realize the necessity of remaining engaged.

Implementation of this system was delayed by about a year, during which we continued to rely on our SCO to monitor closely the charges submitted by AIT. While the Platinum system represents a great improvement on previous practices, we are aware of its possible shortcomings and have asked the SCO, who needs no prompting on this matter, to make recommendations, while the system remains in an experimental phase, on how best to serve the interests of the Commercial Section through clarity and thoroughness. We are confident that such interests are being plainly communicated. AIT's responsiveness in its implementation is another matter entirely.

Recommendation 6: Notify lessor that certain services may constitute a sub-leasing arrangement and determine whether lessor grants permission to the Commercial Section to engage in such activity.

Reply: One should note that the Commercial Section has two leases: one for the seventh-floor multifunction room which does allow subleasing this space to promote U.S.-origin goods and services; the second lease is for the 32nd-floor office space, where the Commercial Section is the sole lessee. While the Commercial Section did provide space to a long-term Gold Key Service client in FY 97, the section did not actually lease space. The Departmental OGC reviewed this situation and declined to seek its termination. The arrangement under the Gold Key has, at any rate, been concluded. We appreciate the IG team's careful review of the Commercial Section's lease, and, if we should ever consider the need for sub-leasing space, we will definitely seek the lessor's approval first.

Recommendation 7: Implement procedures to ensure that proper information is being maintained to perform periodic reconciliations to B&F and State Department reports in order to confirm that all transactions generated at post are captured in the RAMC 60 and 62 "Status of Funds" reports.

Reply: We believe we have responded to this recommendation in 1 and 2 above. As stated, we will stress better accounting practices by the administrative assistant. Still, it should be noted that the only transactions which initiate with the Section are trade-event collections, business facilitation receipts, and petty-cash disbursements.

Recommendation 8: Implement procedures to ensure that the SCO and DSCO review the RAMC 60 "Status of Funds" report at least semiannually in order to improve financial management and to ensure that funds can be properly obligated prior to the end of the fiscal year.

Reply: OIO and the SCO have repeatedly pressed this request on AIT's Financial Management Officer over the past three and a half years, to no avail--with the result that they are unable to conduct effective reviews. We hope that the new Platinum accounting system, which is destined to replace the RAMC 60 report, will enable USDOC personnel to exert authority over the timely disposition of our funds.

Recommendation 9: Implement procedures to ensure that unusual items such as obligations that remain outstanding for more than two years, obligations occurring outside the year of expenditure authority, are identified and investigated.

Reply: This is another request that OIO and the SCO have repeatedly made of AIT's Financial Management Officer over the past three and a half years. Although cooperation between the Commercial Section and the Financial Management Officer has improved markedly over the past year, it remains difficult to obtain timely, complete, and accurate information under the system being phased out and during the transition to Platinum. Again, we expect that the new accounting system will enable our Commercial Section and OIO to exert better control over the disposition of these funds.

Recommendation 10: Provide guidance to the Commercial Section regarding unobligated funds that have expired. A determination should be made on whether the funds can be used at post or whether they must be returned to the entity that issued the cable.

Reply: At AIT's insistence, funding authorizations are made exclusively by AIT from its Washington headquarters, not through US&FCS/OIO. Through ITA, OIO transfers funds to AIT via a Washington banking account, and AIT allocates funds to the Commercial Section accordingly. Thus, the responsibility for accounting for unobligated funds and disposing of them falls to the AIT in Taipei and AIT in Washington. As stated above, the AIT has refused to cede control of trade-event revenues generated by the Commercial Section. Again as stated, the US&FCS has indicated that it may consider such funds to be part of the payment due each year to AIT and deduct these sums from the invoice presented by AIT.

Recommendation 11: Assist the AIT Commercial Section in finding a solution to provide access to each officer and FN to the Internet and provide bilingual software.

Reply: We have been responsive to the IG team's observation that the AIT Commercial Section requires a systems upgrade to match the staff's ability and to improve its productivity. The post has developed a complete upgrade program with the Information Management Officer. This plan, which, when implemented, will make our Commercial Section the first post worldwide to have Internet access on each desktop, included several other first-ever procedures. The Section was the first to completely rewire its operations to run on 100 MHz-category five wiring, and the first to completely integrate the State Department OpenNet system onto each desktop. The Section is also the first to install a remote-access server to allow its officers to work on their home computers as an extension of the office.

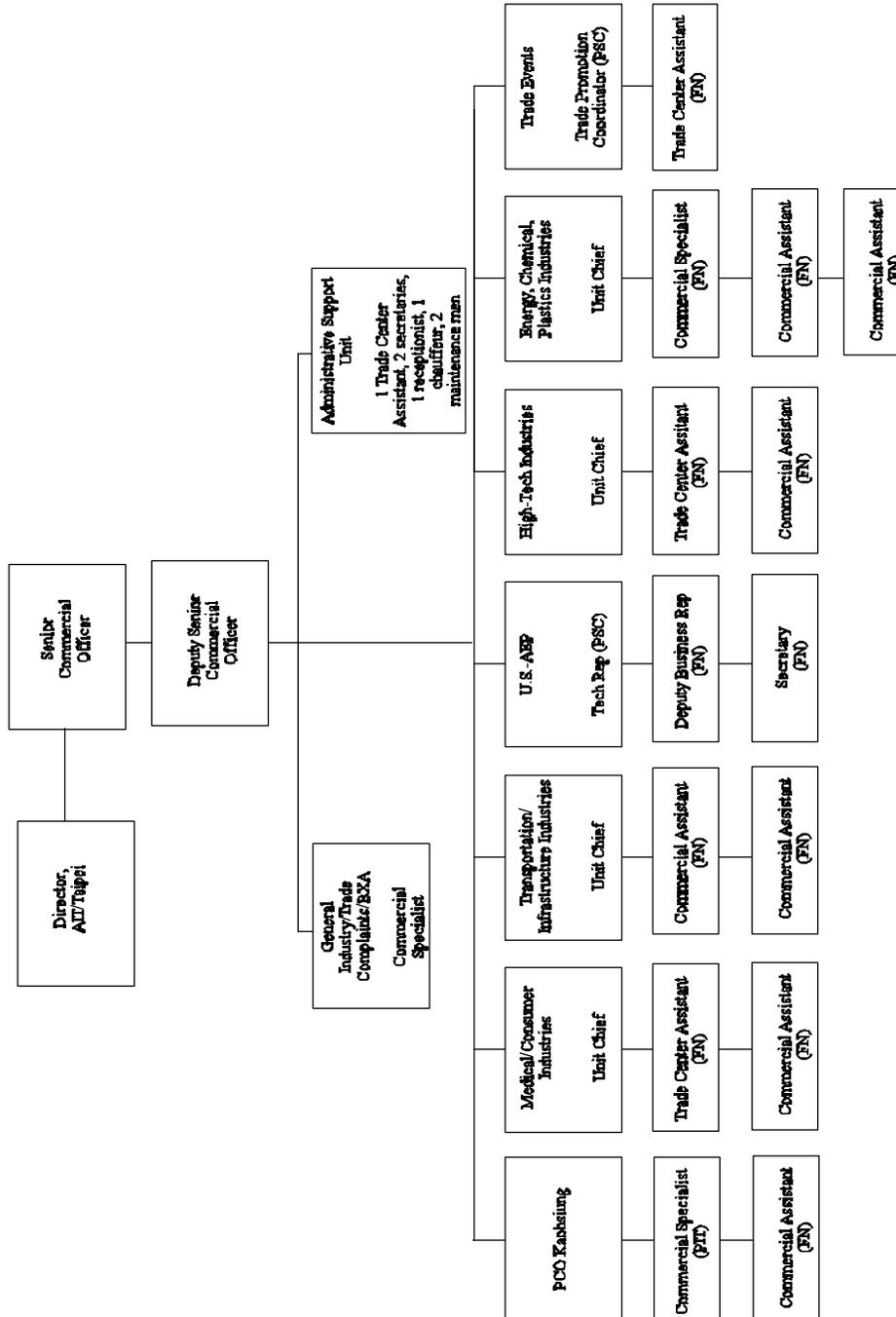
Regarding the benefits of bilingual software applications, the Section has been working with the Information Officer on a pilot project that will allow simultaneous use of Chinese and English on the same Windows NT server. Also, the Section has been meeting with the developer of Twinbridge, the most commonly-used bilingual translation software, to adapt this software to the CS Lotus Notes system. We believe that this will happen in the latter half of 1999. Finally, the

Section is part of the State Department ChinaNet project, which will provide bilingual access between Taiwan and Mainland China posts.

Recommendation 12: Assist the Commercial Section in obtaining approval of a LAN Manager position for its operations.

Reply: The Commercial Section now has a fully qualified FSN-9 LAN Manager. As a result of his efforts, US&FCS headquarters has advised us that the section is the most technically outfitted one in the US&FCS system. We believe this is the first such position anywhere within the US&FCS.

## APPENDIX II The AIT Commercial Section Organizational Chart



## **APPENDIX III**

### **Acronyms**

AIT	American Institute in Taiwan
APEC	Asia-Pacific Economic Cooperation
B&F	Budget and Finance
BXA	Bureau of Export Administration
CFO	Chief Financial Officer
DSCO	Deputy Senior Commercial Officer
EPS	Export Promotion Services
FMS	Financial Management System
FN	Foreign National
ITA	International Trade Administration
LAN	Local Area Network
MFN	Most Favored Nation
MOU	Memorandum of Understanding
NT	New Taiwan Dollars
OIG	Office of Inspector General
ORAM	Overseas Resource Allocation Model
PLC	Pre-License Check
PSV	Post-Shipment Verification
RAMC	Regional Administrative Management Center
SCO	Senior Commercial Officer
TEMS	Trade Event Management System
U.S.-AEP	United States - Asia Environmental Partnership
US&FCS	United States and Foreign Commercial Service
WTO	World Trade Organization