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Office of Inspector General

International Trade Administration

Chicago USEAC Network is Generally Operating Well But Needs to Improve Its Export Success Reporting

Final Inspection Report No. IPE-16136/February 2004

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

FEB 20 2004

MEMORANDUM FOR: Grant Aldonas
Under Secretary for International Trade

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

FROM: Johnnie Frazier

SUBJECT: Final Report
International Trade Administration: Chicago USEAC Network is Generally Operating Well But Needs To Improve Its Export Success Reporting (IPE-16136)

As a follow-up to our December 16, 2003, draft report, attached is the final report on our inspection of the Commercial Service's Chicago U.S. Export Assistance Center Network. A copy of your response to our draft report and the action plan incorporated therein is included in its entirety as Appendix B of the report.

We appreciate the Commercial Service's concurrence with our recommendations and the concrete steps taken thus far to implement the recommendations. We believe that the actions taken as well as those planned meet the intent of our recommendations and we consider them closed.

We thank the personnel in ITA headquarters and the Chicago network for the assistance and courtesies extended to us during our review. If you have any questions or comments about our report, please feel free to contact me on (202) 482-4661.

Attachment

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EXECUTIVE SUMMARY

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

Currently, the Commercial Service, through its Office of Domestic Operations, operates 105 U.S. Export Assistance Centers (USEACs), grouped geographically into 12 networks. The key objective of the USEACs is to enhance and expand federal export promotion and trade finance services through greater cooperation and coordination between federal and non-federal trade-related partners.

The Office of Inspector General conducted the on-site portion of its inspection of the operations of Commercial Service's Chicago USEAC Network from August 4 to 8, 2003, focusing on program operations as well as the financial and administrative practices of the Chicago USEAC Network. Commercial Service opened the Chicago Export Assistance Center in 1994, co-locating with the Export-Import Bank and Small Business Administration to better provide U.S. firms with information on all export promotion and export finance activities of the federal government. It was one of the four offices established under the "one-stop shop" pilot.[2] Today, the Chicago USEAC Network covers the states of Illinois, Indiana, Minnesota, North Dakota, and Wisconsin.

We found that the export assistance centers within the Chicago USEAC Network are generally doing a good job of providing export assistance to U.S. companies. More specifically, we were very pleased to note the following.

Chicago USEAC Network Operates in a Collaborative Fashion. We found the atmosphere of the Chicago USEAC Network to be team-oriented and positive. The co-location of export promotion and trade finance partners in the Chicago USEAC fosters close ties and strengthens information exchanges and joint client outreach among the trade partners. We also found that the Chicago USEAC Network has a strong reputation among its various federal, state, and local partners in the Chicago area. The Chicago USEAC Network is known as a reliable trade partner, which is always available to help sponsor, promote, and organize trade events and participate in export counseling (see page 5).

Chicago USEAC Network Receives High Marks for Client Counseling. Clients we spoke with were quite pleased with the export assistance provided by the staff of the Chicago network. Based on client feedback, we found that the staff is well respected within the business

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

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

community and has a reputation for being responsive, proactive, and innovative. We also found that the timeliness and quality of the services provided by the export assistance centers met the expectations of most clients (see page 8).

However, we also found a few issues and concerns that warrant the Commercial Service's attention:

Export Successes Need Better Management Review. We found that the Chicago USEAC Network was not in full compliance with the Commercial Service's guidelines on performance measures and reporting procedures. We reviewed the export successes approved over the period October 1, 2002 to July 9, 2003. We found that several of the export successes were inaccurate and of poor quality—with problems ranging from overstated values to narratives that did not clearly demonstrate the link between the assistance rendered and the reported outcome. We believe the Chicago network can better apply the export success guidelines and that more management oversight of export successes, both at the field and headquarters levels, is needed to ensure accurate export success reporting (see page 9).

Financial and Administrative Operations Are Generally Good, with One Exception. We found the Commercial Service did not invoice or collect $16,088 in lease payments from a trade partner co-located in Chicago, as well as in Houston and Newport Beach. Despite a requirement in the Memorandum of Understanding with the trade partner, Commercial Service had not sought—and the trade partner had not paid—these funds for the last 3 fiscal years. However, after we brought this issue to the attention of the Director of the National Field Support Team, his staff submitted an invoice to the contractor, and on November 19, 2003, the trade partner paid Commercial Service $16,088 for its share of the lease costs. Based on what we found, we question whether Commercial Service's procedures are adequate to ensure that it consistently tracks, bills, and collects payments due from non-federal trade partners (see page 15).

On page 19, we offer recommendations to address our concerns.

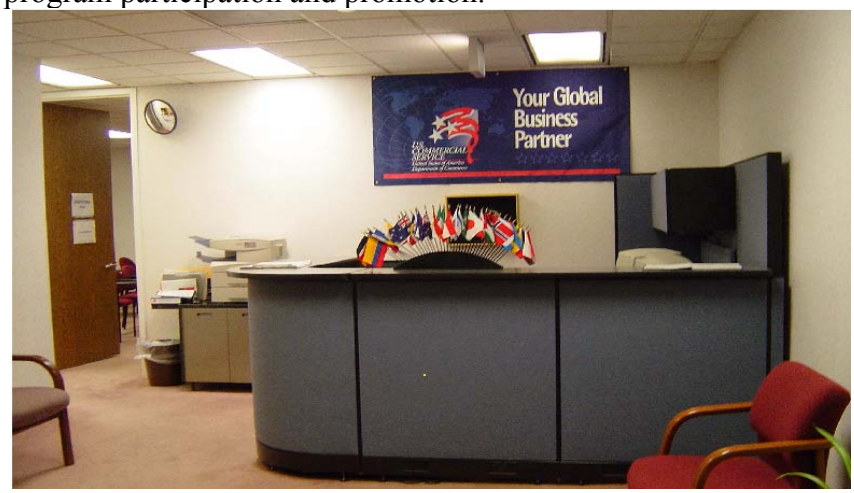
The Commercial Service concurred with our recommendations. Specifically, the Acting Assistant Secretary and Director General for the U.S. and Foreign Commercial Service's response to our draft report stated that "CS management is very pleased with the report overall and thankful for the opportunity to make changes where needed." In particular, CS management was pleased that the Chicago network received high marks from trade partners for its cooperative and collaborative attitude as well as from clients who described the network as proactive and responsive. Commercial Service's response to our recommendations outlines actions completed and steps to be taken to (1) strengthen management's oversight of export successes, (2) ensure collection of lease payments from co-located trade partners, and (3) assess the adequacy of security at an export assistance center. We discuss those specific actions and other comments on our recommendations following each appropriate section in this report. The Commercial Service's entire response to our draft report begins on page 21.

BACKGROUND

The U.S. Commercial Service (CS) was established to assist U.S. companies in selling their products to international markets by focusing on the "promotion of exports of goods and services from the United States, particularly by small businesses and medium-sized businesses, and on the protection of United States business interests abroad." Founded in 1980, as an agency of the International Trade Administration (ITA), Commercial Service positions itself as a provider of global business solutions and flexible and comprehensive products and services. Commercial Service, through its Office of Domestic Operations (ODO) and Eastern and Western regional offices, administers 105 U.S. Export Assistance Centers (USEACs), located across the United States.

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

In 1994, Commercial Service opened a USEAC in Chicago. It was one of the four initial one-stop shops, bringing together representatives of Commercial Service, Export-Import Bank (Ex-Im), and Small Business Administration (SBA). Since that time, the Chicago USEAC has expanded to include, as a co-located trade partner, the Global Trade and Technology Network (GTN), which is funded by the U.S. Agency for International Development.[3] As the primary partners of the Chicago USEAC, these trade agencies share in client counseling and referrals, outreach, event planning and program participation and promotion.

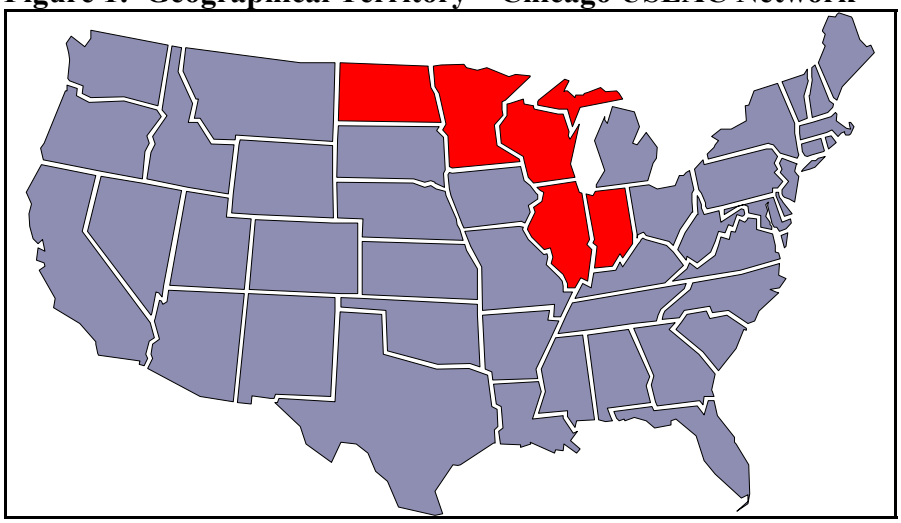


Reception area of the Chicago USEAC.

[3] GTN is a USAID-funded program implemented by International Executive Service Corp. GTN's objective is to promote economic growth in developing countries through trade, investment, and technology transfer. USAID was a participating agency in the establishment of the pilot assistance centers, but was not initially located in Chicago.

Today the Chicago USEAC is a hub office to six spokes located in Libertyville, Peoria, and Rockford, Illinois; Indianapolis, Indiana; Milwaukee, Wisconsin; and Minneapolis, Minnesota. Together they cover these four states and North Dakota (see Figure 1).

Figure 1: Geographical Territory – Chicago USEAC Network



At the time of our review, the Chicago USEAC Network had a staff of 25 CS employees: 1 network (or hub) director, 5 spoke directors, 15 trade specialists, 2 trade reference assistants, 1 personal service contractor, and 1 student intern. In addition, within the network, there were 8 employees of partner agencies: 5 Ex-Im, 2 SBA, and 1 GTN. The fiscal year 2003 CS operating budget for all export assistance centers in the Chicago USEAC Network totaled $2,454,344. Also for fiscal year 2003, the Chicago USEAC network collected $89,745 in fees from its clients for CS products and services.

The Chicago USEAC Network assists U.S. companies across a wide range of industries. The top industries are industrial machinery, computer equipment, electronic and electric equipment, chemicals, and food processing and packaging equipment. Other key industries include biotechnology, environmental technology and equipment, consumer goods, and tourism. During fiscal year 2003, the Chicago USEAC Network counseled 2,748 clients and added 892 new clients to its portfolio. New clients are often identified at tradeshows, meetings, and seminars as well as through referrals from trade partners and trade associations. Through national initiatives, such as the Global Diversity Initiative and Rural Export Initiative, Commercial Service has increased its outreach to minority and woman-owned businesses, as well as rural companies, which were traditionally under-served business sectors.

Services are provided by trade specialists who are assigned a client portfolio determined by either industry category or geographic location. Trade specialists primarily provide value-added counseling, which includes but is not limited to helping clients determine their export readiness, identify potential export markets, and develop an overall, long-term international business strategy and marketing plan. Specialists provide one-on-one counseling and customized business solutions to small and medium-sized U.S. firms just beginning to venture into markets abroad or seeking to expand their international activities. In addition, trade specialists speak at seminars, participate in initiatives with their trade partners, and promote and sell CS products and services.

They often work with CS's overseas posts, which provide market information and in-country advice and assistance to U.S. companies.

To enhance the delivery of client-specific solutions, Commercial Service recently developed a pilot program to train selected trade specialists to serve as the point of contact for information on specific trade topics, such as export controls. In addition to the Specialist Program pilot, through the Teams initiative, trade specialists participate as members or leaders of teams based on industry (for example, aerospace) and/or geographic region (for example, western hemisphere); such teams are composed of staff from CS domestic and overseas offices as well as from other units of ITA and some trade partner organizations.[4] These teams provide a structure through which all staff can jointly prioritize trade promotion activities and better service the needs of U.S. firms.

In addition to engaging other ITA units, the Chicago USEAC Network also works with a diverse group of trade-related partners on the state and local level to deliver export assistance services and prevent unnecessary duplication of efforts. The export assistance centers maintain relationships with their District Export Council,[5] state trade agency, local chamber of commerce, and other trade-related organizations to sponsor, promote, and host trade events and seminars, in addition to providing export assistance to U.S. companies.

[4]The ITA units are Market Access & Compliance and Trade Development.

[5] District Export Councils are organizations of local leaders appointed by the Secretary of Commerce to impart their experiences with international business to small and medium-sized companies.

OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose or our evaluation was to assess the effectiveness of the management, program, and financial and administrative operations of the Chicago USEAC Network, including its development and achievement of goals and objectives, the efficiency of its operations, and its compliance with applicable regulations and other managerial guidance. Specifically, we sought to determine whether the Chicago USEAC Network

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

To accomplish our goals, we reviewed the Chicago USEAC Network's strategic work plans, which offer quantifiable performance measures for increasing U.S. exports, and its coordination and collaboration with trade partners. We interviewed appropriate CS, Ex-Im, and SBA officials as well as representatives of non-profit organizations and state government agencies involved in trade promotion. We surveyed a sample of the Chicago USEAC Network's clients, which we randomly selected, regarding their satisfaction with the export assistance they received. We also surveyed the Network's staff. We evaluated the coordination between the network and other trade-related organizations in achieving the overall goals of ITA and the Department of Commerce. To help formulate our findings, we examined pertinent files and records relating to the Chicago USEAC Network's financial, administrative, and other operations.

We conducted our fieldwork from June 19 to October 7, 2003, visiting the Chicago USEAC from August 4 to 7, 2003, and the Minneapolis USEAC on August 8, 2003. During the review and at its conclusion, we discussed our findings with the Chicago network director, the national director for the Western Region, and the Deputy Assistant Secretary for Domestic Operations.

OBSERVATIONS AND CONCLUSIONS

I. Chicago USEAC Network Operates in a Collaborative Fashion

We conducted a 360-degree evaluation of the Chicago USEAC Network to determine how well the staff is working together and with their overseas counterparts, in addition to how well they interact with their trade-related partners. We found the work atmosphere within the Chicago USEAC Network to be positive overall. The staff informed us that there is a team environment and open lines of communication among the trade specialists and directors.[6] We also found that the network is well-respected by its various federal, state, and local partners in the Chicago area; they consider the Chicago network to be a reliable trade partner, always available to help sponsor, promote, and organize trade events or participate in export counseling sessions.

A. Chicago USEAC Network has a team environment

We found that interactions among the staff of the Chicago USEAC Network are collaborative and amicable. Staff described the work environment as harmonious and team-spirited, highlighting dedicated co-workers and quality leadership. We found that the USEAC network director is cultivating a good working environment with an open atmosphere.

> "Knowledgeable, friendly, and eager to interact and share ideas with one another."
>
> *Trade Specialist's description of her colleagues.*

The network director regularly schedules meetings and conference calls with staff and holds quarterly "all hands" network meetings to discuss strategic planning issues and objectives, share best practices, and invite trade partners to speak about their agency and trade initiatives. Staff also described communication between the hub and spoke offices as good.

Because of its strategic location in the Midwest, the Chicago USEAC often hosts Commercial Service staff from CS's overseas posts—for example, in February 2003, the Chicago office hosted a professional development training session for newly assigned foreign service officers to the domestic field. Hosting foreign service nationals and foreign service officers on visits to the Chicago area appears to have helped the Chicago USEAC Network establish good working relationships with Commercial Service's overseas posts. In addition, a number of trade specialists have completed temporary assignments at overseas posts. Several trade specialists and directors noted that their relationships with the overseas posts have much improved over the past few years, particularly with regard to information sharing. CS management acknowledged that integration initiatives, such as joint training and temporary duty assignments, have helped both the domestic and overseas staff gain a better appreciation and understanding of each other's role and functions.

[6] Use of the term "directors" includes the director of the hub office as well as the directors of the spoke offices.

B. Chicago USEAC Network: a true "one-stop shop"

U.S. Export Assistance Centers were created with the objective to bring together federal trade-related agencies to form one-stop shops to better promote the U.S. government's trade initiatives and assist the export community. Within the Chicago USEAC, Commercial Service is co-located with Ex-Im, SBA, and GTN, which has fostered close ties and strengthened information exchanges among them, thereby facilitating a smooth delivery of export assistance to U.S. companies.

We learned that the trade specialists and directors within the Chicago USEAC Network frequently conduct joint client counseling sessions and co-sponsor programs and seminars with their federal partners. For example, in June 2003, Ex-Im, SBA, and GTN co-sponsored with the Chicago USEAC a joint export seminar targeting minority-owned businesses. Ex-Im officials told us that they frequently receive client referrals from their CS counterparts and conduct joint client counseling sessions, and both Ex-Im and SBA stated that the trade specialists and directors share quality client leads and know when to bring in the trade finance experts to provide clients with trade assistance.

We found that the export counseling offered by Commercial Service is enhanced by greater and more convenient access to trade finance support as well as cross-referral of clients among the Chicago USEAC partners. Both SBA and Ex-Im, through their respective working capital and export support programs, offer the financial assistance needed by many of the ready-to-export companies that the trade specialists counsel.

C. Network's responsive collaboration with non-federal trade partners enhances its mission

While in Chicago, we had the opportunity to meet with a number of state and local trade partners and found that they, most notably the Illinois District Export Council, are quite pleased with the Chicago network's commitment to the trade community as well as its collaborative efforts. A number of these trade partners work with not only the Chicago USEAC but also the other export assistance centers located within the network. We learned that the network staff is visible in the community, innovative, and always available to assist their trade partners. We highlight three of those trade partner relationships below.

Illinois District Export Council

The mission of the Illinois District Export Council (IDEC) is to support and assist the Chicago USEAC and its satellite offices in Libertyville, Peoria, and Rockford. District Export Councils (DECs)—approximately 56 throughout the United States—are composed of local leaders appointed by the Secretary of Commerce. They supply specialized expertise, based on their own work experiences, about international business to small and medium-sized companies, complementing the counseling and assistance provided by Commercial Service's trade specialists.

IDEC counsels local businesses and sponsors programs in an effort to create greater awareness about exporting. The April 2002 Asia-Pacific Business Conference, which attracted over 200 companies, was jointly sponsored with the Chicago USEAC; companies participated in one-on-one counseling sessions with senior commercial officers from several CS Asia-Pacific posts. The IDEC chairman informed us that he has participated in client counseling sessions with trade specialists and was impressed by their knowledge and counseling ability. The IDEC also publishes, on behalf of the Chicago USEAC, a business calendar, which announces upcoming trade events, seminars, and courses.[7]

Illinois Trade Office

The Illinois Trade Office (ITO) is a state agency that promotes job retention and creation in Illinois through exporting, foreign direct investment, and international tourism. ITO maintains a three-tier network of International Trade/NAFTA Opportunity Centers located throughout the state, a headquarters office in Chicago to provide statewide assistance, and eight overseas Illinois trade offices, which provide in-country assistance to companies.

We found that the Chicago USEAC and its Illinois satellite offices work frequently with both ITO headquarters in Chicago and the International Trade/NAFTA Opportunity Centers to provide trade information and counseling to Illinois companies through joint outreach and seminars. For example, we learned that ITO has been instrumental in helping clients benefit from Commercial Service's products and services under its "Target" program, which leverages the resources available through ITO and trade partners to provide companies with such services as matchmaking appointments and market research. Under the Target program, ITO often purchases CS products and services for Illinois companies through the Chicago USEAC.

MIATCO

The Mid-America International Agri-Trade Council (MIATCO) is a private, nonprofit association that offers services to help U.S. companies, in a 12-state area, promote their Midwestern food and agricultural products in foreign markets. It is a cooperative effort between the member state's agricultural promotion agencies and the U.S. Department of Agriculture's Foreign Agricultural Service.

We found that while the Chicago USEAC Network and MIATCO do not usually hold joint counseling sessions, they do make client referrals to one another, recruit companies for trade events, and share information on export successes. For example, we learned that the Minneapolis USEAC, working with the North Dakota Department of Agriculture, recently recruited several food companies for a MIATCO-sponsored trade mission to Korea and Japan. We also learned that MIATCO is a member of the Commercial Service's Agribusiness Team and has participated in CS training programs.

[7] The IDEC publishes the calendar in collaboration with the International Trade Association of Greater Chicago and the Illinois Trade Office of the Illinois Department of Commerce and Economic Opportunity.

II. Chicago USEAC Network Receives High Marks for Client Counseling

Overall the clients we contacted were quite satisfied with the counseling services provided by the export assistance centers located within the Chicago USEAC Network. Based on client feedback, we concluded that the staff of the Network is well respected within the business community. The staff has a reputation for being responsive, proactive, and innovative. We also found that the timeliness and quality of the services provided by the export assistance centers met the expectations of most clients.

> "I give them all an A+."
>
> *Client of the Chicago USEAC*

In total, out of a sample universe of 33 clients, we obtained feedback from 20 clients, via either telephone or E-mail survey. The clients were generally impressed with the availability and responsiveness of the trade specialists and were pleased with their knowledge of overseas markets, access to contacts, and understanding of how to conduct international sales. Several clients remarked that they did not expect such responsive customer service from a government agency. One client was particularly pleased by the assistance he received from a trade specialist who made several international calls to ensure that the company's shipment arrived on time. Another client was impressed by a trade specialist's dedication, as evidenced by the fact that he drove hours to the company's location to provide one-on-one counseling. The client added that not only did the trade specialist bring good ideas, which made the export transaction a success, but he also brought an Ex-Im official who provided counseling on export financing programs.

A number of clients stated that the trade specialists keep them informed of market conditions and issues affecting exports and upcoming events primarily through newsletters and E-mails. We learned that the Chicago USEAC sends "blast E-mails" to its clients to inform them of events about which they may be interested, for example, the Minority Business Development Agency's September 2003 National Minority Enterprise Development Week annual celebration, which recognizes the contributions made by minority businesses to the country's economy.[8] Many clients remarked that they are appreciative of the export assistance centers and call on them when they are in need of export advice or market counseling.

[8] The Minority Business Development Agency is a Department of Commerce agency, whose mission is to foster the establishment and growth of minority-owned business in the United States.

III. Export Successes Need Better Management Review

Export successes are Commercial Service's key performance measure. Commercial Service's Office of Domestic Operations (ODO) uses the data to assess the performance of USEACs and determine whether they are meeting organizational goals and objectives. The Office of Management and Budget (OMB) and the Congress also use the data to make decisions on appropriations for Commercial Service.

The *Commercial Service Operations Manual* describes export successes as:

- An actual verifiable export sale—shipment of goods or delivery of services.
- The legally binding signing of an agreement, including agent/distributor, representation, joint venture, strategic alliance, licensing, and franchising or the signing of a contract by the client, with sales expected in the future.[9]
- Resolution of a trade complaint or dispute on behalf of the client—avoiding harm or loss.
- Removal of a market access barrier, including standards, regulations, testing and certification—opening a market for U.S. firms.

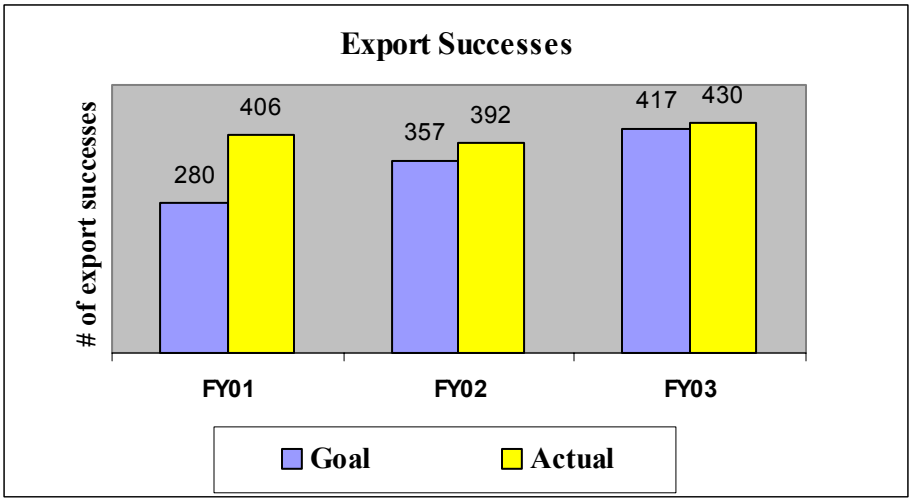
Both trade specialists and spoke directors have a yearly export success performance goal, which is outlined in their annual individual work plans. For example, for fiscal year 2003, a trade specialist at grade level 13 was expected to realize 35 export successes. Information on each export success is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

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

Commercial Service reports both the number of export successes generated per fiscal year and the total dollar value of those exports. The following chart illustrates the Chicago USEAC Network's numerical export success goals for fiscal years 2001, 2002, and 2003, and the Network's reported export successes (see Chart 1).

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

Chart 1: Export Successes – Chicago USEAC Network



Source: Commercial Service.

Our review revealed that the Chicago USEAC Network is not in full compliance with the Commercial Service's guidelines on the reporting and review of export successes. We reviewed the 273 export successes approved for the Chicago USEAC Network over the period October 1, 2002 to July 9, 2003.[10] We followed up on 29, or approximately 10.6 percent, of them and found that several were not in compliance with the Commercial Service's guidelines. Problems ranged from overstated values to narratives that did not clearly demonstrate the link between the assistance rendered and the outcome reported to poorly written success stories with typographical errors and data inconsistencies. In addition, we noted that the chain of events leading up to some export successes were not always clearly demonstrated in client records contained within the Client Management System (CMS).

We believe the Chicago USEAC Network should better apply the export success guidelines and that more management oversight of export successes, both at the field and headquarters levels, is needed.

A. Some export successes are problematic

Reporting inaccurate export successes that do not conform to the *Operations Manual* guidelines is a serious concern. In addition to ODO and OMB, aggregate export figures are reported to Congress though testimony and various reports, including the Department's annual performance plan. Commercial Service reports that last year it facilitated over $23 billion in U.S. exports.

Based on our review, it appears that the value of export successes, reported by the Chicago USEAC Network over the period October 1, 2002 to July 9, 2003, was overstated by $4.33 million, out of $42.1 million in reported export successes for our period of review. We found that in 7 instances the Chicago network reported anticipated or expected sales as the export success value rather than actual sales as required in the *Operations Manual*. The *Manual* specifically states: "Only claim on the dollar value of the report the actual amount of

[10] There was an acting network director in place from October 2002 through December 2002.

product/service that has already been sold. Projected or anticipated sales, etc. are not allowed on the dollar value line of the report as the sales have not yet been consummated." In total, it appears that approximately $3.56 million of "estimated" or "expected" sales were reported as the actual sales amount. We presented questions about each of those export successes in person or via E-mail to the Chicago network director, who stated that no dollar amount should have been reported for the export successes.

We also questioned five other reported export successes for reasons other than the reporting of "estimated" or "expected" sales. The first involved a trade specialist helping a U.S. company recover equipment from a Chinese company. The trade specialist reported the $10,000 value of the returned equipment as the export success amount. The second involved a trade specialist who, with the help of the overseas post, found an Italian supplier for a U.S. company, which resulted in a net savings of $60,000 for the U.S. company, which the trade specialist reported as the export success amount.

We do not question that these trade specialists provided assistance to the U.S. companies; we are, however, concerned that the export success write-ups were approved with the "success amounts" of $10,000 and $60,000, respectively, even though no actual export sales took place. We brought these two export successes to the attention of the Chicago network director, who stated that in these instances, since there were no actual export sales, no monetary success amount should have been reported.

The third and fourth instances involved a trade specialist who helped two U.S. companies resolve commission disputes with their respective Egyptian sales representatives and reported as the export success amount the value of the products shipped to or sold by the sales representatives prior to the trade specialist providing assistance to the two companies: in one case the value was $600,000, in the other $27,000.

Again, we do not question that the trade specialist provided assistance to the U.S. companies; we are concerned that the value of the products was reported, and approved, as the export success amounts when the *Operations Manual* states that "there must be a direct link between the USEAC assistance provided and the reported outcome." In response to our inquiries concerning these two export successes, the Chicago network director stated that she thought such reporting was justified under the guidelines but that the guidelines have since changed. She agreed that a success amount should not have been reported for the export successes in those instances also.

We subsequently asked the national director for the Western Region whether the *Operations Manual* guidelines had been revised since the start of fiscal year 2003; he stated that the same guidelines had been in effect from October 1, 2002, through July 9, 2003, but added that what constitutes an export success is subjective, and what should or should not be approved as an export success is often debated among network directors.

The fifth export success involved a trade specialist over-claiming by $80,000 the value of export sales that occurred during the prior 2 years—the reporting time frame stipulated in the *Operations Manual*. When we questioned the amount of the export success, the trade specialist stated, "Sales to date, 1997-2003, are in the $100,000 range. The firm estimates that

approximately 20 percent of the sales were made within the last 2 years"; thus the reported success amount should have been 20 percent of $100,000 (that is, $20,000) rather than the full amount.

From October 1, 2002 to July 9, 2003, the Chicago USEAC Network reported a total export value of $42.1 million. Based on our review of those successes, it appears that, at a minimum, roughly 10 percent of the total export value reported, or $4.33 million, was overstated.

Other problems we found in several narratives included typographical errors, inconsistencies in terms of the country of success and success amounts reported, insufficient details about the chain of events leading to the export success, or other examples of noncompliance with content and reporting guidelines.

It appears that the reporting errors, discrepancies, and quality control problems occurred because (1) the Chicago USEAC Network staff did not always adhere to the *Operations Manual* guidelines for performance reporting, and (2) there was inadequate management oversight. The *Manual* states "Managers and staff are accountable for reporting performance statistics consistent with this guidance. Office Directors provide quality control certifications by completing approval fields in the CMS database. Regional Directors spot-check Export Success reports." We are concerned that neither the Chicago network director nor the national director for the Western Region identified the reporting errors contained within the export successes we reviewed.

During fiscal year 2003, the Commercial Service formed a working group to study the performance measures and export success guidelines. Based on the working group's findings and conclusions, the Commercial Service issued new guidelines effective October 1, 2003. In light of our recent findings, we will review the new guidelines and their implementation to determine if they will be effective in providing adequate guidance for the reporting and review of export successes.

Recommendation. The Commercial Service needs to require more diligence in the reporting and review of export successes. More oversight and careful review of export success write-ups and their compliance with the *Operations Manual* guidelines is needed by not only the network director, but also by ODO.

In its response to our draft report, Commercial Service agreed that management oversight of export success reporting can be strengthened across the field as well as in headquarters. Commercial Service outlined the actions completed and steps yet to be taken to ensure that reports of export successes are uniformly of high quality. In particular, Commercial Service has (1) developed and posted new guidelines accessible to CS personnel worldwide to clarify and harmonize performance standards and reporting, (2) dedicated two quarterly directors' meetings and weekly conference calls to review and implementation of the new guidelines, (3) conducted a series of training conference calls with the domestic field to discuss policy guidance and the mechanics of reporting and editing export successes, (4) instructed network directors to work

together as they review export successes to ensure greater consistency and compliance with CS policy, and (5) provided editing rights to network directors within the performance measures database allowing them to correct reporting errors.

Commercial Service also stated that it is creating a training class to help personnel understand the new guidance, improve the quality of export success narratives, and ensure that trade specialists are using CMS to record client interaction consistently. In addition, under a proposed reorganization, ODO plans to designate a senior-level official in headquarters to be responsible for ensuring that export successes are of high quality and that there is consistency in reporting nationwide.

The Chicago network office stated that it is now using the current version of the *Operations Manual* guidelines and has begun to implement the recommendations. That office also stated that it is more vigilant in correcting errors in the successes reported and making certain that the chain of events leading to an export success is clearly documented.

We support the actions taken by Commercial Service and its Chicago network office to improve the quality and accuracy of export success reporting and documentation. We look forward to learning more about the Commercial Service's training class as well as its plans to designate an ODO official to oversee export success reporting. The actions taken and proposed by the Commercial Service meet the intent of our recommendation.

B. Chain of events for an export success is not always clearly documented

We reviewed CMS client records to ascertain the chain of events that led to a number of export successes. For some, we could not find CMS entries that clearly discussed the value-added counseling provided or demonstrated a direct link between the USEAC assistance rendered and the reported outcome. Currently there is no set time period for trade specialists to update their client session records within CMS. However, we think that ODO may want to consider requiring trade specialists to regularly update their client counseling records in CMS. This would help ensure that the support for export successes and other performance data is available and timely. Complete client records should also facilitate the trade specialists' follow-up with clients.

As we go forward with our review of the Commercial Service's export successes, we will continue to review CMS entries for sufficient and timely supporting documentation demonstrating the CS service provided to the client and the results reported.

C. Services to repeat clients may limit assistance available to new clients

We reviewed the lists of clients that generated export successes for the Chicago USEAC Network for fiscal years 2001 and 2002, and for the period October 1, 2002 to August 21, 2003. We found that some trade specialists and spoke directors reported multiple export successes for the same clients year after year. For example, for fiscal year 2003 (as of August 21, 2003), 69 percent of one trade specialist's export successes were generated by clients for whom the trade specialist also reported export successes in fiscal years 2001 and 2002.

We understand that trade specialists are expected to cultivate client relationships over time and assist existing exporters to expand into new markets, and that there is no limit on the number of export successes from each client. We are concerned, however, that if trade specialists are focusing on repeat clients that can generate export successes, they will not be available to assist new clients who require assistance but might not generate immediate successes. Because we identified this issue late in our review, we were unable to determine if it is a pervasive problem. We nevertheless wanted to bring our concern to management's attention and make clear that we will be pursuing this issue in our subsequent reviews.

IV. Financial and Administrative Operations Are Generally Good, with One Exception

Our review of the Chicago USEAC Network's financial and administrative operations found them to be sound for the most part: assets are accounted for and properly used, no cash collections are made, credit card and check collections are entered into eMenu, and inventory, purchase cards, and time and attendance records are properly managed. Much of the credit for the network's sound financial and administrative operations goes to the National Field Support Team (NFST) personnel assigned to both the network and CS headquarters. The NFST member for the Chicago USEAC Network is a long-term CS employee who appears to be knowledgeable, organized, and responsive.

ODO established the NFST in February 2001, to shift administrative and financial operations away from trade specialists, to allow them to devote more time to client and core-mission work. One NFST Field Support Specialist (FSS) is assigned to each USEAC network to serve as the primary contact for administrative processing for all employees within the network. NFST prepares an administrative support agreement to be signed by each network director, the FSS within the network, and the NFST director. This agreement spells out the following FSS responsibilities: budget formulation and budget allocation (in concert with the USEAC network director); budget reporting and reconciliation; human resources functions; hospitality requests; gifts and bequests; management of procurement, travel, time and attendance, awards, trust funds, and inventory; and liaison for leases and Memoranda of Understanding (MOU). The objectives of implementing such NFST agreements are to enable ODO to

- place more resources into export promotion;
- establish administrative consistency across the country;
- improve budget formulation, allocation, and management;
- improve administrative customer service and accountability;
- establish a proactive stance to continually improve administrative services; and
- improve the morale of administrative staff.

Although she is assigned to the Chicago USEAC Network, the FSS's office is located at the Minneapolis USEAC. We visited that office on August 8, 2003, and met with the FSS. As part of our survey, we asked the Chicago USEAC Network staff about their satisfaction with the FSS and NFST's services, and whether the establishment of the NFST has indeed allowed them to focus more on client needs. Overwhelmingly, network staff stated that the FSS is helpful, knowledgeable, and responsive. Further, they told us that since the NFST was created, the amount of time they must spend on administrative matters has significantly decreased, allowing them more time for core responsibilities.

NFST also conducts periodic internal control reviews (ICRs) of its operations, carried out by NFST staff not affiliated with the network under review. A USEAC network director can, at any time, request an ICR to cover some or all network administrative functions and/or the NFST within the network. During July and August 2002, NFST performed an ICR of the Chicago USEAC Network's administrative operations for the period of October 1, 2001 to June 30, 2002. No material problems were identified.

Also, to its credit, ODO management has taken an initiative to reduce its lease costs in USEACs nationwide where cost savings are possible. These cost savings can be achieved through either downsizing current space or relocating to lower cost space. In Chicago, Commercial Service entered into a 10-year lease for its current space. That lease expired in May 2003. The proposed new lease for the current space would be a significant increase over the current cost. Therefore, Commercial Service obtained a one-year extension from the General Services Administration (GSA) for its current space, so that it could identify new less expensive space. The cost to exercise this extension option was nearly $43,000. To meet ODO and GSA requirements, the Chicago USEAC is currently working with GSA to downsize its space requirements and find less expensive space that accommodates Ex-Im and SBA, so that the USEAC can remain a "one-stop shop." An NFST staff member is the liaison with GSA to assist in identifying less expensive new space, or reducing lease costs at the current location.

Based on our review of the network's financial and administrative operations, the network's satisfaction with the NFST services, and the fact that the ICR revealed no material problems, we believe that the financial and administrative operations of the Chicago USEAC Network are functioning effectively, with the following exception.

Commercial Service did not invoice and collect payments from co-located trade partners

As noted earlier, at the Chicago USEAC, Commercial Service is co-located with Ex-Im, SBA, and a trade partner called Global Trade and Technology Network (GTN). GTN is a U.S. Agency for International Development (USAID) program implemented through a cooperative agreement with the International Executive Search Corporation (IESC), the principal contractor for the GTN program. The GTN program helps U.S. companies to identify markets overseas and is fully funded by USAID. By co-locating GTN with Commercial Service, it is hoped that the needs of U.S. exporters will be more completely met.

An MOU establishing co-location as well as a joint project between Commercial Service and GTN, has been in place for the past 3 years. The MOU specifies that IESC will assign a full-time trade specialist to the Chicago USEAC to administer the GTN program, and pay Commercial Service $2,910 per fiscal year toward the lease cost of the space. Despite this requirement, Commercial Service had not sought—and the trade partner had not paid—these funds for the last 2 fiscal years. The payment for fiscal year 2003 was due on October 1, 2003.

We met with GTN's business development manager who explained that IESC has never received an invoice for the lease charges and stated that without an invoice, they cannot pay Commercial Service. Initially, when we brought this issue to the attention of CS management in headquarters and within the Chicago USEAC Network, they were not aware that the MOU called for GTN to make lease payments.

We also inquired about Commercial Service's process for billing a non-federal trade partner. According to the NFST director, this process is currently the responsibility of the FSS in each network. However, when we spoke with the Chicago network's FSS, she stated that although she had a copy of the MOU, she was unaware that the trade partner owed any lease payments to Commercial Service.

For fiscal years 2001 and 2002, by not properly invoicing the payments stipulated in the MOU, Commercial Service failed to collect $2,910 per fiscal year, or $5,820. Further, Commercial Service failed to collect another $2,910 for fiscal year 2003. In total, for the Chicago USEAC alone, Commercial Service failed to collect $8,730. During our inspection, we also learned that GTN is co-located with Commercial Service in the Newport Beach and Houston USEACs, and had not paid its portion of the lease costs in either of those USEACs. Commercial Service had not invoiced the contractor for its portion of the lease costs in either office. To address our concerns, NFST prepared and submitted an invoice totaling $16,088 to the GTN contractor for its portion of the lease costs in Chicago, Houston, and Newport Beach. This amount was comprised of lease payments due as far back as July 2000. On November 19, 2003, IESC paid Commercial Service $16,088 for the aforementioned lease costs.

We are concerned about Commercial Service's process for tracking, invoicing, and collecting funds due from non-federal trade partners. Since the three USEACs with GTN as an on-site partner—Chicago, Newport Beach, and Houston—are located in three different USEAC networks, yet experienced the same problem, we question Commercial Service's current process of having each network's FSS be responsible for tracking, invoicing, and processing these receivables. Instead, Commercial Service should consider a centralized procedure for tracking these funds to ensure that no further collections are missed and ensure that the Field Support Specialists are adequately trained about their responsibilities to collect money owed by co-located partners. In light of Commercial Service's initiative to reduce its lease costs where possible, we believe that Commercial Service should address this issue promptly.

As we go forward with our review of other USEACs, we will continue to evaluate the issue of funds due from co-located non-federal trade partners to ensure that Commercial Service has collected all such money.

Lastly, SBA, another co-located partner in Chicago and 16 other export assistance centers, was delinquent in paying its portion of the USEAC's lease costs for fiscal year 2003. However, in the case of SBA, CS management was well aware of the non-payment and consistently pursued payment from SBA. On October 1, 2003, SBA provided to Commercial Service a signed reimbursable agreement for $359,146, SBA's share of the lease costs for fiscal year 2003. On October 2, 2003, the Deputy Assistant Secretary for Domestic Operations announced that SBA had paid its fiscal year 2003 lease obligation.

Recommendations. CS management should ensure collection of lease costs from the GTN contractor for its share of the USEAC space in Chicago, Newport Beach, and Houston, totaling $16,088. Further, Commercial Service should ensure that its procedures for tracking and invoicing fees due from non-federal trade partners are adequate and understood by its employees so that no future collections are missed.

In response to our draft report, Commercial Service stated that the GTN contractor paid $16,088 to the Commercial Service for its share of the lease costs. We are pleased that Commercial Service received these funds. This action meets the intent of our recommendation number two.

Commercial Service also stated that it is working with the Interior Department's National Business Center (NBC), which handles ITA's payments and accounting functions, to implement a mechanism that will automatically invoice trade partners for costs specified in MOUs. Commercial Service indicated that this invoicing system will be in place by the third quarter of fiscal year 2004. We are pleased that Commercial Service is taking steps to address our recommendation to improve the tracking and invoicing of fees due from non-federal trade partners. However, until the new mechanism with NBC is in place, we request that the NFST Director ensure that field support specialists in these networks understand and collect the required lease costs from the GTN contractor.

SUMMARY OF RECOMMENDATIONS

To strengthen the management and operations of the Chicago USEAC Network as well as all domestic export assistance centers, our recommendations are that the Acting Assistant Secretary and Acting Director General of the Commercial Service do the following:

1. Require that USEAC directors and ODO exercise greater diligence in their reporting and review of export successes to ensure compliance with CS guidance and the *Operations Manual* (page 10).

2. Ensure collection of lease costs from the GTN contractor for its share of the USEAC space in Chicago, Newport Beach, and Houston, totaling $16,088 (page 15).

3. Ensure that CS' procedures for tracking and invoicing fees due from non-federal trade partners are adequate and understood by the appropriate CS employees so that no future collections are missed (page 15).

4. See Appendix C at page 25 for two additional recommendations (For Official Use Only).

APPENDICES

APPENDIX A

List of Acronyms

CMS	Client Management System
CS	Commercial Service
DEC	District Export Council
DOJ	Department of Justice
Ex-Im	Export-Import Bank of the United States
FSS	Field Support Specialist
FY	Fiscal Year
GSA	General Services Administration
GTN	Global Trade & Technology Network
ICR	Internal Control Review
IDEC	Illinois District Export Council
IESC	International Executive Service Corps
ITA	International Trade Administration
ITO	Illinois Trade Office
MIATCO	Mid-America International Agri-Trade Council
MOU	Memorandum of Understanding
NBC	National Business Center
NFST	National Field Support Team
ODO	Office of Domestic Operations
OIG	Office of Inspector General
OMB	Office of Management and Budget
OSY	Office of Security
SBA	Small Business Administration
USAID	U.S. Agency for International Development
USEAC	U.S. Export Assistance Center

APPENDIX B

Agency Response to the Draft Report

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

January 14, 2004

MEMORANDUM FOR Jill Gross
Assistant Inspector General for Inspections and Program

FROM: Carlos Poza
Acting Assistant Secretary and Director General for the U.S. and Foreign Commercial Service

THROUGH: Grant Aldonas
Under Secretary for International Trade

SUBJECT: Response to Draft Report: International Trade Administration: Chicago USEAC Network is Generally Operating Well But Needs to Improve Its Export Success Reporting (IPE-16136)

The Commercial Service (CS) welcomes the draft report on our Chicago network operations. In particular, CS management is delighted that the Inspector General (IG) found that the Chicago network "received high marks from trade partners for its cooperative and collaborative attitude, as well as from clients for being proactive and responsive." Our highest priority is to deliver exceptional customer service to U.S. exporters. That exceptional service is only possible when we work closely with other federal and state agencies to offer the best export counseling available. We will commend Chicago network management and staff accordingly.

Of the report's recommendations for improvement, the IG's office identifies the need for 1) better management oversight of export-success reporting; 2) more thorough procedures to ensure the CS is adequately tracking and invoicing fees due from non-federal trade partners, and 3) [redacted]. The CS welcomes these recommendations as well as the opportunity to enumerate the actions that the CS is taking to address them.

RECOMMENDATION #1: Require that USEAC directors and ODO exercise greater diligence in their reporting and review of export successes to ensure compliance with CS guidance and the Operations Manual.

According to the IG report, "...the Chicago Network was not in full compliance with the Commercial Service's guidelines on performance measures and reporting procedures." The report specifically refers to a sampling of export successes reported in FY 2003, indicating that roughly 10 percent of them were "inaccurate and of poor quality." The IG

recommends that the network can better apply CS export-success guidelines and that more management oversight, both in the field and in headquarters, is needed.

The CS is in agreement that management oversight of export-success reporting can be strengthened across the field as well as in headquarters. The following steps are being taken to ensure that our export successes are uniformly of high quality:

- In late FY 2003, the CS reviewed all our performance-measure guidance, including the reporting of export successes. The review was prompted by concerns that export-success guidance was being interpreted differently across the field and was an attempt to clarify and harmonize our performance standards worldwide. All performance-measure guidance has been re-written with input from headquarters and both fields. The new guidance is now clearly posted on the ITA Our Place site and is accessible by CS personnel worldwide.
- ODO headquarters management worked aggressively with our Directors to ensure their understanding and compliance with the new guidance. Two quarterly Directors meetings and multiple weekly conference calls have been dedicated to the review and implementation of these new guidelines.
- A unique series of training conference calls was offered to the entire domestic field at the beginning of the fiscal year to facilitate smooth implementation of the performance guidance. During these calls, policy guidance was reviewed in conjunction with the mechanics of reporting and editing export successes.
- Furthermore, ODO asked Network Directors to work together as they are reviewing export successes, to ensure greater consistency and compliance with CS policy.
- To enhance the review of export successes at the network level and to ensure that all valuable work of the CS is clearly documented, all ODO Network Directors now have editing rights for export successes on the Performance Measures Database.
- At the request of field management, ODO is also working on creating a training class to help field personnel 1) understand the new guidance, 2) improve the narrative quality of all export successes, and 3) ensure that Trade Specialists are using our Client Management System (CMS) to record client interaction consistently.
- Lastly, under the proposed ODO reorganization, a senior-level position in ODO headquarters would be designated (as part of a complete portfolio) to review export-success reporting nationwide. Key goals will be to ensure that individual export successes are of high quality and that there is consistency in reporting across the field. With over 6,400 export successes reported in FY 2003 alone, a resource is needed in headquarters to help our National Director adequately review successes on an ongoing basis. This person will also be responsible for tracking the export-success approval records of the Network Directors and with providing guidance on export-success reporting as needed.

The CS makes and will continue to make every reasonable effort to obtain an accurate dollar value when reporting export successes. While it is incumbent on the CS to do so,

certain industry specific challenges and client sensitivities exist. The IG's findings clearly illustrate the difficulty that the CS has had in obtaining exact export sales information from our clients. Unbeknownst to our Trade Specialists, clients will often estimate sales that will accrue from a signed agent or distributor agreement. Clients also have difficulty reporting accurate sales figures for transactions in certain industries. The services industry is a perfect example, as sales are often ongoing exports of technology, marketing expertise, and other intellectual capital. In many other cases, the client is unwilling to divulge the amount of the sale, and we are often forced to report a zero dollar value when we know an export sale was made. Lastly, in a number of instances, the export success reflects the signing of a legally binding agreement with the shipment of goods or services to follow thereafter. However, it is certainly incumbent on the CS that we ensure that accuracy in dollar value reporting remains paramount.

The Chicago office reports that, "We now have the correct and most current version of the Operations Manual guidelines and have begun to implement the recommendations provided by the IG's office. We are also more vigilant in correcting typographical and other errors in the successes reported, including making certain that the chain of events leading to an export success is clearly documented."

RECOMMENDATION #2: Ensure collection of lease costs from the GTN contractor for its share of the USEAC space in Chicago, Newport Beach and Houston, totaling $16,088.

The IG report found that ODO had not collected lease costs from one of our federal partners, GTN, as stipulated in the MOU we signed establishing co-location. To address this issue, the National Field Support Team prepared and submitted an invoice totaling $16,088 to GTN to cover lease payments due from July 2000 to the present. On November 19, 2003, the contracting agency paid the Commercial Service $16,088 for the lease costs.

RECOMMENDATION #3: Ensure that CS's procedures for tracking and invoicing fees due from non-federal trade partners are adequate and understood by the appropriate CS employees so that no future collections are missed.

The National Business Center (NBC) of the Department of Interior works under contract with ITA to provide payments and accounting functions. The CS is working with NBC to put in place a mechanism that will automatically invoice partners for the costs specified in our MOUs. We plan to have this invoicing system in place by the third quarter of FY 2004. We are working diligently to put this system in place to avoid any further delay in payments as agreed upon in our MOUs.

RECOMMENDATIONS #4 and 5

[redacted]

In closing, I again would like to thank the IG for their thorough report on our Chicago network operations. I reiterate that CS management is very pleased with the report overall and thankful for the opportunity to make changes where needed. Should you have any further questions on our proposed response, please do not hesitate to contact me directly.

APPENDIX C

FOR OFFICIAL USE ONLY

[redacted]

[redacted]

Pursuant to the Inspector General Act of 1978, as amended, and the Omnibus Trade and Competitiveness Act of 1988, the Commerce OIG periodically evaluates the operations of the Commercial Service. Under these authorities and in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency, we conducted an inspection of the Chicago U.S. Export Assistance Center Network.

Inspections are reviews the OIG undertakes to provide agency managers with timely information about operations. One of the main goals of an inspection is to encourage effective, economical, and efficient operations. Inspections are also conducted to identify or prevent fraud, waste, and abuse in federal programs. By asking questions, identifying problems, and suggesting solutions, the OIG helps managers determine how best to quickly address issues identified during the inspection. Inspections may also highlight effective programs or operations, particularly if their success may be useful or adaptable for agency managers or program operations elsewhere.

Major contributors to this report were Kristen Johnson and Christine Shafik, Office of Inspections and Program Evaluations.

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General
Room 7898C, HCHB
14th Street & Constitution Avenue, NW
Washington, DC 20230

Internet Web site:

www.oig.doc.gov