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INTERNATIONAL TRADE ADMINISTRATION

USEACs Are Meeting Client Needs, but Better Management Oversight Is Needed

Final Inspection Report No. IPE-16728/September 2004

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

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 E. Frazier

SUBJECT: Final Report - *International Trade Administration: USEACs Are Meeting Client Needs, but Better Management Oversight Is Needed (IPE-16728)*

Attached is our final report that addresses several crosscutting issues that we identified in our individual inspections of Commercial Service's (CS') Chicago, Pacific Northwest, and Philadelphia U.S. Export Assistance Center (USEAC) networks which represent 28 individual ITA offices. The report presents those shared observations and our recommendations for addressing them.

Our inspections focused on management oversight, as well as the programmatic and financial operations of the USEAC networks during fiscal year 2003. We are pleased to report that the USEAC networks appear to be doing a good job of providing export assistance to U.S. companies and collaborating with federal, state, and local trade partners to leverage resources. However, our inspections also revealed issues that need attention. In particular, we discovered several weaknesses in complying with federal regulations and internal CS policy and procedures by both the USEACs and the Office of Domestic Operations. Most significantly, we found that noncompliance with the CS guidelines on the reporting of export successes—the organization's key performance measure—resulted in the overstatement of performance data for each network. We also identified some operational, financial, and administrative deficiencies, which together suggest that oversight of the domestic field should be improved. In addition, we noted that the International Trade Administration (ITA) is not in compliance with the full-cost recovery requirements of the Office of Management and Budget's Circular A-25.

We are pleased to note that CS and ITA have already taken actions to address many of the recommendations outlined in our three separate earlier USEAC network reports. We have noted, for example, that your response to our draft report indicates aggressive steps to strengthen the accuracy of performance reporting and to bring ITA and CS into compliance with full cost recovery requirements. We trust that continuing actions will be taken to address our concerns. Please provide us with an action plan within 60 calendar days that further outlines the actions you have taken or plan to take to address the recommendations in this crosscutting report. If you have any questions or comments about our report, please call me at (202) 482-4661, or Jill Gross, Assistant Inspector General for Inspections and Program Evaluations, at (202) 482-2754.

We thank the personnel in ITA, Commercial Service, and the USEAC networks for the assistance and courtesies extended to us during our inspections.

Attachment

cc: Linda Cheatham

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EXECUTIVE SUMMARY

The Department of Commerce's International Trade Administration (ITA) plays a major role in leading the federal government's efforts to increase U.S. exports. ITA's U.S. Commercial Service (CS),[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 (ODO), operates 106 U.S. Export Assistance Centers (USEACs), grouped geographically into 12 networks. The key objective of the USEACs is to enhance and expand federal export promotion and trade finance services through greater cooperation and coordination between federal and nonfederal trade-related partners. [2]

During 2003 and 2004, the Office of Inspector General inspected the operations of 3 of the 12 USEAC networks (Chicago, Pacific Northwest, and Philadelphia) to evaluate the management, program operations, and financial and administrative practices of each network. These 3 networks represent 28 individual USEAC offices. This report presents our crosscutting observations and recommendations as well as a discussion of the actions ITA and Commercial Service have taken or plan to take to implement recommendations presented in the individual inspection reports.[3]

Overall, we found that the USEAC networks are operating well, doing a good job of providing export assistance to U.S. companies as well as collaborating with trade partners, and have fairly sound financial and administrative operations. However, we did identify a few crosscutting issues that warrant ITA's and the Commercial Service's attention, including (1) the need to improve headquarters oversight of the domestic field operations; (2) a lack of compliance with CS policy and procedures—in particular export success reporting guidelines; and (3) noncompliance with the statutory and regulatory requirements to charge full-cost recovery fees for products and services. Our specific observations are as follows:

Weaknesses Identified Demonstrate That USEAC Management Oversight Needs to Be Improved. Through our individual inspections, we discovered several deficiencies to comply with federal regulations and internal CS policy and procedures by both the USEACs and ODO. Most significantly, we found that failure to comply with the CS guidelines on the reporting of export successes—the organization's key performance measure—resulted in the overstatement of performance data for each network. Specifically, Chicago's export value of $42.1 million

[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.

[3] *Chicago USEAC Network is Generally Operating Well But Needs to Improve Its Export Success Reporting* (IPE-16136); *Pacific Northwest USEAC Network Generally Operates Well, but Export Success Reports Need More Management Scrutiny* (IPE-16507); and *Philadelphia USEAC Network Provides Good Service to Clients, but Oversight and Export Success Reporting Need to be Improved* (IPE-16402).

was overstated by $4.3 million (10 percent); Pacific Northwest's export value of $263 million was overstated by $156 million (59 percent); and Philadelphia's export value of $145.1 million was overstated by $14.5 million (10 percent).[4] We also noted that, despite a CS strategic goal to expand the number of U.S. firms that export, the CS is not accurately tracking the assistance it is providing firms who are new to exporting. In addition, we discovered operational, financial, and administrative weaknesses unique to each network, which, when coupled with the findings together common to all three, suggest that ODO needs to improve its management oversight of the domestic field operations (see page 5).

ITA Is Not in Compliance with OMB Circular A-25 Requirements. Office of Management and Budget Circular A-25 establishes federal policy regarding fees for U.S. government services and for sale or use of federal goods or resources—including those of ITA—that convey special benefits to recipients beyond those accruing to the general public. The stated objective of this policy is that fees be set to allow full-cost recovery for benefits provided to specific recipients beyond those accruing to the general public. Although ITA currently charges fees for some products and services, we determined that ITA is not in compliance with Circular A-25's full-cost recovery requirements (see page 15).

Clients Value the USEACs and Offer Suggestions to Enhance Services. Across the three USEAC networks, we contacted over 200 clients to learn of their interactions with the USEACs. We learned that the level of assistance and products provided by the USEACs met or exceeded the expectations of most clients. The majority of them described USEAC staff as responsive, innovative, knowledgeable of overseas markets, and well connected to trade partners and government contacts abroad. A number of clients suggested ways in which the USEACs could enhance their visibility and services. In particular, these clients suggested the use of radio announcements and industry association newsletters as a means to promote the USEACs. Other clients suggested that the USEACs could offer more specialized trade assistance and market information (see page 18).

USEACs Have Positive, Mutually Beneficial Relationships with Trade Partners. We found that each of the USEAC networks has strong, mutually beneficial relationships with a diverse mix of trade partners at the federal, state, and local levels. In some of the export assistance centers, Commercial Service is collocated with one or more trade partners, such as the Small Business Administration (SBA), Export-Import Bank, state trade agencies, and universities. These collaborative relationships better enable the USEACs to provide U.S. companies with "one-stop shopping" for their export counseling, market research, and trade financing needs (see page 21).

On page 26, we offer recommendations to address our concerns.

[4] For the Chicago network, we reviewed the export success records approved (273) from October 1, 2002 to July 9, 2003, and for the Pacific Northwest and Philadelphia networks, we examined a random sample of approximately 20 percent of the export success records approved during the 2003 fiscal year—761 and 489, respectively.

ITA concurred with all of our recommendations. The Chief Financial Officer and Director of Administration's response to our draft report discusses what specific measures the bureau has taken, or plans to take, to comply with the recommendations in this report. In order to more effectively monitor export success reporting worldwide, ITA has appointed an Export Success Quality Control Officer and is currently developing a sampling methodology for an in-depth quality review of export successes from Commercial Service offices worldwide. ITA is also working to add a field to the Client Management System in order to identify new-to-export clients and track associated client counseling sessions. To more effectively monitor USEAC activities and compliance with policies, procedures, and regulations, ITA reports that significant structural improvements have been made to the ODO headquarters reporting structure to (1) fill critical staffing gaps, (2) improve management oversight and accountability, and (3) improve internal customer service.

ITA reported that it is also taking steps to comply with OMB Circular A-25 by acquiring a new accounting system that should be implemented in fiscal year 2006 and by developing product-pricing templates to capture the full direct and indirect costs for its products. As an attachment to its response to our draft report, ITA provided an OMB Circular A-25 Conformance Plan (see Appendix C, page 38). ITA noted that it is prepared to charge sufficient fees to obtain full cost recovery and that all product prices will increase based on ITA's methodology of including salary costs and overhead charges that were previously excluded from product-pricing computations. ITA also reported that it has included a 50 percent product discount on products for its most vulnerable or smallest companies, if price tests indicate that such discounts are necessary for CS and ITA to continue to service these companies. ITA did not agree with the statement in our draft report that full pricing efforts are complicated by a "mind-set within ITA against charging fees for government services" intended to help small and medium-sized companies. It stated that the Commercial Service has been receptive to substantial price increases over the last few years and training on pricing and fee-setting will be provided to staff.

Finally, although ITA noted that the Small Business Administration has committed to fully fund collocation in the USEACs through FY 2005, the bureau will continue to monitor the situation and develop contingency lease plans at the appropriate time if there is an indication that SBA might depart the USEACs. In addition, realizing the importance of continuing to provide trade finance assistance to clients, ITA will include segments on trade finance assistance in training programs provided to trade specialists. We discuss ITA's response to our findings and recommendations in greater detail following each section in this report.

BACKGROUND

The U.S. Commercial Service (CS)—founded in 1980 as an agency of the International Trade Administration (ITA)—promotes the export of U.S. goods and services, particularly by small and medium-sized businesses, and seeks to protect U.S. business interests abroad. Through its Office of Domestic Operations (ODO), the Commercial Service operates 106 U.S. export assistance centers (USEACs) grouped into 12 networks across the nation.

The Export Enhancement Act of 1992 called for the creation of USEACs to bring together in one location the services of all federal trade-related agencies, and thereby give U.S. firms one-stop access to the full range of federally sponsored export promotion and trade finance programs. In creating the USEACs, Commercial Service designed a "hub and spoke" system: a USEAC, with collocated federal trade partners, serves as the "hub" office supporting the activities of several "spoke" or satellite offices (also called USEACs) within a designated geographic area.

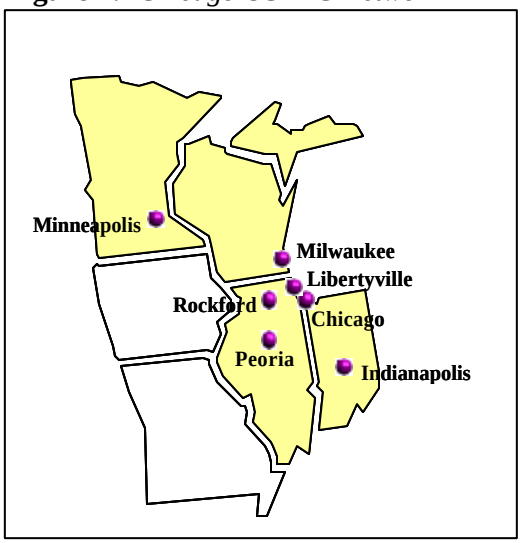
From June 2003 through March 2004, we conducted inspections of 3 of the 12 USEAC networks: Chicago, Pacific Northwest, and Philadelphia.[5] Each network has a diverse portfolio of clients to whom trade specialists provide customized business solutions and one-on-one counseling services to, for example, help clients determine their export readiness, identify potential export markets, and develop an overall international business strategy and marketing plan. USEAC clients are identified at trade shows, meetings, and seminars as well as through referrals from trade partners. Individual centers work with a varied group of trade partners at the federal, state, and local levels to deliver comprehensive export assistance services and reduce duplication of efforts. Trade specialists participate in export promotion initiatives with their trade partners, and promote and sell CS products and services.

Chicago USEAC Network

Commercial Service opened the Chicago USEAC in 1994. One of the first one-stop shops to be established, the USEAC collocated CS representatives with staff from the Export-Import Bank (Ex-Im Bank) and Small Business Administration (SBA).

The Chicago USEAC is the hub office for six satellite locations in Libertyville, Peoria, and Rockford, Illinois; Indianapolis, Indiana; Milwaukee, Wisconsin; and Minneapolis, Minnesota (see figure 1). Together they cover those four states and North Dakota.

Figure 1: *Chicago USEAC Network*



At the time of our review, the Chicago network had a staff of 33: 25 from Commercial Service, 5 from Ex-Im

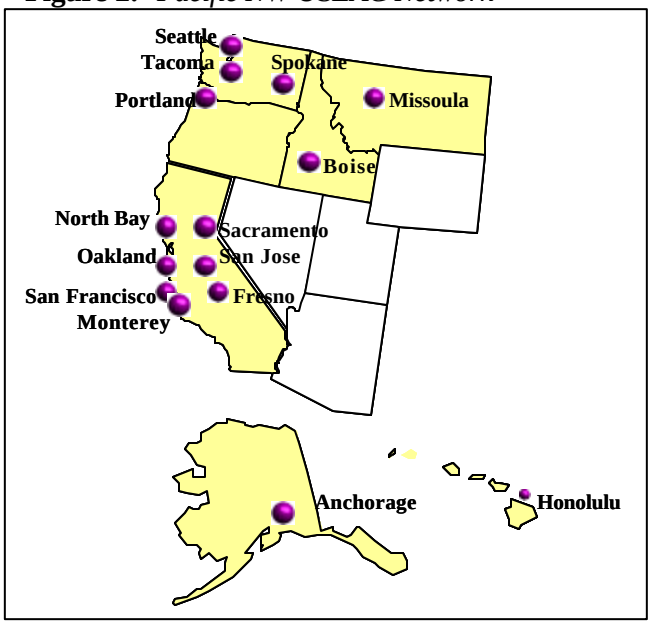
[5] *Chicago USEAC Network is Generally Operating Well But Needs to Improve Its Export Success Reporting* (IPE-16136); *Pacific Northwest USEAC Network Generally Operates Well, but Export Success Reports Need More Management Scrutiny* (IPE-16507); and *Philadelphia USEAC Network Provides Good Service to Clients, but Oversight and Export Success Reporting Need to be Improved* (IPE-16402).

Bank, 2 from SBA, and one from the Global Trade & Technology Network.[6] In FY 2003, the Chicago USEAC Network operated with a budget of $2.5 million; counseled 2,748 businesses; expanded its client base by 892; and collected $89,745 in fees from clients for products and services.

Pacific Northwest USEAC Network

To optimize regional and industry similarities, Commercial Service combined the Silicon Valley and Seattle USEAC networks in July 2003, forming the Pacific Northwest Network. The newly merged network is the largest of the 12 USEAC networks, consisting of 15 individual centers, which cover Northern California, Oregon, Washington, Idaho, Montana, Alaska, and Hawaii (see figure 2).[7]

Figure 2: *Pacific NW USEAC Network*



At the time of our review, the Pacific Northwest USEAC Network was staffed by 36 CS employees, one Ex-Im Bank representative, and 2 SBA officials. In FY 2003, the network had an operating budget of $3.8 million; counseled 3,982 firms; added 1,817 new clients to its portfolio; and collected $181,235 in fees from clients for products and services.

[6] The Global Trade & Technology Network (GTN) is a USAID-funded program implemented by International Executive Service Corp. GTN promotes economic growth in developing countries through trade, investment, and technology transfer. USAID was a participating agency in the establishment of the pilot USEACs, but was not initially located in Chicago.

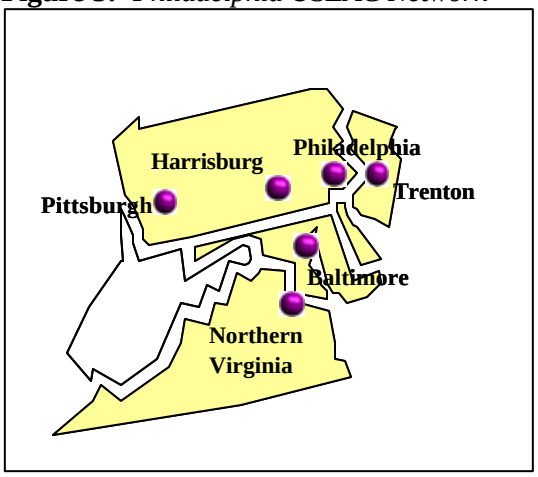
[7] On October 1, 2003, Missoula and Boise were reassigned to the Denver USEAC, and Honolulu was reassigned to the Southern California network, leaving the Pacific Northwest Network with 12 centers.

Philadelphia USEAC Network

At the time of our review, the Philadelphia USEAC Network had a staff of 26 CS employees and 2 SBA officials, and was the hub office for five satellite offices serving the Mid-Atlantic region (Pennsylvania, Central and Southern New Jersey, Delaware, Maryland, Northern Virginia, and the District of Columbia) (see figure 3).[8]

In FY 2003, the Philadelphia network had an operating budget of $2.7 million; counseled 2,175 businesses; added 745 new firms to its portfolio; and collected $166,634 in fees for products and services from its clients.

Figure 3: *Philadelphia USEAC Network*



[8] As of October 1, 2003, the Northern Virginia USEAC no longer reported to the Philadelphia USEAC Network, becoming part of the Charlotte USEAC Network. Also, on October 1st, the Charleston USEAC and Wheeling USEAC, both located in West Virginia, became part of the Philadelphia network.

OBJECTIVES, SCOPE, AND METHODOLOGY

In the course of conducting our individual inspections of the Chicago, Pacific Northwest, and Philadelphia networks, we noted several issues that were common to all three. These commonalities suggested possible systemic weaknesses and the need for organization-wide changes. This report presents those shared observations and our recommendations for addressing them.

The objective of our individual inspections was to assess the effectiveness of the management, program, financial, and administrative operations of each network, including the development and achievement of goals and compliance with applicable regulations and managerial guidance. Specifically, we sought to determine whether each network

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

To meet our objectives, we

- reviewed each network's strategic work plans, which offer quantifiable performance measures for increasing U.S. exports, and its coordination with trade partners in achieving the overall goals of ITA and the Department of Commerce;
- interviewed officials from Commercial Service and other federal agencies, as well as representatives from state, local, and nonprofit trade-related organizations;
- surveyed network staff and a random sample of clients; and
- examined export success records, client session summaries, staff performance reports, and other pertinent records regarding each network's operations and performance.

We conducted onsite fieldwork at the following export assistance centers: Chicago network—Chicago and Minneapolis; Pacific Northwest network—North Bay, Portland, San Francisco, and San Jose; and Philadelphia network—Baltimore, Northern Virginia, Philadelphia, and Trenton.

We also met with CS headquarters officials in Washington, D.C., and discussed our observations with USEAC network directors, ODO management, the Assistant Secretary for Trade Promotion and Director General of the U.S. and Foreign Commercial Service, and ITA's Chief Financial Officer and Director of Administration. In addition, we discussed ITA's compliance with user fee requirements with departmental officials. We also interviewed network directors and staff from selected USEACs that we did not visit, and officials from numerous federal, state, and local government organizations, including officials from the Small Business Administration and the Export-Import Bank. Across the three networks, we also contacted 227 USEAC clients via e-mail, telephone, or onsite visit, and received responses from 156 (69 percent).

OBSERVATIONS AND CONCLUSIONS

I. Weaknesses Identified Demonstrate That USEAC Management Oversight Needs to Be Improved

Through our individual inspections, we discovered several failures to comply with internal CS policy and procedures as well as federal regulations by both the USEACs and the Office of Domestic Operations (ODO). Most significantly, we found that failure to comply with the CS guidelines on the reporting of export successes—the organization's primary performance measure—resulted in the overstatement of performance data for each network. We also noted that, despite a CS strategic goal to expand the number of U.S. firms that export, trade specialists are focusing much attention on repeat clients, who are experienced exporters, and may therefore be neglecting to cultivate new-to-export clients. In addition, we discovered operational, financial, and administrative weaknesses unique to each network, which, when coupled with the findings common to all three, suggest that ODO needs to improve its management oversight of the domestic field operations.

A. Some export successes either were not documented as required by CS guidelines or did not occur

Commercial Service's key performance measure is the number of export transactions made as a result of its assistance to U.S. firms. The accuracy of this information is crucial—Commercial Service uses export success data to assess the performance of USEACs and trade specialists, and thus determine whether they are meeting organizational goals and objectives. The data is also provided to the Office of Management and Budget (OMB) and Congress to use when reviewing Commercial Service's performance and determining funding levels. For FY 2003, Commercial Service reported that it facilitated 14,090 exports totaling more than $35 billion. However, we found that FY 2003 performance data for the Chicago, Pacific Northwest, and Philadelphia networks was overstated because of failure to fully comply with CS guidelines on the reporting and review of export successes.

CS' *Operations Manual*, in effect during our period of review, described an export success 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.*
- Resolution of a trade complaint or dispute on behalf of the client—avoiding harm or loss.
- Removal of a market access barrier, including standards, regulations, testing and certification—opening a market for U.S. firms.

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

Problematic Reporting. In reporting their export successes, trade specialists are to briefly describe the client company (what it does and where it does business) and the chain of events that led to the success—that is, what assistance was provided and when to make the export transaction happen, including any actions by other CS or ITA staff as well as trade partners. According to CS' *Operations Manual*, there must be a direct link between the assistance provided by the trade specialist and the reported outcome, and client

records must sufficiently document that link. The *Manual* also instructs trade specialists to "[o]nly claim on the dollar value line of the report the actual amount of 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."

To verify the accuracy of FY 2003 export success records, we evaluated them against the reporting guidelines, reviewed client session records, and contacted a random sample of clients. (Table 1 details the export success records we reviewed as part of our three network inspections.) We identified a number of reporting problems, in particular the reporting of estimated or projected export sales—rather than actual, verifiable sales—duplicate export success records, success stories that did not fit the definition of an export success, and the reporting of export sales that did not occur. As a result of these reporting errors, we determined that the Chicago and Philadelphia networks had overstated their total export success value by at least 10 percent for the period reviewed, and that the Pacific Northwest network overstated its success value by at least 59 percent.

Table 1: Export Success Data

	Chicago	Pacific NW	Philadelphia
Period of Review	10/01/02 – 7/09/03	10/01/02 – 9/30/03	10/01/02 – 9/30/03
Number of Export Successes [1]	273	761	489
Total Export Success Value	$42.1M	$263M	$145.1M
Export Success Values Overstated [2, 3]	$4.33M	$156M	$14.5M
Percentage of Total Export Success Value Overstated [3]	10%	59%	10%

1 We reviewed all of the Chicago USEAC Network's export success records approved from October 1, 2002 to July 9, 2003. For the Pacific NW and Philadelphia USEAC networks, we reviewed approximately 20% of the export success records approved during FY 2003.

2 *Export Success Values Overstated* refers to the incorrect reporting of (a) estimated and projected sales, (b) duplicate export success records, (c) export sales that did not occur, and (d) approved records that did not meet the definition of an export success.

3 These figures represent the minimum amount of overstated export success claims because we reviewed only a portion of each USEAC network's export success records for FY 2003.

Source: OIG

These reporting errors were the result of (1) noncompliance with the *Manual's* export success guidelines; (2) poor management oversight by office directors, network directors, and ODO national directors[9]; and (3) reporting of incomplete or premature export sales to meet performance goals.

We are concerned that no one in the management chain of command identified and corrected the reporting errors we found and therefore the performance data for the networks was faulty.

[9] During the network inspections, there were two national directors—one for the eastern region and the other for the western region.

According to CS' *Manual*, "Managers and staff are accountable for reporting performance statistics consistent with this guidance. Office Directors provide quality control certifications by completing approval fields in the CMS database. Regional Directors spot-check Export Success reports."

We are also concerned that, to reach performance targets, some trade specialists are prematurely reporting export successes for sales contracts and exports that eventually do not occur. We understand that the primary source of information on export transactions is verbal reporting from company officials who may, at the time, be confident that a deal is occurring. However, in some cases, for whatever reason, the deal is subsequently terminated. In such instances, we believe if specialists learn that reported export successes did not occur, they should inform management to have those records deleted from the database.

Other reporting problems identified. A number of the export success and client session records we reviewed were further compromised by the following weaknesses:

- Export success narratives did not clearly demonstrate the link between the assistance provided and the reported outcome;
- Client session records in the client management system (CMS) did not sufficiently demonstrate the chain of events that led to an export success and were poorly maintained; and
- Export success narratives were poorly written with typographical errors and incorrect classification information (e.g., wrong success type or erroneous dollar value of success or export market).

We also discovered inconsistencies in reporting the dollar value of export successes realized by a financial institution. Some export success records reported the value of the export transaction financed by the financial institution, however, in one record, the income realized by the financial institution as a result of its service was reported. The export success guidelines do not address this type of success and which dollar amount (i.e., export sales value or income) should be reported.

Response to reporting problems from ITA and Commercial Service. ITA and Commercial Service agreed that management oversight of export success reporting can be strengthened across the field and in headquarters to enhance reporting quality, consistency, and compliance with CS policy. Recognizing the importance of accurate reporting, and in response to earlier OIG reports that cited overstated performance claims by some overseas posts, ITA and Commercial Service have taken and plan to take a number of steps to improve performance measure data reporting.

During FY 2003, Commercial Service formed a working group to study the appropriateness and effectiveness of its performance measures and export success guidelines. Based on the working group's findings and conclusions, Commercial Service issued new export success guidelines that became effective in fiscal year 2004. The revised guidelines established "export success credits"—a collaborative reporting system that equally credits everyone who substantially contributes to a client's export success. ODO told us it worked directly with the USEACs

(through staff training conference calls and quarterly network directors' meetings) to facilitate implementation of the guidelines and ensure accuracy and consistent compliance with them.

We evaluated the new guidelines during our USEAC inspections to determine whether they address the reporting errors we discovered. For the most part, we heard that the new guidelines are clearer and provide better instruction. We understand there is now less reporting confusion in the field and more consistent interpretation of the guidelines across the USEAC networks. We also heard that the export success credit system has fostered collaborative interaction among trade specialists and their overseas counterparts in helping companies realize export successes. However, we did note some areas in which further guidance is needed. In particular, the guidelines should provide instruction on (1) how to report export successes for financial institutions, and (2) how soon after interacting with a client trade specialists should create client session records to ensure adequate and timely documentation for export successes.

ITA and Commercial Service agreed with our recommendations for these additional revisions. In its response to our network reports, Commercial Service stated it intends to form working groups over the summer of 2004, to analyze the reporting issues and present options for the proposed revisions, with resulting guidelines to be effective October 1, 2004. Commercial Service is currently providing export success workshops at the USEACs to help staff better understand the guidelines, improve the quality of export success narratives, and ensure that trade specialists are using CMS to record client interaction consistently and in a timely manner.

Commercial Service also recently designated a senior manager as the export success quality control officer responsible for reviewing the content and quality of export success reporting worldwide and stated that it will correct or delete problem export success records approved during FY 2003. In addition to these efforts, ITA's Office of the Chief Financial Officer (CFO) plans to conduct onsite reviews to verify and validate export success data as well as other performance data, and thereby ensure that duplicate or overstated export successes are deleted from the CS database and that data sources used in Department documents (e.g., Commerce's annual Performance and Accountability Report) are accurate. We support these corrective actions, and will continue to follow their impact on improving the quality of export success reporting.

Recommendation. ITA and Commercial Service should continue monitoring the implementation and adequacy of the initiatives for improving export success reporting and review to ensure that they have the desired impact of enhancing both the reporting process and management oversight.

In response to our draft report, ITA agreed that accurate export success reporting is important, and it outlined a number of steps it is taking to comply with our recommendation that it continue monitoring the adequacy of its efforts to improve such performance reporting. ITA noted that Commercial Service/Office of Domestic Operations management oversight of export success reporting by the domestic field has been enhanced. In July 2004, ITA appointed an Export Success Quality Control Officer (GS-14) to monitor all export success reporting worldwide in

order to create a permanent management tool for improving the content, quality, and consistency of export success reporting throughout the Commercial Service. ITA reported that the actions of the new Export Success Quality Control Officer, in coordination with other CS units, resulted in the deletion of export successes from the database that were identified as being inconsistent with Commercial Service guidance, the correction of others to reflect more accurate information, and the referral of 121 duplicate export successes to the appropriate USEACs for consolidation.

ITA also reported that it is developing a sampling methodology for an in-depth quality review of export successes from Commercial Service offices worldwide. In FY 2005 and subsequent years, ITA said that it intends to review approximately 20 percent of current export successes. Such a review is planned in conjunction with on-site verification and validation reviews of ITA-wide measured data, export success data, client records, as well as other performance results source data. Initial visits will be to offices covered in OIG reports, beginning with Philadelphia in September 2004. In addition, ITA stated that its Performance Measures Working (PM) Group is being reconfigured to better represent the current Commercial Service structure, and an Export Success Policy Summit will be held in the first quarter of FY 2005 to organize, clarify, and augment the standard export success guidelines now in place.

We support ITA's efforts to improve the quality of export success reporting and the reporting of other performance data.

B. Assistance to new-to-export clients should be tracked

One of Commercial Service's strategic goals is to expand the number of U.S. firms that export. In its annual reporting to Congress and OMB, Commercial Service reports, along with the number of export success transactions, the transaction classifications, of which there are three—new-to-export (NTE); new-to-market (NTM); and increase-to-market (ITM). The number of NTEs is a crucial CS performance measure and is designed to ensure that trade specialists reach out to as many companies as possible to help expand U.S. exports.

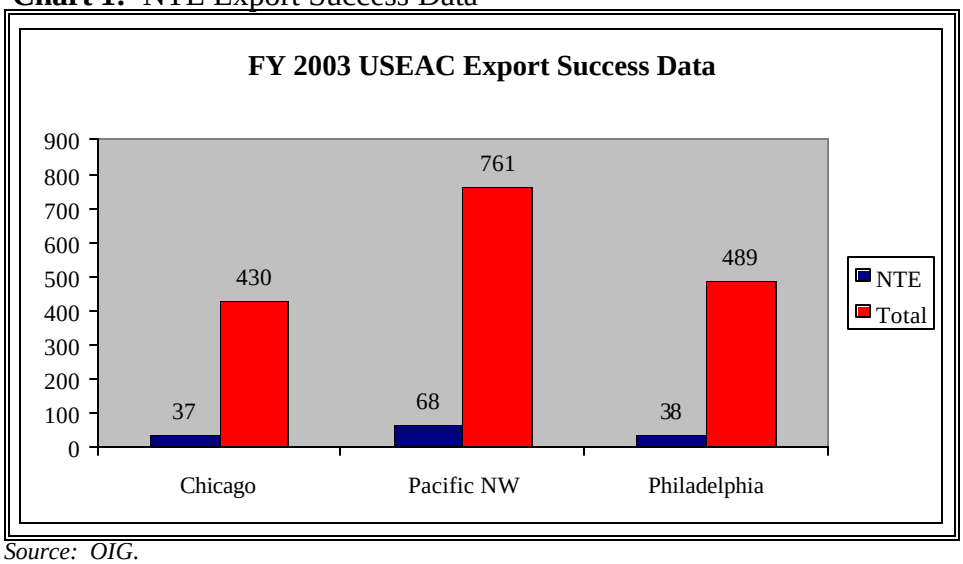
> An NTE success occurs when a U.S. firm makes its first sale into any foreign market. An NTM success occurs when a U.S. firm with some existing level of export activity makes a sale in a new market, enters into a legally binding agreement, or introduces new products or services that require a different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

Of the 14,090 export success transactions CS reported for FY 2003, 897 (6 percent) were NTE export successes. CS' NTE goal for the fiscal year was 800—the same target as that for FY 2002, despite the fact that CS' total export success goal for FY 2003 increased by 10 percent.[10] Further, the three USEAC networks we inspected had minimal NTE export success records for FY 2003 compared with NTM and ITM successes (see chart 1), a number of the individual centers did not report any NTEs, and some of the reported NTEs were incorrect. For example, 6 of the Pacific Northwest's 68 NTE success records for FY 2003 were either misclassified or did not meet CS' definition of an NTE. Thus, the Pacific Northwest USEAC network overstated its NTE successes for the year by

[10] For fiscal year 2002, Commercial Service fell short of its NTE goal of 800, reporting 699 NTE transactions, or 87 percent of its goal.

9 percent. Because this data is provided to the Department, OMB, and Congress for their use in reviewing CS' overall performance and funding requests, the accuracy of this data is critical.

Chart 1: NTE Export Success Data



Source: OIG.

Weak focus on NTEs. This data indicates that Commercial Service may be focusing more attention on robust exporters—those that are ready, willing, and able to quickly move into overseas markets—rather than on inexperienced firms wanting to begin exporting.

Trade specialists told us that pressure to reach short-term export success goals has created a disincentive for spending the longer time required to counsel inexperienced exporters. They explained that it can take up to 2 years for a company new to exporting to make a transaction. Therefore, trade specialists may opt to spend time assisting ITM or NTM exporters, who are more likely to export in the short-term and thus help them reach their performance goals.

We attempted to gauge—via CMS client session records—how much time and effort trade specialists dedicate to assisting NTE clients succeed as exporters. However, we were unable to identify the NTE clients within the networks' portfolios and track their counseling sessions, because CMS does not categorize clients based on their exporting status.

To add a client to a USEAC's portfolio, a trade specialist creates an organization record (or profile) for that company within CMS. In this record, a trade specialist enters the company's contact information as well as more specific information such as how the client was identified (e.g., incoming call), its industry sector, business size, revenue, and year established. The CMS organization record however does not include a field in which the trade specialist classifies the client's exporting status as either new-to-export or other. As a result, we were unable to identify the new-to-export clients within the USEACs' portfolios—except for those that eventually achieved an export success—and track the counseling provided to them by trade specialists.

We learned that Commercial Service is concerned about NTE client development. The Director General recently formed a working group to develop a strategy for increasing the organization's

client outreach with a particular focus on generating new NTE clients. Commercial Service expects the new strategy will include better management of client leads and provide incentives for trade specialists to successfully work with NTE clients. The strategy is expected to be in place by October 1, 2004. We support the Director General's initiative to have Commercial Service focus more on NTE client development. An organization-wide strategy should complement the export success credit system and generate more NTE successes as trade specialists can collaborate and get equal credit for helping NTE clients succeed in exporting. However, we also believe that Commercial Service should categorize its clients in order to more easily identify NTE clients and track their counseling sessions.

> ***"30% of non-exporters are interested in exporting, and cite the lack of information about export markets, customers, and export procedures as areas where they need help."***
>
> *Trade Promotion Coordinating Committee's 2002 "Report Card on Trade II" study*

Recommendation. Commercial Service should create a field within CMS in order to identify NTE clients and be able to track NTE client counseling sessions.

In response to our draft report, ITA noted that our conclusion that the bureau was "unable to track activity with new-to-export (NTE) clients because there is not a field that captures this information in the Client Management System (CMS) records" was a valid criticism. ITA is working to add this field to the CMS to address our recommendation.

ITA reported, however, that NTE export successes increased from 697 in FY 2002 to 896 in FY 2003, and it asked that this be reflected in our report. ITA also provided some details of other programs and mechanisms it has to assist firms that are new to exporting, although it notes that many of these efforts are less quantifiable and harder to capture than export successes. Examples include outreach efforts to local business communities, indirect assistance at training courses offered by local trade partners, innovative programs such as an effort to train interns on the exporting process and place them inside firms that need additional resources in order to be successful exporters, building a database of best practices used by some USEACs that could be adapted by others, and match making and low cost trade missions.

Finally, ITA noted that our report provided the bureau with another opportunity to revisit the question of "Who is our client?" by taking a broad look at activities provided to all of its clients, including firms that have never exported, firms that have limited exporting experience, and firms with extensive exporting experience who may need very specific help in an overseas market. ITA agrees that it is important for the USEACs to leverage resources in their local communities, ensuring that firms wishing to expand their international sales have access to needed resources.

We applaud ITA's initiatives to develop a means to better track its assistance to new-to-export firms and to support those firms by providing additional outreach to local business communities and through activities sponsored by local trade partners. The steps taken by ITA meet the intent of our recommendation.

C. Management oversight of domestic operations should be strengthened

In addition to the export success record problems discussed above, we identified the management and compliance issues listed below at various USEACs, and made specific recommendations to address them in our individual USEAC reports.[11] We believe these weaknesses—along with the more systemic issues noted above—suggest that ODO could improve its management oversight of its field operations and provide clearer guidance and better instruction to its staff to ensure compliance with CS policy and federal regulations.

Vacancies. Despite ITA's priority to fill vacancies more quickly and improve accuracy of staffing,[12] ODO was slow to fill several director positions in the Philadelphia network, which undercut some trade partner relations and impacted office operations. In addition, personnel problems and inadequate long-term strategic planning further impaired office operations.

User Fees. The ODO national director's performance appraisal plan states that the director is to ensure that revenues/collections and procedures/polices are understood and adhered to throughout the USEAC networks. However, we discovered that a number of USEACs were not in compliance with CS' *Operations Manual* on the collection of user fees for products and services provided. Specifically, within the Pacific Northwest network, we found that export assistance centers did not consistently charge international buyers for their services, as required by the *Manual* and OMB Circular A-25 (see Chapter II for further discussion of the Circular). Further, it appears that the fees charged by the USEACs did not recover direct costs associated with providing "fee-for-service" events, products, and services to their customers as stipulated in the *Manual*.

Travel and Administrative Expenses. The national director also assures that the domestic field complies with departmental regulations regarding travel expenses, procurement, etc., and communicates regulation and guidance to the USEACs. However, we found a number of instances in which USEAC staff did not comply with such policies and regulations. For instance, the Philadelphia network approved questionable travel vouchers and incurred and reimbursed a number of unnecessary expenses. ODO management did not review the travel vouchers, question the necessity of the travel, or determine whether the chosen mode of transportation was practicable and commensurate with the nature and purpose of the traveler's duties. In addition, some export assistance centers were paying for employee parking spaces without adequate justification or ODO approval.

> Commercial Service's Performance Appraisal for the ODO national director contains the following element:
>
> "Demonstrates sound judgment and assures that region adheres to Departmental regulations regarding travel expenses, procurement, and use of the official agency credit cards. Communicates regulation and guidance to all the Regional USEACs."

Financial and Administrative Field Support. In February 2001, ODO established the National Field Support Team (NFST) to shift administrative and financial operations from trade

[11] Chicago USEAC Network (IPE-16136), Pacific Northwest USEAC Network (IPE-16507), and Philadelphia USEAC Network (IPE-16402).

[12] ITA's Strategic Plan Fiscal Years 2002-2006. p. 25.

specialists to field support specialists, and thereby give trade staff more time to work with clients. (See Appendix B for more information on the NFST.) Though we determined the networks generally have sound financial and administrative operations, we identified several issues that indicate NFST field staff did not properly monitor their areas of responsibility.

- **Noncompliance with purchase card limits.** In Philadelphia and the Pacific Northwest, NFST staff did not adhere to the *Commerce Acquisition Manual's* ceiling on cell phone expenses that may be charged to purchase cards each year. A number of cardholders exceeded the $2,500 limit.
- **Advance cell phone payments.** NFST staff did not comply with the federal prohibition on advance payments for goods or services.[13] During FY 2003, the Philadelphia network prepaid $5,800 in projected FY 2004 cell phone charges, and the Pacific Northwest network prepaid $10,000 in projected cell phone charges.[14]
- **Inadequately monitored cell phone usage.** NFST issues bulletins to communicate uniform policy directives to its team of field support specialists. Its Cellular Telephone Policy[15] provides general principles governing cell phone usage. However, in the Philadelphia network, we found monthly cell phone bills with hundreds of dollars of roaming charges (for example, $467 in roaming charges for 3 months), several showing numerous calls to an employee's residence, and others that showed an employee had added a second line for personal use. NFST staff are responsible for reviewing bills for anomalies and submitting them for payment, and users are responsible for determining the validity of the calls. However, we found no evidence that users reviewed their statements to certify that the calls were for official government business or reimbursed the government for any personal calls.
- **Lease payments not collected.** The Global Trade & Technology Network (GTN), which was collocated at the Chicago USEAC through FY 2003, was required, under a memorandum of understanding, to pay $2,910 per fiscal year toward Chicago's lease costs. However, Commercial Service had not sought—and the trade partner had not paid—these funds for fiscal years 2001 through 2003. We also learned that GTN had failed to pay its share of rent for collocation at the Newport Beach and Houston USEACs. In response to our concerns, NFST invoiced GTN for a total of $16,088 in outstanding rent contributions. On November 19, 2003, Commercial Service received full payment.

Both ITA and Commercial Service agreed with our recommendations to address the issues identified. We support the corrective actions the agencies have taken and intend to take to improve operations and compliance. However, we are concerned that, when taken together, these individual management and compliance issues indicate that ODO headquarters oversight of the USEACs and field support specialists was not as diligent as it should have been.

In early FY 2004, Commercial Service restructured ODO to have one national director, instead of two, to oversee the 12 USEAC networks. While consolidating leadership may improve consistency in applying CS policy and procedures across the networks, Commercial Service

[13] 31 USC § 3324.

[14] Due to the timing of the onsite visit to the Chicago network, we were unable to review 2003 fiscal year end purchases and, therefore, did not find evidence that advance payments were made.

[15] Rents, Communication, and Utilities: Policy Bulletin 05-02-002.

must ensure that ODO strengthens its management oversight of the networks to prevent the problems we identified from reoccurring.

Recommendations. Commercial Service needs to ensure that ODO effectively monitors USEAC activities and compliance with policies, procedures, and regulations, as well as NFST support, and hold ODO accountable for providing adequate management oversight.

In its response to our draft report, ITA agreed with our recommendation, noting that additional improvements are needed in ODO management and oversight. While stating that ODO management has improved over the last four years, ITA reported that significant structural improvements are currently being implemented: a new ODO headquarters reporting structure has been established to (1) fill critical staffing gaps, (2) improve management oversight and accountability, and (3) improve internal customer service. It expects to fill three vacancies critical to these structural changes in October 2004.

With this additional staff in place, ITA expects the ODO National Director's role will be redirected to increase involvement in and oversight of the 12 USEAC field networks, while ODO headquarters day-to-day operational requirements will be managed by a supervisory GS-14. Finally, the National Field Support Team plans to again have a full-time permanent Director. ITA also reported that core day-to-day administrative and programmatic functions of ODO headquarters will be reexamined and assigned to individually accountable ODO HQ staff. In addition, ODO headquarters staff will be subject to a 360-degree evaluation to be included in each individual's performance plan.

Implementation of ITA's stated plans to more effectively monitor USEAC activities and compliance with policies, procedures, and regulations, should result in strengthened ODO management and oversight. The steps taken by ITA meet the intent of our recommendation. We look forward to continuing updates on the progress realized in this area.

II. ITA Is Not in Compliance with OMB Circular A-25 Requirements

Federal law provides that each service or thing of value provided by an agency to a person is to be self-sustaining to the extent possible.[16] OMB Circular A-25 establishes federal policy regarding fees for U.S. government services and for sale or use of federal goods or resources—including those of ITA—that convey special benefits to recipients beyond those accruing to the general public. The stated objective of this policy is to have agencies recover their full costs of providing such benefits.

Although ITA, through its various units, currently charges fees for some products and services, we determined that it is not in compliance with Circular A-25's full-cost recovery requirements. Specifically, we found that CS' *Operations Manual* instructed trade specialists to recover just some of the direct costs—and not all direct and indirect costs—for events, products, and services fulfilled at their locations. Within the Pacific Northwest network, we also found that the centers did not consistently charge international buyers for their products and services, e.g., the Gold Key USA.[17]

> A-25 states that "full-cost" includes all direct and indirect costs to any part of the federal government of providing a good, resource, or service. These costs include, but are not limited to: (1) direct and indirect personnel costs (e.g., salaries and fringe benefits such as medical insurance and retirement); (2) physical overhead and other indirect costs (e.g., materials and travel costs) of the products and services; and (3) management and supervisory costs.

Our findings are supported by a 2003 study of ITA user fees,[18] which indicated that the agency is recovering just marginal costs (excluding labor and overhead) and that, while ITA charges fees for some products and services, it does not have a consistently applied pricing (or marketing) strategy for its offerings.

ITA bases its fees on only some portion of direct costs associated with providing fee-for-service products. Complicating efforts to comply with the OMB circular is a mind-set within ITA against charging fees for government services intended to help small and medium-sized firms expand their export business. A number of CS officials fear that if prices are increased, U.S. firms may decide not to use CS products and services, which then may negatively impact the number of export successes achieved by the agency.

Efforts to comply. As a follow-up to the 2003 user fee study, ITA formed a Product Management Board to direct the agency's marketing and pricing efforts. The board, chaired by ITA's deputy chief financial officer, consists of two working groups—one to address pricing, and the other to address policy.

The Policy Working Group is charged with (1) reviewing (and improving, as needed) the accuracy and clarity of ITA's product descriptions, (2) assessing ITA's product portfolio to

[16] 31 USC § 9701.

[17] Gold Key USA facilitates U.S. exports by providing a fee-based matchmaking program for international customers of U.S. products and services. It is tailored to international buyers traveling to the U.S. and includes customized appointment scheduling and counseling services, providing international buyers with one-on-one meetings with pre-screened export-ready U.S. companies.

[18] The study –*Department of Commerce International Trade Administration User Fee Study*, KPMG LLP, January 24, 2003—was conducted under contract to ITA.

determine whether any products might be privatized or discontinued, and (3) establishing policy for implementing full-cost recovery models (being developed by the pricing work group) for products and services.

The Pricing Working Group is developing pricing templates for every ITA product and service. ITA reports that two draft templates have been created thus far to capture all direct and indirect costs for two of Commercial Service's key products—the International Company Profile and International Partner Search.[19] The templates attempt to differentiate the time and salary costs of staff involved in producing these products (commercial officers, local staff, and headquarters staff), and calculate general overhead and direct costs.[20] ITA hopes to begin deploying the new pricing methodology in FY 2005 and thus begin recovery of full costs. Toward this end, the agency has hired a contractor to determine its requirements for a new cost accounting system, with the goal of developing the new system in FY 2005 as well.

It should be noted that in January 2004, ITA requested that OMB waive the full-cost recovery requirement for its trade promotion activities.[21] In its May 12, 2004 response to that request, OMB denied the request, stating that as a matter of sound financial management, it is critical for ITA to document the full cost of its services. The letter, however, noted that, "(a)fter ITA has in place a full-cost accounting system and can quantify the full costs of its services, OMB would be happy to review another such request if ITA determines that a waiver is still necessary;" and that "(f)or FY 2004, we believe ITA will be *acceptably in compliance* with Circular A-25 if it *develops a sound plan* to reach the $13 million fee target, takes appropriate steps toward developing a full-cost accounting system during FY 2005, and improves training to promote uniformity and acceptance of pricing of products and services that benefit specific businesses." [Emphasis added.]

Recommendations. ITA needs to work with the Department and OMB to ensure compliance with OMB Circular A-25, User Charges. Commercial Service needs to revise its manual to comply with OMB requirements for full-cost recovery, and provide staff with guidelines and training on calculating and collecting appropriate fees.

In response to our draft report, ITA's CFO and Director of Administration stated that ITA is taking steps to comply with OMB Circular A-25, and she attached a detailed plan of action to achieve such compliance (see Appendix C, page 38). According to the CFO, OMB outlined four actions required of ITA to bring it into compliance with Circular A-25. First, OMB requires that ITA charge the full cost of providing services. In response, ITA stated that it has developed product-pricing templates and will acquire a new cost accounting system to help it capture the full direct and indirect costs for its products. Secondly, in response to OMB's requirement that

[19] The **International Company Profile** provides background information on a prospective agent, distributor, or partner with whom a U.S. firm is considering doing business. The **International Partner Search** matches requestors with potential partners to a market product or service in a given area.

[20] According to ITA, data was gathered from several worldwide posts with varying labor markets and export potential to form the basis and methodology for the templates. The template designs are currently being reviewed by a private contractor hired by Commercial Service.

[21] Although ITA requested a similar waiver in January 2002, it received no formal response from OMB.

ITA increase the price of services where it has upward pricing flexibility, the CFO stated that ITA is prepared to charge sufficient fees to obtain full cost recovery. Further, the CFO indicated virtually all product prices will increase based on ITA's methodology of including salary costs and overhead charges that were previously excluded from product pricing computations. The CFO added that if product demand continues at FY 2004 levels, ITA expects fee collections to increase significantly. Third, in response to OMB's requirement that ITA train personnel to ensure a standard pricing strategy, the CFO responded that training has already begun, and will continue through FY 2005 and beyond, in conjunction with national, regional, and international staff meetings (e.g., network director quarterly meetings and senior commercial officer conferences). Lastly, to address ITA's internal resistance to charging fees, the CFO stated that ITA has increased communication regarding the importance of fee collections—handbooks and operations manuals are being been updated to reflect the new policy. In addition, the CFO stated that the Assistant Secretary for Trade Promotion and Director General has issued material on this subject.

ITA's CFO also stated that she has met frequently with Trade Promotion leadership in Washington and with the 12 USEAC network directors, and has received positive feedback from them, and will continue to reinforce the importance of charging the full cost for products and services.

We are pleased that ITA is taking steps to comply with OMB Circular A-25. We will continue to monitor ITA's progress and request that ITA provide us with updates on the implementation of its A-25 Compliance Plan.

III. Clients Value the USEACs and Offer Suggestions to Enhance Services

In conducting our inspections, we obtained feedback from clients who had recent interactions with the USEACs to assess their satisfaction with the centers' export assistance, verify the details of their companies' export successes, and seek suggestions on how the USEACs could improve their services. Across the three networks, we contacted 227 clients via e-mail, telephone, or onsite visit, and received responses from 156 (69 percent). Overall, respondents expressed satisfaction with the assistance they received, and a number of them offered ideas on how the USEACs could enhance their visibility and services.

A. Clients are pleased with USEAC trade assistance

The level of service and products provided by the USEACs met or exceeded the expectations of most clients surveyed. The majority of respondents described USEAC staff as responsive, conscientious, innovative, knowledgeable of overseas markets, and well connected to trade partners as well as government contacts abroad. They were also satisfied with the quality and timeliness of CS products and services.

Many clients shared experiences of how USEAC trade specialists had assisted them in noteworthy ways. For example, one explained that after a year of trying unsuccessfully on his own to transact a deal with the United Nations (UN), a Trenton trade specialist helped him make the right contacts and 6 months later he closed a contract with the UN. Another client was impressed by the dedication of a trade specialist, who drove hours to the company's location to provide one-on-one counseling. The client added that the trade specialist offered good ideas, which made the export transaction a success, and brought an Ex-Im Bank official who provided useful trade financing information. Also, the San Francisco USEAC put its videoconferencing equipment to good use by helping an architectural firm, unable to travel to Jakarta, compete in an international design competition.

> ***"I consider [the trade specialist] as part of my company."***
>
> *Monterey Bay USEAC client*

A number of clients consider their USEAC trade specialist an extension of their staff, noting that specialists and center directors often make presentations on overseas market opportunities and notify them of market developments, trade leads, and upcoming trade events. One client told us how a former Philadelphia network director participated on the company's education committee and was instrumental in helping the company identify potential overseas markets. Another client was pleased when she received a call from a trade specialist with news that a Russian firm wanted to distribute the company's products. Several clients told us that trade specialists keep them informed of market developments, issues affecting exports, trade leads, and upcoming trade events primarily through e-mails, though a number of USEACs also distribute newsletters.

Client satisfaction is inextricably connected to USEAC and trade specialist performance. Recognizing this, Commercial Service, under its FY 2004 performance measure initiative, has made customer satisfaction a specific performance measure. Commercial Service is also

tracking customer service delivery and satisfaction trends through quality assurance surveys. At present, the surveys measure satisfaction with core CS products and services, but Commercial Service intends to expand the surveys to include client evaluation of counseling sessions. We support such actions to enable the organization to measure the quality of assistance its trade specialists provide to clients, especially since much of the work they do may not immediately lead to export successes.

B. Clients offer suggestions for improving USEAC services

Respondents from all three networks offered ideas on how the USEACs could enhance their services—highlighting the need for the USEACs to better promote themselves and expressing interest in obtaining more specialized export assistance and market information from the centers.

Though most respondents had known about the USEACs prior to seeking their assistance, several believe the USEACs and their services could be more aggressively promoted. Some clients suggested that the USEACs place ads in industry association newsletters, send out flyers, and run radio advertisements during commuter rush hours.

Lack of awareness of the USEACs by some companies may have been the result of weak organizational marketing. As a trade specialist explained—the organization has a crisis with its name/brand recognition as it is known by several different titles, e.g., International Trade Administration, U.S. and Foreign Commercial Service, USFCS, U.S. Commercial Service, and USEAC, to name a few variations. We learned that Commercial Service is aware of this issue and is taking the following actions to strengthen its brand, improve USEAC visibility, and increase awareness of CS products and services:

- *Hiring a full-time marketing director*. The newly hired director's responsibilities are to (1) reach out to local newspapers to write articles about USEACs or articles that quote USEAC staff on trade topics, and (2) develop "client testimonials," which highlight export successes that resulted from CS assistance. These testimonials are to be used at trade events.

- *Conducting joint mailing campaigns.* With the assistance of Census, Commercial Service and the Ex-Im Bank sent out a promotional mailing to approximately 30,000 exporting firms in early 2004.

- *Developing partnerships with private sector firms to promote U.S. exports and improve the U.S. competitive advantage through global e-commerce.* In May 2004, Commercial Service announced a partnership contract with FedEx to market CS programs and services via such activities as the placement of the CS logo and text on FedEx web pages; joint development of marketing and direct mail materials; and cosponsorship of export education seminars, conferences, and other outreach events.

- *Leveraging resources of trade partners.* Commercial Service is also building on existing trade partner relationships. For example, it has an arrangement with the National Association of Manufacturers' trade call center to refer companies interested

in exporting to the Trade Information Center.[22] Commercial Service has also worked with the U.S. Postal Service to include the CS logo and text in their international marketing guide.

A number of clients also expressed interest in the USEACs providing more specific information on market opportunities (e.g., selling to China), trade leads for small manufacturers, and specialized assistance with export documentation/regulations (e.g., export licensing) and foreign market regulations (e.g., European CE Mark). To better address client needs, we learned that Commercial Service is taking a number of noteworthy actions. First, through a review of FY 2003 "Highlights"[23] from the three networks, we found that the USEACs are sponsoring and participating in specialized trade seminars (e.g., free trade agreement seminars), events, and videoconferences to promote overseas market opportunities and educate clients on trade regulations (e.g., NAFTA rules of origin).

Second, to improve information sharing throughout the agency, Commercial Service created the "DOC Insider," a Web-based "knowledge network" that connects trade specialists with their colleagues in all the USEACs and overseas posts. Via DOC Insider, specialists can share their expertise and ask questions of one another in an effort to better assist their clients, and all exchanges are saved to a database for future reference. We believe this system is a useful support for trade specialists, but caution that when seeking answers to technical dual-use export control questions, such as commodity classifications—USEAC staff should consult with export control specialists in the Bureau of Industry & Security (BIS), rather than their peers on the DOC Insider. As of this writing, the DOC Insider did not notify trade specialists of BIS' dedicated telephone line available to those who have dual-use export control questions.

Third, to enhance staff knowledge of all federal trade assistance programs and improve client counseling, Commercial Service encourages trade specialists to attend an interagency training program developed by the Trade Promotion Coordinating Committee (TPCC).[24] The course provides client management skills training, broader knowledge of the programs and resources available to assist U.S. firms in the international marketplace, and facilitates collaboration and problem solving for clients across the TPCC agencies.[25] One trade specialist remarked that the training enables USEACs to more effectively counsel clients on the range of federal trade programs and identify which one can best benefit a particular company.

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[22] The Trade Information Center (TIC), located within ITA, assists U.S. companies interested in developing their export potential. The TIC provides export counseling and information about all federally sponsored export assistance programs and refers companies to their local USEAC for additional assistance.

[23] Highlights are summaries of non-quantifiable activities (e.g., a trade specialist participating in a local radio station's business information program) that characterize outreach efforts and noteworthy events that are not captured in export success records.

[24] TPCC is an interagency group chaired by the Secretary of Commerce. The Export Enhancement Act of 1992 established the TPCC to provide a unifying framework for coordinating the export promotion and export financing activities of the U.S. government and develop a government-wide strategic plan for carrying out such programs.

[25] The key TPCC agencies are: the Departments of Agriculture, Commerce, Energy, Labor, State, Transportation, and Treasury; the Agency for International Development; Environmental Protection Agency; Ex-Im Bank; Overseas Private Investment Corporation; SBA; Trade and Development Agency; and the U.S. Trade Representative.

IV. USEACs Have Positive, Mutually Beneficial Relationships with Trade Partners

Overall, across all three networks, we found that the USEACs have strong, mutually beneficial relationships with a diverse mix of trade partners at the federal, state, and local levels. In many USEACs, Commercial Service is collocated with one or more trade partners, such as SBA, Ex-Im Bank, BIS, state trade agencies, and universities. These collaborative relationships enable the USEACs to provide U.S. companies with "one-stop shopping" for their export counseling, market research, and trade financing needs. Commercial Service, however, is concerned that SBA may vacate the USEACs.

USEACs have developed strong relations with federal and nonfederal partners

Cooperative relationships occur when USEACs work with a range of trade-related organizations to provide customers with "the best the government has to offer," and thus facilitate the smooth delivery of export assistance. Our interviews with federal, state, local, and nonprofit trade partners as well as with members of District Export Councils revealed that most partners are pleased with their relationships with Commercial Service, the USEACs' commitment to the trade community, and the collaborative attitude of USEAC staff. Across all three networks, USEAC staff were characterized as innovative, readily available to assist their trade partners, and eager to pursue joint counseling, cosponsoring of trade events/seminars, and client referrals.

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

The importance of cultivating strong trade partner relationships is demonstrated within each USEAC's annual strategic plan. Each center's plan identifies activities to solidify trade promotion partnerships, such as joint client calls, marketing, seminars, trade shows, and videoconferences. Also, USEAC staff performance appraisals contain a required element that measures "collaboration" with federal and nonfederal partners, and is assessed by the number of collaborative counseling sessions conducted.

The active relationships USEACs have with their trade partners are also demonstrated in "Highlights"—reports which summarize non-quantifiable trade activities, accomplishments, and outreach of USEAC staff, which do not result in specific export successes. We reviewed all "approved" Highlight reports for the Chicago, Pacific Northwest, and Philadelphia networks for FY 2003. Many of the trade activities reported involved several of the USEAC trade partners (see table 2).

Table 2: Highlight Reports FY 2003			
	Number of approved reports	***Number of events involving a trade partner(s)****	***Percentage***
Chicago	125	81	65%
Pacific Northwest	146	100	68%
Philadelphia	41	25	61%

**These Highlight events were categorized as "client/partner outreach," "partners," " new partnerships," and/or "District Export Council." If a Highlight was categorized under more than one of these classifications, it was counted only once.*
Note: The actual number of events which involved a trade partner(s) may be higher as some events categorized under other titles (e.g. trade education event, domestic trade event, or video conference) may have involved a USEAC trade partner(s).
Source: OIG

We noted that the Administration's 2002 National Export Strategy (NES) called on federal trade promotion agencies to respond to businesses' need for better coordinated services. The strategy also recognized the importance of federal agencies working closely with state and local trade partners to reduce duplication of effort and leverage scarce resources in order to provide the services U.S. exporters need. Our inspection findings demonstrate that the Chicago, Pacific Northwest, and Philadelphia USEAC networks are cultivating collaborative relationships with numerous and diverse trade partners and as such are taking a holistic approach to providing trade assistance.

Examples of Trade Partner Collaboration

- A March 2004 BIS Export Control Seminar brought together the Mid-Atlantic DEC, Philadelphia and Trenton USEACs, Temple Small Business Development Center (SBDC) and BIS to sponsor, organize, and recruit for the event. There were more than 100 attendees.

- The Chicago USEAC, Naperville Chamber of Commerce, and local congressional staff organized and promoted USTR Ambassador Zoellick's September 2003 speaking engagement on international trade. More than 140 attended.

- The Pacific Northwest Network, CS Netherlands, State Department, and Dutch Ministry of Economic Affairs developed "High Tech Connections 2004" to promote exchanges and matchmaking among high-tech firms. The event featured such industry leaders as Cisco and Hewlett Packard as well as U.S. and Dutch government officials (e.g., Under Secretary of Commerce for Technology). More than 350 companies participated.

- In March 2003, the Libertyville USEAC, Northbrook Chamber of Commerce, and the Illinois DEC sponsored a trade workshop on cargo security for shippers in response to a new Transportation Security Administration initiative. Twenty-three exporting firms attended.

As such, Commercial Service continues to pursue its long-standing policy of collocating export assistance centers with as many trade partners as is appropriate. Table 3 shows the collocations in the networks we inspected.

Table 3: USEAC Networks & Collocated Partners – FY 2003

Trade Partner	Chicago	Pacific NW	Philadelphia
Ex-Im	Chicago	San Francisco, Seattle (1)	
SBA	Chicago, Minneapolis	Portland, Seattle	Philadelphia, Baltimore
SBDC	Peoria		
BIS		San Jose	
EDA		Portland	
Census			Pittsburgh
State/Local Government		Boise, Tacoma	Trenton
Chamber of Commerce	Rockford	Tacoma	
Association (trade, nonprofit & world trade centers)	Chicago (2)	Anchorage, Missoula, Oakland, Sacramento, San Francisco, Spokane	
Economic Development Group	Libertyville		
College/University		Fresno	Trenton

(1) Ex-Im City/State Partner
(2) During FY 2004, Global Trade & Technology Network vacated the Chicago USEAC.

Source: OIG

Trade specialists and directors reported that collocation enhances collaboration, joint counseling, and knowledge of partner programs, and cross-program referrals. From a practical standpoint, these arrangements also reduce lease expenses for Commercial Service.[26] As indicated, Ex-Im Bank and SBA are the USEACs' primary federal trade partners. As of April 2004, Ex-Im Bank had representatives in 6 export assistance centers[27] and SBA had a presence in 16 centers.[28]

[26] For example, in FY 2003, the Trenton USEAC was reconfigured to collocate with three different trade partners: the office director is collocated with the New Jersey Commerce and Economic Growth Commission (Office of International Trade) in Trenton; one trade specialist is collocated at the Monmouth University School of Business Administration (West Long Branch, NJ) and the other trade specialist is located at Burlington County College, High Technology Small Business Incubator (Mount Laurel, NJ). By collocating the Trenton USEAC staff to free, shared office space with three of its trade partners, the Philadelphia network saved $59,536 in rent in FY 2003.

[27] Chicago, Miami, New York, Newport Beach, San Diego, and San Francisco.

[28] Atlanta, Baltimore, Boston, Charlotte, Chicago, Cleveland, Denver, Detroit, Miami, Minneapolis, Newport Beach, North Texas, Philadelphia, Portland (OR), Seattle, and St. Louis.

Other Commerce agencies sometimes collocate with the USEACs as well. For example, the Economic Development Administration (EDA) has a representative in the Pacific Northwest's Portland center. EDA's involvement with local development projects in the region enables the representative to refer companies to the Portland and Northern California USEACs for export assistance. The EDA representative also supports CS' Rural Export Initiative, which enhances the centers' outreach to rural and Native American communities through seminars and onsite visits.

Also, BIS' Office of Export Administration has two representatives in the San Jose USEAC to help trade specialists answer client questions about export licenses and regulations. This collocation is especially valuable, as companies in Silicon Valley's high-technology business corridor often have questions concerning the Export Administration Regulations. BIS, in turn, refers clients seeking export promotion services to the USEACs.

The concept of an export assistance center that integrates international marketing and trade finance assistance for exporters originated with recommendations made by the TPCC in its 1993 report,[29] the 1992 Export Enhancement Act,[30] and the Small Business Act.[31] As such, Commerce, SBA, Ex-Im Bank, and the U.S. Agency for International Development consolidated their federal export promotion and finance resources to provide seamless delivery of these services in local business communities. SBA has been Commercial Service's primary USEAC trade partner and currently has a presence in 16 of the 106 centers. Most of these SBA representatives service several centers within a network, in addition to their assigned location.

Many CS officials told us that SBA is a highly valued trade partner with whom they regularly conduct joint outreach and educational seminars, and share export success credit. One trade specialist described SBA as "an in-house resource readily available for client counseling, cross-referral, and education on export finance and SBA programs." For FY 2003, CS data attributes 145 export success records as joint CS/SBA successes, which had a total export value of approximately $81 million.[32] The actual number of export successes SBA supported may be higher since it is possible that a trade specialist did not credit SBA for an export success transaction(s) for which it provided assistance. According to Commercial Service, within FY 2003 export success data, there were 268 instances where trade specialists cited SBA involvement with an export success, but did not attribute the success as a joint CS/SBA success.

At the time of this report, SBA's FY 2005 support for the export assistance centers was not decided. SBA may relocate its trade finance officers to its regional or district offices. Both CS and SBA officials told us that SBA's exit from the USEACs might adversely impact (1) the level of coordination and collaboration among CS, SBA, and Ex-Im; (2) delivery of integrated export

[29] "*Toward a National Export Strategy, U.S. Exports = U.S. Jobs, Report to the United States Congress*," September 30, 1993.

[30] Title II (15 USC Sec. 4721(b)(8) and (9)).

[31] Section 22 of the Small Business Act (15 USC Sec. 649).

[32] OIG has not verified the validity of these export successes or whether the reporting of the successes is in compliance with CS' *Operations Manual*.

assistance services; (3) companies' access to SBA's export working capital and financing programs; and (4) CS' lease costs.[33]

A key component of the one-stop export assistance concept is to make certain that U.S. exporters have readily available CS' trade promotion assistance and trade finance expertise. CS' USEAC personnel are not specialized trade finance counselors nor do they have lending authority. Information about and access to trade financing— such as that provided by SBA— are significant interests for U.S. exporters. In its 2002 "Report Card on Trade II" study, the TPCC found export finance to be a troublesome area for companies and concluded that the government should do more to strengthen its support in this critical area.

> *As exporting becomes a more important part of a firm's operations, the weakness of U.S. export finance systems becomes a greater problem.*
>
> *Report Card on Trade II*

CS officials told us that they are exploring how the USEACs can continue to offer trade finance expertise to their clients in the event that SBA personnel are withdrawn from the USEACs.

Recommendations. Commercial Service should (1) draft contingency lease plans should SBA exit the USEACs, and (2) develop a plan to ensure that the USEACs can continue to provide clients with trade finance assistance should SBA exit the USEACs.

In response to our draft report, ITA noted that SBA has committed to fully fund the current level of collocation in the USEACs in FY 2004 and FY 2005. Therefore, contingency lease plans will not be necessary prior to FY 2006. ITA said that it will continue to monitor the situation and develop contingency lease plans at the appropriate time, should there be an indication that SBA might leave the USEACs.

ITA also agreed with our recommendation to develop a plan to ensure that the USEACs are able to continue trade finance assistance. ITA stated that it recognizes the need to increase trade specialists' knowledge of federal trade finance programs and that its training programs include segments on this subject. While the Commercial Service said that it continues to advocate the necessity of SBA and Ex-Im collocation in the USEACs, this training should provide additional knowledge to trade specialists, allowing them to continue providing clients with trade finance assistance should SBA exit the USEACs. In addition, ITA reported that ODO has added an export finance specialist position to the "specialist" program to allow top performing trade specialists to cultivate knowledge and resources for all staff, answering questions and providing referrals for the entire organization through the DOC Insider, its knowledge management tool.

The steps taken by ITA meet the intent of our recommendation.

[33] For FY 2004, SBA's lease payment for shared USEAC office space is $265,142. To keep lease costs from increasing, Commercial Service would have to find a new partner to collocate or reduce office space.

SUMMARY OF RECOMMENDATIONS

To strengthen the management and operations of the U.S. Export Assistance Centers, we recommend that ITA and Commercial Service take the following actions:

Export Successes

1. Continue monitoring the implementation and adequacy of the initiatives for improving export success reporting and review to ensure that they have the desired impact of enhancing both the reporting process and management oversight (page 5).

NTE Companies

2. Create a field within the Client Management System (CMS) in order to identify new-to-export (NTE) clients and be able to track NTE client counseling sessions (page 9).

Management Oversight of Domestic Operations

3. Ensure that the Office of Domestic Operations (ODO) effectively monitors USEAC activities and compliance with policies, procedures, and regulations, as well as NFST support, and hold ODO accountable for providing adequate management oversight (page 12).

User Fees

4. Work with the Department and OMB to ensure compliance with OMB Circular A-25, User Charges (page 15).

5. Revise the CS *Operations Manual* to comply with OMB requirements for full-cost recovery, and provide staff with guidelines and training on calculating and collecting appropriate fees (page 15).

USEAC Lease Costs

6. Draft contingency lease plans should the Small Business Administration (SBA) exit the USEACs (page 21).

Trade Finance Expertise

7. Develop a plan to ensure that the USEACs can continue to provide clients with trade finance assistance should SBA exit the USEACs (page 21).

APPENDIX A

List of Acronyms

BIS	Bureau of Industry & Security
CFO	Chief Financial Officer
CMS	Client Management System
CS	Commercial Service
DEC	District Export Council
DOC	Department of Commerce
EDA	Economic Development Administration
Ex-Im Bank	Export-Import Bank of the United States
FSS	Field Support Specialist
FY	Fiscal Year
GTN	Global Trade & Technology Network
ITA	International Trade Administration
ITM	Increase-to-Market
NES	National Export Strategy
NFST	National Field Support Team
NTE	New-to-Export
NTM	New-to-Market
ODO	Office of Domestic Operations
OIG	Office of Inspector General
OMB	Office of Management and Budget
SBA	Small Business Administration
SBDC	Small Business Development Center
TIC	Trade Information Center
TPCC	Trade Promotion Coordinating Committee
UN	United Nations
USAID	U.S. Agency for International Development
USC	United States Code
USEAC	U.S. Export Assistance Center
USTR	United States Trade Representative

APPENDIX B

National Field Support Team

ODO established the National Field Support Team (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 FSS responsibilities, including

- 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.

NFST also conducts periodic internal control reviews of its field operations, carried out by NFST staff not affiliated with the network under review. A USEAC network director can, at any time, request such a review to cover some or all network administrative functions and/or the NFST within the network.

APPENDIX C

Agency Response to the Draft Report

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

SEP 23 2004

MEMORANDUM FOR: Jill Gross
Assistant Inspector General for Inspections and Programs
Office of the Inspector General

FROM: Linda Moye Cheatham
Chief Financial Officer & Director of Administration
International Trade Administration

SUBJECT: Responses to IPE-16402 and IPE-16728

Attached are the ITA responses to the following reports:

1.) Open Recommendations Update for the Review of the Philadelphia Network Report (IPE-16402). The response provides the additional details requested regarding recommendations 2, 4 and 9.

2.) Are Meeting Client Needs, but Better Management Oversight Is Needed (Draft Inspection Report No. IPE-16728 /August 2004) follows.

If you have any questions or comments, please feel free to contact me on (202) 482-5855, or Seth Raley, GAO Liaison, on (202) 482-3756.

Attachment

ITA Response to Draft Report USEACs Are Meeting Client Needs, but Better Management Oversight Is Needed (Draft Inspection Report No. IPE-16728/August 2004).

Recommendation #1: Export Successes - Continue monitoring the implementation and adequacy of the initiatives for improving export success reporting and review. This will ensure that they have the desired impact on enhancing both the reporting process and management oversight.

The IG emphasized that accurate reporting of Export Successes (ES) is crucial for evaluating the agency's performance. We fully agree and, accordingly, have enhanced CS/ODO management oversight of ES reporting by the domestic field. In July 2004, we appointed a senior-level employee to monitor all ES reporting worldwide on a full-time basis. This creates a permanent management tool for improving the content, quality, and consistency of ES reporting throughout the CS.

In just two months, the actions of this new Export Success Quality Control (ESQC) Officer, in coordination with other CS units, resulted in several important steps toward better quality control:

(1) The Commercial Service deleted export successes identified as being inconsistent with CS guidance and corrected others to reflect accuracy for the Chicago, Philadelphia and San Diego USEAC networks.

(2) A systematic review of 7,254 Export Success records was conducted, identifying 121 duplicate ES reports in FY-04. This represents 1.7% of all ESs reviewed, a significant improvement over previous years. Lower duplication levels are an early benefit of CS's adoption of shared Export Success Credits in measuring individual performance (which encourages greater inter-office collaboration), as well as improved staff training in Performance Measures. The duplicate reports identified in this sweep were referred to their authoring offices for consolidation, which will be completed by the end of FY-04.

(3) A sampling methodology was developed for in-depth quality review of Export Successes from CS offices worldwide. In the course of FY-05 and in each subsequent year, about 20% of current ESs submitted by each office will be reviewed to provide timely feedback on ES strengths and weaknesses. Marked improvement in ES quality should result as each author and reviewing official is apprised of his/her prevailing errors and held accountable for correcting them.

(4) The Performance Measures Working (PM) Group formed in 2003 is being reconfigured to better represent the current CS structure. Its role in ES policy development will be further defined and formalized.

(5) ITA will initially revisit locations identified by the Inspector General (IG), beginning with Philadelphia in September. This will enhance ITA's ability to

determine and schedule on-site verification and validation reviews of ITA-wide measured data, export success data, client records, as well as other performance results source data during FY 2005. These reviews will cover data reported in headquarters as well as locations selected from the 108 domestic locations. Selection will be based on various factors such as volume of data generated and regional coverage of the USEAC Network to ensure that the audit "visibility" is apparent to the entire USEAC network.

(6) An "ES Policy Summit" will be held in the first quarter of FY-05 to organize, clarify, and augment the standard ES Guidelines now in place. This will involve 2-3 days of concentrated discussion by the reconstituted PM Working Group and additional participants to be named by CS senior management. The Summit will address ES issues identified by the IG (such as how to report export successes for financial institutions, and timely creation of client counseling records), as well as other ES issues already identified by the ESQC Officer.

Recommendation #2: NTE Companies - Create a field within the Client Management System (CMS) in order to identify new-to-export (NTE) clients and be able to track NTE client counseling sessions.

The statement in the IG report that their office was "unable to track activity with "new-to-export (NTE)" clients because there is not a field that captures this information in our CMS records" is a valid criticism. Work done with NTE firms may take months or even years before they result in sales, which are then captured as "export successes" and would be reflected in the CMS. We are working to add this field to the CMS, thus remedying the lack or inability to capture and track NTEs.

On the other hand, NTE export successes did increase from 697 in fiscal year 2002 to 896 in fiscal year 2003. This is a significant gain that should be credited in this report.

Other major work done to assist firms that are new to exporting is similarly overlooked in this and other reports on the U.S. Commercial Service. It is true that much of the one-to-one client counseling takes place with firms that already have some (often limited) exporting experience. This is because these are the companies most able to benefit from this kind of assistance. When the assistance results in an export sale, it is counted as "new to market," regardless of how basic or limited their previous exporting experience.

On the other hand, years of experience has taught us that a firm that has never before exported often requires motivation, training and additional support that is not conducive to delivery in the one-to-one client counseling setting. This does not mean that we overlook this segment of the population. It means that we serve them through a variety of other mechanisms. These mechanisms are less quantifiable and harder to capture than the simple export success numbers that we so often cite. In this respect, we may be our own worst enemy in failing to adequately tell this story. Outlined below is an overview of these activities and some suggestions about how to better capture this very important aspect of our work:

Outreach Efforts. Every domestic office regularly engages in outreach to their local business communities. We do this in order to motivate and educate firms that may not be exporting and may not be aware of the services that are available. This activity is captured in the Highlights database.

Indirect Assistance. Although few USEACs hold training courses of the type designed to help firms that are new to exporting, we are almost always called in to make presentations and add substance to these courses that are presented by our trade partners in our local communities. While these courses are often held by local Small Business Development Centers or other economic development agencies, the domestic Commercial Service offices support these events through recruitment, providing substantive resources and making presentations for these training programs. Again, this activity is captured in our highlights database, but is not readily quantified

Innovative Programs: Several USEACs have developed innovative programs that involve training interns on the exporting process and placing them inside firms that need additional resources in order to be successful exporters. As a part of the New Client Development Initiative, we are building a database of such programs and will disseminate these via our internal knowledge management system as "best practices" that can be adopted by others looking for effective methods of serving firms that need this kind of "hand holding." This will also provide us with a means of readily documenting this activity. Also, the ITA Teams have developed innovative programs that provide high-quality service to clients such as matchmaking programs, and low cost overseas trade missions. The Teams' internal industry and regional training programs are used as a tool to better train trade specialists and make them more effective counselors.

Overseas Programs: Again, through years of experience, as well as common sense, we know that firms that are new to exporting are more likely to succeed in markets that have similarities to the US. We know that Canada, for example, is generally an easier market to penetrate than China because the language, the laws and the proximity to the U.S. present fewer barriers to entry and increase the likelihood of success. As with the previous point, we are building a database of these programs and will use them as "best practices" within the Commercial Service.

Finally, this report provides us with another opportunity to revisit the question of "Who is our client?" As a public agency, we are called on to help legitimate U.S. businesses that want to expand their exports. This includes firms that have never before exported, firms that have limited exporting experience and firms with extensive experience who may need very specific help in an overseas market. They are all appropriately our clients. With limited resources it is our responsibility to allocate our time and people power where it will do the most good. This means taking a broad look at all our activities and channeling firms into the programs most appropriate for their needs. It also means leveraging the resources in our local communities and working closely with them to make sure that firms that want to expand their international sales have access to resources they need.

Recommendation #3: Commercial Service needs to ensure that ODO effectively monitors USEAC activities and compliance with policies, procedures, and regulations, as well as NFST support, and hold ODO accountable for providing adequate management oversight.

Although we submit that ODO management has steadily improved over the past four years, we recognize that additional oversight improvements are needed. With the support of ITA, we are in the process of making significant structural improvements.

By way of background, please note that during the past four years, significant downsizing has taken place with ODO senior management and senior management support staff. These changes were made for good reason – to return as many scarce resources as possible to direct client support, improve organizational consistency in programs, policies and procedures, and streamline communications channels. Having accomplished this "flattening," it has become apparent that, although largely meeting the above objectives, we needed to be sure that the new flatter and leaner ODO HQ oversight team was appropriately staffed to deliver for the organization's internal customers and its clients.

To work toward this end, beginning last November, we developed and have begun to put in place a new ODO HQ reporting structure to (1) fill critical staffing gaps, (2) improve management oversight and accountability, and (3) improve internal customer service. At the moment, three vacancies critical to these structural changes are open for application. We expect interviews and selections to be made within the next four weeks.

With these ODO HQ positions in place, the National Director's role will be redirected to increased field involvement and oversight of the twelve USEAC field networks. ODO HQ day-to-day operational requirements will be managed by a supervisory GS 14. In addition, the National Field Support Team will, once again, have a full time permanent Director. The core day-to-day administrative and programmatic functions of ODO HQ will be re-examined and assigned to individually accountable ODO HQ staff. Finally, all ODO HQ staff will be subject to a 360 evaluation that is embedded in their performance plan.

With this new team in place, we plan to hold regular HQ/field management retreats throughout the year. The purpose of these retreats will also be to improve communication and accountability throughout our network.

ODO is committed to improving our operations to bring more and better service to U.S. exporters, while ensuring that we adhere to CS policy and federal regulations.

Recommendation #4: Work with Department and OMB to ensure compliance with OMB Circular A-25, User Chargers.

Recent developments show that ITA is rapidly conforming to OMB Circular A-25. The following represent ITA's response to the OMB's May 12th memo where (on page 2)

OMB spelled out four the actions required by ITA to come into compliance with the referenced Circular.

OMB requested ITA to do the following.

1. Charge the full cost of providing services

- ITA has developed product-pricing templates to capture the full direct and indirect costs for all of its products.

- ITA is developing an OMB Circular A-25 conformance plan (attachment 1), which will be presented to OMB in September. Components of the plan are:

[redacted]

2. Increase the price of services in which ITA has upward pricing flexibility.

   - ITA is prepared to charge sufficient fees to obtain full cost recovery.

   - The results of our new product pricing templates indicate that virtually all product prices will increase based on our methodology of including salary costs and overhead charges previously excluded from product price computations. If product demand continues at FY 2004 levels we anticipate that significant additional fee collections will occur.

   - ITA has developed modest, yet novel, methods for underwriting our costs, such as selling space on our websites. For a modest fee, we allow approved entities that support our trade agenda to list their services as Business Service Providers on our local websites (*BuyUSA.gov*). This approach benefits our clients by providing qualified providers of services we do not offer, while the fees enable us to expand our trade-promotion activities.

   - In addition to charging customers for our products we have actively embraced the simultaneous improvement of customer service while achieving cost avoidance. In the case of the product called *Commercial News USA* (CNUSA) – a publication that steers overseas purchasers to American producers we have turned the operation over to a private third party that produces and distributes the publication at no cost to ITA. Early feedback is that the product is successful as well as cost effective.

3. Train ITA personnel to ensure a standard pricing strategy.

   - The training of ITA personnel has begun and will continue through fiscal year 2005 and beyond. The ITA has regularly scheduled national, regional and international meetings of staff such as the network directors quarterly meetings and the senior commercial officer conferences held in the US and abroad throughout the year– these venues have been and will be used to communicate the importance of the full-cost-recovery plan and reinforce the importance of compliance.

   - As mentioned above, the use of standardized templates for developing product pricing will significantly address the issue of setting prices that cover production costs. In addition, we have added increased cost collection functionality to the requirements that we have developed for our new accounting system.

4. Address internal resistance to charging fees.

   - We have increased our communication regarding the importance of this issue. Handbooks and operation manuals have been updated to reflect the new policy and training has been scheduled. We anticipate that these actions will correct any

vestige of internal resistance to full cost recovery. The Assistant Secretary for Trade Promotion and Director General has issued material on this subject.

- The ITA Chief Financial Officer (CFO) has met frequently with our Trade Promotion leadership here in Washington and with the 12 United States Export Assistance Center Directors (USEAC) and received positive feedback from all involved. The ITA CFO will continue to reinforce the importance of charging the full cost for products and services and the proper collection of performance data.

- The CFO has not found a lingering organizational barrier to collecting full costs. On the contrary the Trade Promotion leadership are crafting an aggressive marketing plan for rollout in the coming months.

Recommendation #5: Revise the CS Operations Manual to comply with OMB requirements for full-cost recovery, and provide staff with guidelines and training on calculating and collecting appropriate fees.

The CS and ITA CFO will work to ensure all approved OMB requirements for full cost recovery will be incorporated into the CS operations manual. Subsequent field staff will be briefed on new procedures and receive training on calculating and collecting appropriate fees.

Recommendation #6: Draft contingency lease plans should the Small Business Administration (SBA) exit the USEACs.

The Commercial Service is pleased to report that SBA has committed to fully fund collocation in the USEACs during FY 2004 through FY 2005. This is a success for both of our organizations, as we work together to promote exports by ensuring SBA's trade finance programs and services are easily accessible to U.S. exporters. Therefore, contingency lease plans would not be potentially necessary prior to FY 2006. The CS will continue to monitor the situation, and will develop contingency plans at the appropriate time if there is an indication that SBA might depart the USEACs.

Recommendation #7: Develop a plan to ensure that the USEACs can continue to provide clients with trade finance assistance should SBA exit the USEACs.

The Commercial Service fully agrees with the IG about the importance of trade finance assistance to U.S. exporters. In the past several years, our partnership with SBA and Ex-Im has deepened through a multitude of joint outreach events and successful client counseling opportunities. SBA and Ex-Im are critical to the effectiveness of the USEAC network.

At the same time, the CS recognizes the need to increase Trade Specialists' knowledge of federal trade finance programs. This allows Trade Specialists to provide basic information to clients and more appropriately engage limited SBA and Ex-Im personnel

resources in counseling. CS training programs for trade specialists include segments on trade finance assistance.

ODO also added an export finance specialist position to the "Specialist" program. Through this program, designated top performing Trade Specialists cultivate knowledge and resources about their subject matter for all staff. These individuals are also available to answer questions and provide referrals for the entire organization through the DOC Insider, our knowledge management tool.

While the Commercial Service continues to advocate the necessity of SBA and Ex-Im collocation in the USEACs, we are positioned to continue assisting exporters with their trade finance issues in the event of SBA departure from the USEACs. Collocation is the best mechanism for seamless delivery of service to exporters - but is not a prerequisite for working together to bring trade finance information and programs to U.S. exporters. We remain committed to fulfill the TPCC mandate to coordinate export promotion programs with all of our federal partners in any way possible.

Section II. ITA is not in compliance with OMB Circular A-25 Requirements.
The draft states that pricing efforts are complicated by "a mind-set within ITA against charging fees for government services." Generally we have not found this to be the case. Most employees view fees as a sound way to ensure client commitment and to guarantee adequate resources are available to support our clients. We believe the IG heard not the voice of our employees, but the voice of frustrated clients. Several clients feel that as they already pay taxes, they should not have to pay again. The Commercial Service has been receptive to substantial price increases over the last few years, and is showing a positive response to current modeling efforts. The test is not with internal views on fees, but with the price elasticity our clients will face.

Attachment 1: International Trade Administration A-25 Compliance Plan.

Legislative Authority

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

Program evaluations are reviews the OIG undertakes to achieve one or more of the following purposes:

- Provide agency managers with timely information about operations. A primary goal of a program evaluation is to encourage effective, economical, and efficient operations.
- 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 review.
- 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, Stephen Moore, Jennifer Nobles, and Deborah Holmes, Office of Inspections and Program Evaluations.

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