



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

**STATEMENT BY
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U.S. DEPARTMENT OF COMMERCE
BEFORE THE
SUBCOMMITTEE ON TAX, FINANCE, AND EXPORTS
COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES
SEPTEMBER 9, 1999**

Mr. Chairman and Members of the Committee, I am pleased to appear before you today to discuss some of the Office of Inspector General's work and recent observations related to the U.S. Export Assistance Centers (USEACs). I appeared before the Committee's Subcommittee on Procurement, Exports, and Business Opportunities just over three years ago to discuss the results of our early assessment of the development and rollout of the USEACs. I concluded that appearance by stating that although there were clearly problems, we were optimistic about the USEACs' potential to better address the export promotion and trade finance needs of U.S. exporters.

If I were to fast forward to the end of my statement here today, you would see that I essentially have the same conclusion-- that there are indeed problems to be addressed, but I believe that the USEACs are demonstrating their ability and potential to better meet the needs of U.S. exporters. Several key factors cause my optimism, the foremost being that the USEACs have come a long

way in demonstrating how federal agencies can and should work together to better provide export assistance to U.S. businesses. And, secondly, the centers, while not perfect, represent a major improvement over the fragmented export promotion and finance assistance previously available to U.S. exporters.

Obviously, my office's work has concentrated on the USEACs from the perspective of the Department of Commerce. Primarily through the International Trade Administration, in particular the U.S. and Foreign Commercial Service (US&FCS), Commerce is expected to work closely with other federal agencies, as well as state and local governments, the U.S. business community, and others to promote export awareness and U.S. sales abroad. US&FCS, through its Office of Domestic Operations, operates the Export Assistance Center network with 19 USEACs¹ connecting 86 EACs in a structure often described as a "hub and spoke" network. The efforts to create the USEACs are consistent with the objectives of the Export Enhancement Act of 1992. The act directed the Commerce Department to (1) take the lead in establishing "one-stop" shops and (2) bring together the relevant federal, state, and local government and private sector organizations to better assist U.S. exporters.

Long before the establishment of the USEACs, the OIG recognized and highlighted the need for improved coordination of the federal government's export promotion efforts. Through more than a decade of inspections of individual US&FCS field offices—both domestic and overseas—we had

¹Two of the 19 USEACs, Long Beach and New York, are managed by a Small Business Administration and an Export Import Bank representative, respectively.

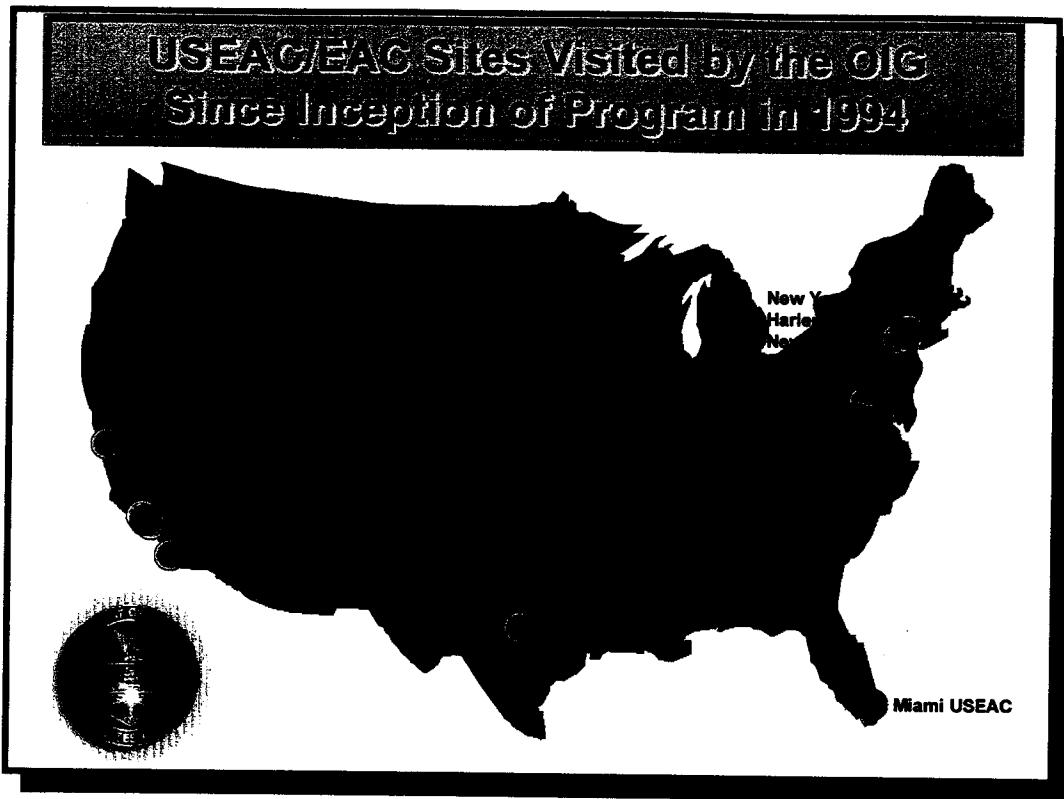
too often found major gaps in the effective delivery of export promotion and trade finance assistance to U.S. exporters. Moreover, in March 1993, we issued a comprehensive report² on the Department's trade promotion efforts that supported the concept of "one-stop" trade shops and clearly emphasized the need for the federal government to have a more coordinated approach for meeting the export promotion and trade finance needs of U.S. exporters. In 1994, the Department, in its Trade Promotion Coordinating Committee role, led the effort to create a one-stop federal export promotion presence in the field by unveiling four pilot USEACs.

Recognizing the USEAC program's potential for success or failure and the resulting impact on small and medium sized firms who look to the government for some export assistance, we completed an early assessment of the development and rollout of the USEACs. In March 1996, we summarized our findings from this assessment in a report entitled *U.S. Export Assistance Centers Offer Reason for Optimism, but May Fall Short of Expectations*. At that time, our optimism was based primarily on the widely-held, favorable views and early experiences of many U.S. exporters, representatives from the private sector, and federal, state, and local government personnel that we interviewed. Overwhelmingly, they said that the USEAC concept—if properly implemented—should better link trade finance resources with export promotion and marketing services. At the same time, we identified some important observations and concerns with the USEAC concept and operations that warranted management's attention. We also made a series of recommendations to address our concerns.

²*Assessment of Commerce's Efforts in Helping U.S. Firms Meet the Export Challenges of the 1990s*, IRM-4523.

Since our 1996 assessment of the development and rollout of the USEACs, we have monitored the changing status of the USEAC program through various audits, evaluations, and inspections. For example, last year, we conducted detailed inspections of the US&FCS operations at the Dallas and Seattle USEACs. These inspections focused on the program operations as well as some of the financial and administrative practices being followed by the USEACs. In addition, we recently completed a comprehensive follow-up review of our prior assessment of the Department's overall export promotion efforts.³ Moreover, OIG staff have visited many export assistance centers in conjunction with other evaluations, inspections, or follow-up work, including several that I personally visited recently. As you might expect, we have found that most centers have some unique strengths and their own weaknesses. Each also appears to have its own special opportunities for success, and many have perceived threats looming over them. The following map highlights most of the centers that we have visited.

³*Management Improvements Needed to Better Prepare for the Export Challenges of the 21st Century*, March 1999, IPE-9904.



Let me share with you a few of our general observations about the USEAC program and US&FCS efforts to deliver export promotion services to U.S. businesses.

Federal Partners Are Increasingly Working in a Cooperative Fashion

This is the good news! My observations here are more about attitude—a quality that is relatively intangible and difficult to quantify; yet sets the stage for making a big difference. More often than not, we are finding that the collocation of export promotion and trade finance partners in the USEACs does in fact foster closer working ties and strengthens information exchanges.

Clearly when this happens, the result is improved export marketing and export finance assistance to small and medium sized U.S. businesses. We are seeing that SBA, US&FCS, and ExIm Bank—the components of the USEACs—are increasingly (1) conducting joint counseling of clients, (2) referring clients to each other, and (3) identifying joint opportunities for outreach to the business community. Each of these results in improved service delivery to the nation's exporting community.

In an effort to better serve firms that are not ready to export but show potential, several of the USEACs we recently visited (e.g., Seattle, Chicago, and New York) work closely with a special training program developed by SBA called the Export Trade Assistance Partnership program, or E-TAP. Essentially, the E-TAP program offers these firms (1) an assessment of their product's export potential, (2) an export orientation, (3) market entry preparation, (4) trade show preparation, (5) international business planning, (6) customized export training for specific products, and (7) ongoing counseling. In addition to their own staff, the USEACs sometimes bring in speakers and experts from state and local trade organizations, private financial institutions, and representatives from overseas posts. We believe this program provides the USEACs with an effective means for helping new-to-export firms. More specifically, during our inspection of the Seattle USEAC last year, the staff informed us that the E-TAP program has helped them to leverage their time by allowing them to train 10 companies at a time instead of individually on a standard issue. At that time, 30 percent of Seattle's E-TAP graduates had reportedly gone on to export after completing the course.

Similar to E-TAP, US&FCS has recently launched a Market Entry Program for new-to-export minority-owned firms under its Global Diversity Initiative. When we recently discussed this initiative with USEAC representatives in New York and Chicago, two of the nine centers where the program is being tested, they emphasized that (1) as with E-TAP, it also relies on the expertise of federal, state, or local partners and (2) it is geared toward getting minority-owned firms that are not yet “export-ready” closer to the reality of selling abroad.

During our visit to the Atlanta USEAC, we heard of the center’s plan to provide space to a representative of the U.S. Department of Agriculture’s Foreign Agricultural Service, in addition to its other partners. We believe that the addition of agricultural export promotion counseling to the USEAC should expand the export promotion services available at the Atlanta USEAC and provide valuable synergies in the area of food and food processing equipment. Likewise, last week during my visit to the New York City USEAC and its “spoke” centers in Newark and Harlem, I saw first-hand just how important it is to have the right people, committed to working with their federal partners and other interested parties. And while there is still a lot of work to be done in the New York hub to increase intra-USEAC referrals and other partnership activities, it is equally clear that changes in attitude and commitment are making a difference.

Staffing at Some USEACs Remains a Concern

One of the key issues that we raised in our review of the rollout of the USEAC program involved staffing. While SBA has at least one representative in every USEAC, Ex-Im Bank has staff

physically located in only four USEACs (Chicago, Long Beach, Miami, and New York). Ex-Im Bank officials emphasize that although they are not present in every USEAC, they attempt to visit the remaining USEAC sites during their routine visits to the major cities in their region. In addition, they pointed out that 36 EACs have Ex-Im Bank's city/state partners in their vicinity who serve as authorized agents for Ex-Im Bank trade finance and credit insurance products and services. While some of these representatives are extremely competent and fulfilling an important role in meeting USEAC objectives, such as the representative at the Seattle USEAC, interviews with state and local officials, and Ex-Im and USEAC personnel suggest that they do not have the same level of confidence in some of the city/state partners' ability and commitment to help carry out Ex-Im Bank's trade finance program.

USEACs Need a Better System for Identifying, Measuring, and Reporting Programmatic Accomplishments

In our 1996 review, we recommended that the USEACs have performance measures and criteria for assessing and encouraging the success of the USEACs as an overall entity and not only as the sum of the individual parts. Currently, the federal agencies assess their performance as follows.

- US&FCS accomplishments are being measured primarily on the basis of "export actions;"
- SBA is primarily measuring the number of loan guarantees packaged; and
- Ex-Im Bank measures its performance using a number of criteria, including loans packaged and credit insurance granted.

We have long observed that employees more aggressively pursue those measures for which they will be recognized and rewarded. If "USEAC" goals and criteria are not emphasized, the centers will have greater difficulties in pursuing the "one-stop" shop concept and in fostering a coordinated approach and cooperative attitude. Hence, to facilitate and quantify the performance of the USEACs, we are encouraging the development of additional criteria that are USEAC-specific, such as (1) requiring joint counseling sessions, (2) promoting mutually beneficial outreach activities, and (3) providing credit for intra-USEAC client referrals that are successful.

The USEAC Network Is Fostering Stronger Partner Relationships with State and Local Trade Organizations

With more state and local governments recognizing the importance of trade and increasingly investing resources to promote trade in their local jurisdictions, there is a need for increased partnering between federal and state and local trade promotion organizations to marshal their resources. To their credit, some USEACs have already gone beyond being simply a federal partnership by also physically embracing the resources of state and local export promotion organizations. These state and local partnerships have allowed the elimination of some duplicative programs and concurrently enhanced the quality and delivery of export assistance services to U.S. businesses. The Atlanta USEAC is one good example. The USEAC is physically collocated with state of Georgia representatives. We have found that through this partnership, Georgia businesses are able to receive coordinated export assistance from one location, the site of the Atlanta USEAC. In addition, many of the one-person EACs are collocated with state export

promotion agencies, local Chambers of Commerce, and other local export promotion organizations. These EACS are located near U.S. exporters in business districts, industrial parks, and other locations where U.S. firms do business. And finally, the local and state partners that we have interviewed are generally pleased with the USEACs' increased commitment and efforts to work with them.

Coordination Between the USEACs and US&FCS's Overseas Posts Could Be Better

One of the unique aspects of the US&FCS is its worldwide network—that is, its domestic and foreign offices are expected to work in unison to provide seamless support to U.S. exporters. We have found that more effective interaction was needed between US&FCS domestic and overseas staffs. Cooperation and interaction has been spotty at best and too often dependent on the commitment of the individual trade specialists and senior commercial officers at an EAC and an overseas post. Specifically, in our audits and inspections of overseas posts, we have confirmed cases where US&FCS posts overseas (1) were not timely in providing certain important products and services that USEAC clients were waiting for and (2) sometimes provided products and services of inferior quality. US&FCS managers are attempting to remedy this situation. For example, they are working to strengthen the relationships and coordination between the foreign and domestic operations with the “Teams” and the “Integration” initiatives.

The Teams initiative, which involves “teams” of trade specialists located throughout the United States who work to promote exports for a particular industry or a specific geographic region, has

the potential to be an important tool in improving ITA's effectiveness and coordination worldwide. For instance, many trade specialists informed us that through the "Teams" they have been better able to coordinate their trade event planning with the overseas posts. But we believe the Teams could be more effective if they routinely leveraged staff resources from other ITA units (such as the offices of Trade Development and Market Access and Compliance) to address specific trade-related issues.

In addition, the "integration" initiative, designed to increase the exchange of domestic and foreign trade specialists and commercial officers, has helped the domestic and overseas staff gain a better appreciation and understanding of each other's functions and challenges by providing opportunities for international staff to serve throughout the United States and for domestic staff to serve overseas.

Marketing to Potential U.S. Exporters of Products and Services Available at Centers Should Be Improved

What is the USEAC program? This is a question that is frequently asked. According to representatives of some of the federal, local, state, and private trade organizations we spoke with, the marketing of the USEACs is one of the biggest hindrances to the operation. Specifically, we have often found that some believe that the USEACs' are not effectively getting out the message of who they are, where they are, what they do, and what products and services they have to offer. During our inspection of the USEAC in Dallas, for example, one partner expressed a sentiment

that we have often heard: "The USEACs are one of the best kept secrets in the government." The US&FCS and the USEAC network is generally viewed as a valuable asset by those U.S. firms who know them, but at the same time it is believed to be largely unknown by many others. Some attribute this marketing problem to the confusion due to the fact that in recent years, the federal export promotion program has been referred to as many things, including the Department of Commerce Trade Promotion Program, the International Trade Administration Field Operation, the United States and Foreign Commercial Service, the Commercial Service, SBA International Program, EXIM Trade Finance Assistance, and finally, the United States Export Assistance Center.

In closing, I conclude largely as I did in 1996: We remain optimistic about the future of the USEACs and their potential to more effectively address the export promotion and trade finance needs of U.S. exporters. And while the level of coordination and quality of service varies from center to center, the USEAC network has surely improved the cooperation between the federal parties and various organizations in the field that are involved with promoting and financing U.S. exports.

This completes my statement, Mr. Chairman. I would be happy to answer any questions you and other Members of the Committee may have.

Office of Inspector General
U.S. Department of Commerce

Final Audit and Inspection Reports and Congressional Testimony
on the International Trade Administration's
Trade Promotion Activities

January 1993 through September 9, 1999

General

1. Congressional Testimony on Department of Commerce's Trade Promotion Activities: Acting Inspector General Johnnie Frazier, before the House Government Reform and Oversight Subcommittee on Criminal Justice, Drug Policy, and Human Resources (March 25, 1999).
2. *Management Improvements Needed to Better Prepare for the Export Challenges of the 21st Century*, Final Inspection Report No. IPE-9904 (March 1999)
3. *ITA's Use of Interagency and Other Special Agreements*, Final Inspection Report No. IPE-10752 (September 1998)
4. *Trade Events: Improvements Needed in Planning and Management*, Final Audit Report No. IAD-9714-8-0001 (December 1997)
5. *Advocacy Center: Achievements Need Better Documentation*, Final Audit Report No. TID-8375-7-0001 (March 1997)
6. *Administrative Activities Should Be Further Streamlined*, Final Audit Report No. TID-7325-6-0001 (July 1996)
7. *Follow-up on Import Administration's Management of the Antidumping and Countervailing Duty Programs*, Final Inspection Report No. IPE-8530 (March 1996)
8. *Import Administration's Management of Anti-Dumping and Countervailing Duty Orders*, Final Inspection Report No. TTD-5540 (September 1994)
9. *Import Administration's Unauthorized Use of Copyright-Protected Software*, Final Inspection Report No. IRM-5513 (March 1993)
10. *Assessment of Commerce's Efforts in Helping U.S. Firms Meet the Export Challenges of the 1990s*, Final Inspection Report No. IRM-4523 (March 1993)

U.S. and Foreign Commercial Service

Overseas Posts

11. *The AIT Commercial Section Needs to Place Greater Emphasis on Trade Promotion and Improve Internal Controls*, Final Audit Report No. BTD-10220 (March 1999)
12. *Portugal is Effectively Providing Services, But Should Strengthen Program Management*, Draft Audit Report No. BTD-10594 (February 1999)
13. *European Union Mission Should Develop a Europe-Wide Commercial Strategy*, Final Audit Report No. BTD-10588 (January 1999)
14. *South Korea Needs to Augment Effective Program with Stronger Internal Controls*, Final Audit Report No. BTD-10221 (January 1999)
15. *USFCS Post in Belgium*, Final Audit Report No. BTD-10595-9-0001 (December 1998).
16. *USFCS Post in Japan*, Final Audit Report No. IAD-10218-8-00001 (September 1998).
17. *USFCS Post in Spain*, Final Audit Report No. IAD-10593-8-0001 (July 1998)
18. *Recent Overseas Inspections Found US&FCS Delivering Services Effectively but Facing Internal Constraints*, Final Inspection Report No. IPE-9178 (September 1997)
19. *USFCS Post in Germany: While Generally Productive, Its Priorities, Resources, and Activities Require Reassessment*, Final Inspection Report No. IPE-9287 (July 1997)
20. *USFCS Post in Indonesia*, Final Inspection Report No. IPE-9285 (May 1997)
21. *USFCS Post in Malaysia*, Final Inspection Report No. IPE-9284 (April 1997)
22. *US&FCS Post in Poland: Effective Post Needs Attention to Certain Management Issues*, Final Inspection Report No. IPE-9288 (April 1997)
23. *US&FCS Post in Thailand*, Final Inspection Report No. IPE-9286 (April 1997)
24. *US&FCS Mexico City Trade Center*, Final Audit Report No. ATL-7788-6-0001 (March 1996)
25. *US&FCS Post in Canada*, Final Inspection Report No. IPE-7875 (February 1996)

Export Assistance Centers

26. *Dallas U.S. Export Assistance Center*, Final Inspection Report No. IPE-11006 (September 1998)
27. *Seattle U.S. Export Assistance Center*, Final Inspection Report No. IPE-11007 (November 1998)
28. Congressional Testimony on U.S. Export Assistance Centers: Johnnie E. Frazier, Assistant Inspector General for Inspections and Program Evaluations, Commerce Office of Inspector General, before the Subcommittee on Procurement, Exports, and Business Opportunities, House Committee on Small Business (July 25, 1996)
29. *USFCS Export Assistance Centers Offer Reason for Optimism, but May Fall Short of Expectations*, Final Inspection Report No. IRM-7130 (March 1996)
30. *Mid-Term Review of US&FCS American Business Centers Shows Mixed Results*, Final Inspection Report No. IRM-6831 (September 1995)



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U.S. Department of Commerce

Johnnie E. Frazier was sworn in as the fourth Inspector General of the U.S. Department of Commerce by Commerce Secretary William M. Daley on July 20, 1999. Mr. Frazier had served as the Department's Acting Inspector General since January 1998. As Inspector General, Mr. Frazier manages the Office of Inspector General (OIG), which is charged with conducting and supervising audits, inspections, and investigations of the Department's programs and operations. He is the Department's senior official in charge of promoting economy, efficiency, and effectiveness and preventing and detecting fraud, waste, and mismanagement.

Mr. Frazier also served as Assistant Inspector General from 1994 to 1998 and as Deputy Assistant Inspector General from 1984 to 1994 for the Office of Inspections and Program Evaluations. In recent years, he also directed the OIG's administrative functions, which included the organization's budget, human resources, and information technology operations.

A member of the Senior Executive Service, Mr. Frazier has demonstrated distinguished service throughout his more than 28-year federal career. He has received numerous awards, including the Commerce Silver Medal Award in 1988 and the Department's top award, the Gold Medal, in 1996.

Mr. Frazier holds a bachelor's degree in business administration, with an emphasis in accounting, from Howard University. He also has a master's degree in public administration from George Washington University.