

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



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*INTERNATIONAL TRADE
ADMINISTRATION*

*US&FCS Vietnam Is Fully Operational,
but Some Areas Need Improvement*

Final Inspection Report No. IPE-11798/March 2000

Office of Inspections and Program Evaluations





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

March 20, 2000

MEMORANDUM FOR: David L. Aaron
Under Secretary for International Trade

Marjory E. Searing
Acting Assistant Secretary and Director General for US&FCS

FROM:

Johnnie Frazier

SUBJECT: Final Inspection Report: *US&FCS Vietnam Is Fully Operational, but Some Areas Need Improvement (IPE-11798)*

As a follow-up to our January 5, 2000, draft report, attached is the final report on our inspection of US&FCS's Vietnam operations. The report includes comments from your February 24, 2000, written response. A copy of your response is included in its entirety as an attachment to the report.

We found that US&FCS has adequately carried out the steps necessary to develop a presence in this new market, but a number of challenges remain. We also believe that greater cooperation is needed in US&FCS Vietnam's partnering efforts. Our inspection raised concerns about weak internal control systems and the use of government funds and property, which we believe have diminished the posts' efficiency and effectiveness. Lastly, we cited concerns about underutilized office space in both Hanoi and Ho Chi Minh City.

Please provide your action plan addressing the recommendations in our report within 60 calendar days. If you have any questions or comments about our report, please contact me on (202) 482-4661.

We thank the personnel in ITA and US&FCS Vietnam for the assistance and courtesies extended to us during our review.

Attachment

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
INTRODUCTION	1
PURPOSE AND SCOPE	1
BACKGROUND	2
OBSERVATIONS AND CONCLUSIONS	5
I. US&FCS Vietnam Is Taking Appropriate Steps to Build Its Commercial Program	5
A. US&FCS Vietnam has accomplished much in its first years of operation	5
B. Management needs to ensure progress on other issues to enhance US&FCS's effectiveness in Vietnam	10
II. Greater Cooperation Is Needed in Partnering Efforts	14
A. US&FCS Vietnam has effectively leveraged local trade organizations	14
B. Implementation of the US&FCS-State of Florida joint partnership needs improvement	14
C. Other partnering efforts would benefit from better communication	16
III. Weak Internal Control Systems Raise Concerns over the Use of Funds and Government Property	18
A. O&A funds are not adequately safeguarded against fraud, waste, and abuse	18
B. Multiple systems used to track overseas collections do not reconcile	22
C. More supervision over ICASS is needed to ensure expenses are accurate	24
D. More controls over government property are needed	26
IV. Underutilized Space in Hanoi and Ho Chi Minh City Is of Concern	30
A. Excess office space should be reduced	30
B. US&FCS needs guidelines for justifying future office moves	31
IV. RECOMMENDATIONS	34
APPENDIX I - Acronyms	37
APPENDIX II - Cost Summary of Various US&FCS Hanoi Relocation Options	38
ATTACHMENT A - US&FCS Response to Draft Inspection Report	39

EXECUTIVE SUMMARY

From 1990 and until last year, Vietnam had one of the fastest growing economies in the world, with an 8-percent average annual GDP growth rate. This growth was fueled primarily by the foreign direct investment it received from its Southeast Asia neighbors. In 1997, the United States was Vietnam's eighth largest source of foreign direct investment. With the recent financial crises in Southeast Asia, however, traditional sources of capital in Vietnam have dried up (*e.g.*, six South Korean banks have closed in Vietnam), and opportunities have been more available for other foreign sources to enter the financial market. Current domestic Vietnamese industry and manufacturing are not generally globally competitive, as most major enterprises are still state run, despite government goals of privatizing. However, with an educational emphasis on applied sciences and vocational training and a literacy rate of near 90 percent, Vietnam's labor force remains attractive to foreign enterprises seeking to develop their own manufacturing facilities in Vietnam. And with recent progress on reaching a bilateral trade agreement between the United States and Vietnam, renewed U.S. business interest in Vietnam may be imminent.

However, many challenges still remain for Vietnam and the firms choosing to do business there. While domestic incomes are growing rapidly (albeit from low levels) and increasing the demand for consumer goods, the challenges of doing business in Vietnam remain formidable. For example, the government requirement that domestic laborers working in manufacturing facilities owned by foreign firms be paid wages denominated in foreign currency exposes foreign firms to a much greater foreign exchange rate risk on their costs of production than they would face elsewhere. Corruption, problems with software piracy and other violations of intellectual property rights, and burdensome product licensing requirements also face foreign firms considering entry into the market.

Soon after the United States normalized relations with Vietnam in 1995, the U.S. and Foreign Commercial Service (US&FCS) established a presence in Hanoi, the capital of Vietnam. An office operated out of a hotel for a time until US&FCS was able to find a facility. The Hanoi office first opened in February 1997. In September of the following year, US&FCS opened a constituent post in Ho Chi Minh City, formerly known as Saigon. At the time of our inspection, the staffing in Vietnam included 4 foreign commercial service officers, 14 foreign service nationals, and 2 personal services contractors.

We conducted an inspection of US&FCS operations at both posts in May and June, and continued follow-up work through August 1999. Overall, we found that both posts were generally well run. Each post was engaged in new initiatives that may be replicated elsewhere. For example, in Ho Chi Minh City, management has developed an impressive seminar designed to educate Vietnamese businesses on the resources available to develop trade between the two countries. Management has also started an in-house training session for all local staff with different staff team teaching one another using a correspondence course. In Hanoi, the post has taken the initiative to organize regional gold keys. While we were pleased to see the efforts to get the US&FCS program operating in Vietnam, we also found administrative oversight and controls lacking in other important areas that, if left unaddressed, could diminish the posts' efficiency and effectiveness. Our specific findings are as follows:

US&FCS Vietnam is taking appropriate steps to build its commercial program. Since US&FCS first assigned an officer to Hanoi in late 1995, it has carried out much of the activity that is necessary to establish an effective commercial service presence in a new market. During its first four years in Vietnam, US&FCS has focused resources on key program activities, including developing contacts with local government officials, helping to establish complementary U.S. government programs in Vietnam, and starting to deliver the core US&FCS program services. Yet many challenges still remain for US&FCS to become an effective sustainable presence in Vietnam (see page 5).

Greater cooperation is needed in partnering efforts. US&FCS has developed good working relationships with Vietnamese trade promotion organizations in Hanoi and in Ho Chi Minh City, leveraging them to help develop contacts with Vietnamese businesses and government officials. In addition, in Ho Chi Minh City, US&FCS has used the local commercial trade group to recruit Vietnamese business representatives to participate in the International Buyer Program and the post's successful business education seminar for Vietnamese businessmen. In developing these relationships, US&FCS has proactively and successfully overcome significant differences in the cultural attitudes and commercial objectives between the staffs of US&FCS and the two Vietnamese organizations.

In addition, US&FCS has also joined in a partnership with the State of Florida, whereby a contractor works for the state out of the Hanoi US&FCS office and serves US&FCS interests part-time. While the relationship between the US&FCS staff and the state representative is good, there needs to be a clearer understanding of the parties' roles and responsibilities. The overall objectives of the joint partnership are consistent between US&FCS and the state, but how these objectives are reconciled in practice needs greater attention by the US&FCS officers overseeing the project. For example, almost all of the Florida representative's work time during his first six months was spent preparing a Florida-specific cultural event. US&FCS officials need to task the representative with significant trade promotion work to justify the 25 percent of the cost of the joint project that US&FCS is paying (see page 14).

Weak internal control systems raise concern over the use of funds and government property. US&FCS Vietnam has developed a good system to track its finances. However, it has not implemented proper internal controls needed to prevent fraud, waste, and abuse of government funds and property at the post. In particular, we found examples of waste and abuse with operating and administrative funds, especially with respect to charges for telephone calls. In response to our questioning, approximately \$10,400 worth of telephone calls were identified by the employees as being personal calls. Loose controls in conjunction with the multiple financial tracking systems in place at the post, the State Budget and Fiscal office, US&FCS, and ITA create problems reconciling revenue collected from the sale of products and services. More supervision and oversight of administrative charges levied under the International Cooperative Administrative Support System (ICASS)—the State Department's system to distribute overseas support costs among U.S. agencies at post—are needed to ensure that US&FCS is paying an appropriate portion of the costs for the services it receives. In addition, lack of controls over the use of vehicles and cellular phones has led to questionable use of government property (see page 18).

Underutilized Space in Hanoi and Ho Chi Minh City is of concern. The current office space in Hanoi and Ho Chi Minh City is more than either operation currently uses, or intends to use within the next few years. Both facilities were designed and built-out under a “business center” (or “commercial center-like”) concept, justified by expectations that U.S. businesses and other partners would collocate with US&FCS on various short-term arrangements. Such expectations have not been realized, and no planning for further marketing or recruiting is underway.

In addition, US&FCS’s decision to relocate its Hanoi operation could have resulted in unnecessary facility costs. However, when we began questioning some of these costs, US&FCS renegotiated its space requirements. The decision-making process that led US&FCS to make its initial decision should be improved. The increase in space leased by US&FCS at the new location, in addition to increased charges for common areas shared with collocated U.S. agencies and for ICASS overhead, will likely increase the total office cost over the period of the projected lease. In the future, US&FCS needs to better assess and justify office space requirements overseas when moving into commercial buildings, especially when US&FCS determines its space requirements based on plans to share space with potential partners (see page 30).

Our recommendations for addressing these and other concerns appear beginning on page 34.



US&FCS generally agreed with our recommendations in its response to our draft report and appreciated the team’s balanced assessment of the strengths and weaknesses of one of the newest commercial offices. US&FCS acknowledges that while the post scored high in establishing an impressive physical presence in both Hanoi and Ho Chi Minh City, there were lapses in the day-to-day management of post operations. US&FCS has begun taking corrective actions to address our concerns.

In response to our recommendations concerning the move to the Rose Garden facility, US&FCS maintains that it opted for a less conservative course than that advocated by the OIG team. US&FCS believes that its decision to move was appropriate under the circumstances and was, in part, forward-looking and influenced by pressures from the embassy and other less tangible considerations.

INTRODUCTION

Pursuant to the authority of the Inspector General Act of 1978, as amended, and the requirements of the Omnibus Trade and Competitiveness Act of 1988, the Office of Inspector General conducted an inspection of U.S. and Foreign Commercial Service (US&FCS) operations in Vietnam. During the review, we visited operations in both Hanoi and Ho Chi Minh City.

Inspections are special reviews that the OIG undertakes to provide agency managers with timely information about operational issues. One of the main goals of an inspection is to eliminate waste in federal government programs by encouraging effective and efficient operations. By asking questions, identifying problems, and suggesting solutions, the OIG hopes to help managers move quickly to address problems identified during the inspection. Inspections may also highlight effective programs or operations, particularly if they may be useful or adaptable for agency managers or program operations elsewhere. This inspection was conducted in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency. Our field work in Vietnam was conducted from May 17 to June 4, 1999, followed by several weeks of consultations with the International Trade Administration (ITA) and US&FCS headquarters offices in Washington. During the review and at its conclusion, we discussed our findings with the Senior Commercial Officer (SCO), Commercial Attaché, and Principal Commercial Officer (PCO) in Vietnam; and the Director General of US&FCS, the current and previous Deputy Assistant Secretary for International Operations, the Acting Regional Director for East Asia/Pacific, and Deputy Regional Director for East Asia/Pacific.

PURPOSE AND SCOPE

The purpose of this inspection was to assess the overall operation of US&FCS Vietnam. This included assessing the development of goals and objectives, determining whether goals are being achieved, evaluating the economy, efficiency, and effectiveness of the operation, and assessing the posts' compliance with applicable regulations and instructions. We also examined the coordination between the posts and other organizations in achieving the overall goals of ITA and the Department of Commerce.

In conducting this inspection, we reviewed strategies and plans developed by ITA to increase exports to this market. We also reviewed the posts' organizational structures and operating approaches used in administering activities; interviewed appropriate Commerce and State Department personnel, as well as other U.S. agency personnel involved in trade promotion; examined pertinent files and records relating to the posts' operations; and met or spoke with officials from U.S. and foreign firms, trade associations, and state and local governments. We also interviewed a sample of clients by telephone concerning their evaluation of the posts' products and services.

BACKGROUND



Vietnam

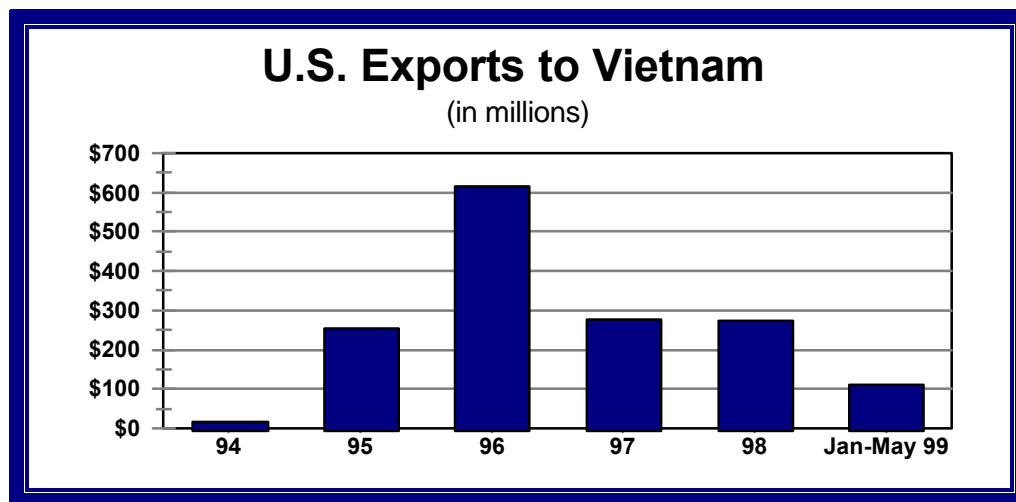
Vietnam, a country with a population of 77 million, a low-cost labor force, and rich natural resources, is expected to be a promising market for U.S. firms in the long term, despite the recent slowdown in economic growth. In 1995, many U.S. companies first sought entrance to the Vietnamese market when diplomatic relations were reestablished. Presence in this market can be key for U.S. companies pursuing a long-term business strategy in the Asia-Pacific region. Opportunities in the energy, power, transportation, telecommunications, environmental, and education sectors are promising. The enthusiasm for U.S. products and services provides a slight advantage for U.S. companies over their competitors also seeking to establish a strong presence in the country.

Although the Vietnamese government has made progress in instituting market reforms, much more is needed. The leaders of this centrally planned economy must continue to make legal, regulatory, and institutional reforms in order to provide a sound business environment for foreign firms. Privatization of the state-owned enterprises, as well as issues affecting two-way trade between the United States and Vietnam, including trade barriers and intellectual property rights, will also need to be addressed.

After three years of negotiations, the United States and Vietnam reached an agreement in principle on the terms of a bilateral trade agreement in late July 1999. The agreement would address a range of trade issues, including access to the telecommunications and financial services industries, and other matters relevant to U.S. market access including distribution practices. If the Congress approves the agreement, normal trade relations with Vietnam should resume; however, this would be subject to annual renewal under the Jackson-Vanik Amendment.¹

Commercial relations with Vietnam should continue to move forward. The United States is ranked in the top 10 for foreign direct investment in the country. U.S. exports reached an all-time high of \$616 million in 1996, when many U.S. companies were anxious to do business with Vietnam. However, the financial crisis in the Asia-Pacific region, in conjunction with the slowdown in economic reforms, has greatly reduced U.S. exports to Vietnam recently. If the trade agreement is finalized, it is projected that U.S. export growth will resume.

¹The Jackson-Vanik Amendment requires that certain economic benefits be denied countries that (1) deny their citizens the right to emigrate; (2) impose more than a nominal tax on emigration, visas, or other documents required for emigration; or (3) impose more than a nominal tax or other charge on any citizen as a consequence of the desire to emigrate. However, the President can waive the above requirement.



US&FCS Vietnam

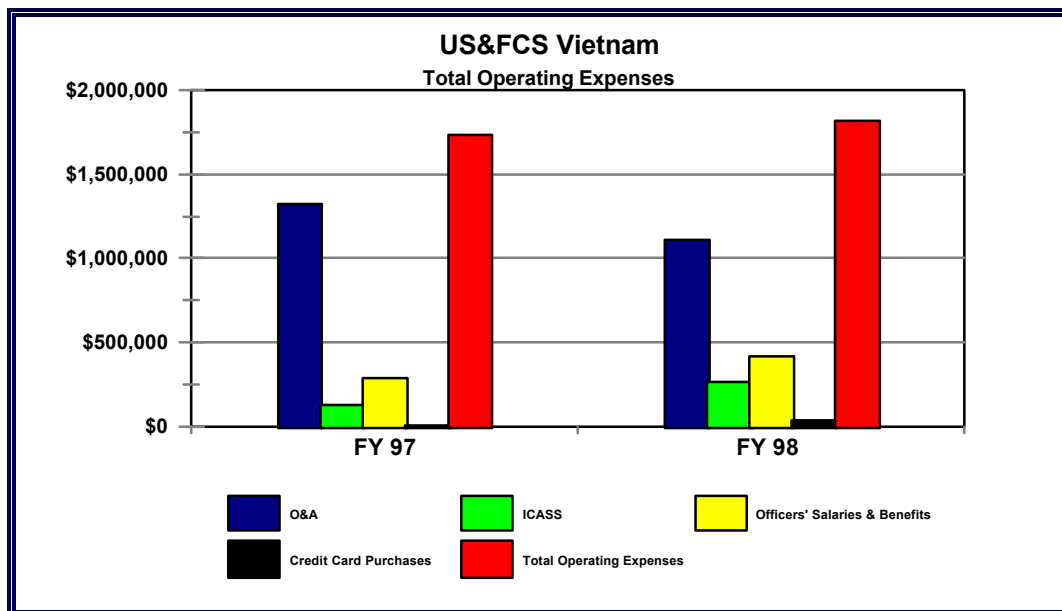
In late 1995, US&FCS first established a presence in the capital of Hanoi by sending an experienced senior commercial officer to Vietnam to launch a commercial program. In 1997, the Hanoi office was officially opened, and the following year, an office was opened in Ho Chi Minh City. Both operations provide a variety of products and services to U.S. companies in Vietnam as well as to companies seeking to enter the market. Services provided include export counseling sessions which educate companies on market conditions, advocacy support to assist companies bidding on major projects, and assistance to trade missions, including setting up key appointments with officials from the Vietnamese government and business community. US&FCS Vietnam also provides its core products, including the Agent/Distributor Service, a customized search for qualified agents and distributors; the Gold Key Service, a custom-tailored service that combines orientation briefings, market research, and appointments with potential partners; and the International Buyer Program, a service that recruits foreign buyers and distributors to attend trade shows in the United States to introduce them to exhibiting firms.

In 1999, US&FCS Vietnam established the United States-Asia Environmental Project (US-AEP) program in Hanoi, which is a joint program managed by US&FCS and the U.S. Agency for International Development. The program was first established in 1992 to assist in addressing environmental degradation and sustainable development issues in a number of nations in Asia and the Pacific by mobilizing U.S. environmental experience, technology, and services. US-AEP is an initiative of the Environmental Trade Working Group of the Trade Promotion Coordinating Committee, a group of 20 federal agencies having export promotion programs and chaired by the Secretary of Commerce.

US&FCS Vietnam also entered into a partnership with the State of Florida in FY 1999, which aims to establish a presence for the state in Vietnam and promote trade between Florida and Vietnam. Under the memorandum of understanding, each signatory is to perform activities to

support the project. For example, US&FCS Vietnam is to assist the state in working with the Vietnamese authorities to register the state, provide office space, and provide a personal services contractor (PSC) to represent the state. In return, the state is to assist with the recruitment of trade events in Vietnam, promote US&FCS to its clients, and pay an agreed amount per annum.

At the time of our inspection, US&FCS Vietnam's resources included a staff of 4 foreign commercial officers, 14 foreign service nationals (FSNs), and 2 PSCs. In FY 1999, post was authorized \$1.67 million for its operating and administrative (O&A) budget.² Total operating expenses were \$1.73 million in FY 1997 and reached \$1.82 million in FY 1998. Total operating expenses include O&A expenses, expenses for the salaries and benefits of American officers, expenses for overseas administrative support services through the International Cooperative Administrative Support Services System (ICASS), and credit card purchases.



² FY 1999 total operating expenses were not available during our fieldwork.

OBSERVATIONS AND CONCLUSIONS

I. US&FCS Vietnam Is Taking Appropriate Steps to Build Its Commercial Program

Since US&FCS first assigned an officer to Hanoi in 1995, it has carried out much of the activity that is necessary to establish an effective commercial service presence in a new market. During its first four years in Vietnam, US&FCS has focused its resources on (1) establishing contacts with local government officials; (2) assisting other complementary U.S. government programs seeking to establish a presence in Vietnam, such as the Overseas Private Investment Corporation (OPIC) and the U.S. Trade and Development Agency (TDA); and (3) developing the core US&FCS commercial program. Yet many challenges still remain as US&FCS seeks to increase its effectiveness in Vietnam.

A. *US&FCS Vietnam has accomplished much in its first years of operation*

US&FCS Vietnam developed effective relationships with host government agencies

In September 1995, prior to the arrival of the new ambassador, US&FCS assigned a relatively high-level commercial officer to Vietnam to establish a commercial program there. The officer's experience in the foreign service and his familiarity with Vietnam through prior military service, contributed greatly to his ability to set up the program in a difficult environment. For instance, the embassy was not fully up and running, and relationships between the two countries were in the early stage of development. In 1997, US&FCS sent two additional officers to assist the SCO in setting up the operations—a former regional director from headquarters with prior experience in Vietnam while working for the State Department, and a more junior officer with experience at headquarters, in a domestic field office, and on Capitol Hill.

Together, these three officers accomplished much in the early years. In addition to opening the offices in Hanoi and Ho Chi Minh City and hiring staff, they were able to develop effective working relationships with government officials from the Vietnamese Ministries, government officials with other U.S. programs, and representatives from various industries and trade organizations. These organizations included the Ministries of Trade, Industry, and Planning and Investment, public utilities and state-owned enterprises, and other Vietnamese organizations, such as the Chamber of Commerce and Industry in Vietnam (VCCI), and the National Union of Small and Medium-sized Enterprises. According to our interviews, some of these relationships were important in the early development of trust between the two governments and in helping lay the groundwork for other U.S. government agencies to develop their own relationships with the Vietnamese.

According to a senior VCCI representative and others we interviewed, US&FCS officials have always recognized the importance of educating Vietnamese government officials about American business practices and markets rather than simply advertising or marketing U.S. businesses. This was contrasted with the practices of US&FCS's counterparts in many other

foreign governments represented in Vietnam, and reportedly has contributed to the credibility of US&FCS officers in the eyes of Vietnamese officials.

US&FCS Vietnam focused early on the establishment of other complementary programs to support U.S. exports

One of US&FCS's earliest activities in Vietnam was the encouragement and support of other key U.S. trade organizations in opening their own operations or establishing a presence in Vietnam. In 1996, the SCO approached the TDA about developing a presence in Vietnam. The first TDA project with Vietnam, which began in October 1996, provided assistance to six Vietnamese officials from the Ministry of Fisheries to visit U.S. shipbuilding and fish processing companies interested in entering the Vietnamese market. US&FCS helped usher the Vietnamese applications for many of the 13 subsequent TDA projects through the TDA review process. They covered a variety of projects, including feasibility studies and visits to the U.S. by Vietnamese officials from various sectors. TDA officials reported a great deal of satisfaction with the support they have received from US&FCS Vietnam.

US&FCS officials also played a significant role with OPIC, a U.S. government agency that provides political risk insurance, among other services, for overseas investments by U.S. companies. US&FCS officials encouraged OPIC to negotiate and sign a bilateral agreement with Vietnam in March 1998. As of March 1999, political risk insurance registrations for nearly 30 projects had been approved by OPIC, representing potential U.S. investment of more than \$3.1 billion. Furthermore, according to officials at the Export Import Bank of the U.S. (Ex-Im Bank) and others, US&FCS staff in Vietnam have provided much support to Ex-Im Bank's attempts to get its own framework agreement signed with Vietnam. Ex-Im Bank officials reported confidence that they will get an agreement with Vietnam signed this year so that they can begin supporting U.S. trade there.

US&FCS's relationship with the American Chamber of Commerce in Vietnam (AmCham) also was excellent. In Hanoi, US&FCS representatives have been key partners in the establishment of AmCham. Until AmCham was formally registered and recognized as a business association in late 1998, US&FCS served as the primary liaison between its founding members and the Vietnamese government. For example, US&FCS officials as well as other embassy officials have attempted to coordinate U.S. industry positions on various issues affecting trade and present them to different ministries.

US&FCS Vietnam leveraged resources to build its program

In the first four years of operation, US&FCS has leveraged outside resources to build the program. For example, US&FCS has contracted out all market research reports, a core element of the commercial program, because of the demand for quality research on this new market and the limited writing skills of the FSN trade specialists and assistants. During interviews, the staff indicated to us that the first SCO in Vietnam wanted to produce ample reports on key Vietnamese sectors for U.S. businesses because there was not much research available on this market. According to US&FCS's Office of Export Promotion Services and our review of a

sample of those market research reports (*e.g.*, Industry Sector Analyses, or ISAs), the contracted reports have generally been of high quality. However, some representatives of U.S. businesses in Vietnam questioned the usefulness and quality of some of the market research. In addition, it was also brought to our attention that management should review the industries that are selected for reporting each year as some topics might not be a high priority or some industries might not change enough to warrant a new ISA each year.

In the last year, the FSN trade specialists and assistants have become more comfortable with their use of English and the general research needs of U.S. businesses, and began writing International Market Insights (IMIs), which are brief highlights of market conditions or opportunities in Vietnam. At the time of our inspection, the second SCO told us that he intended to require the staff to begin writing some ISAs next year. However, since the SCO retired from the foreign service in September 1999, we believe the new SCO will need to review this issue.

At times of peak activity, US&FCS has also hired temporary local employees to help arrange appointments for Gold Key clients and to provide logistical support during trade missions and other events. In Ho Chi Minh City, US&FCS hired the Foreign Trade Development Corporation (FTDC), a local government organization that promotes foreign trade, to recruit and register local Vietnamese businesses for the International Buyer Program and for a business education seminar that the post developed, the Business USA Seminar.

The Business USA Seminar is a multimedia training class for Vietnamese businessmen on how to obtain information on U.S. businesses over the Internet, and how to use the *Thomas Register*, copies of which are provided as part of the seminar. In addition to the benefits from the widespread media coverage of the seminars thus far, the seminars effectively enable many potential business partners of U.S. firms to identify and contact U.S. businesses directly without having to rely on US&FCS and its internal commercial library resources to carry out the basic research. The initial seminar, held in March 1999 with 200 participants, was so popular that the post conducted another one in May and a third in July and still had to turn away dozens of participants. The post reports that one of the effects of these seminars has been a reduction in the number of basic telephone inquiries it receives. In the next year, US&FCS Ho Chi Minh City intends to conduct seminars in Hanoi, Vung Tau (located in the south), and other cities to reach out to other areas but also to market its products and services.

US&FCS Vietnam is also leveraging resources outside Vietnam by taking the lead on coordinating regional Gold Keys among the US&FCS posts in the Association of Southeast Asian Nations (ASEAN) countries and Hong Kong. This initiative aims to develop and market regional Gold Keys, which will provide additional opportunities for U.S. businesses to explore more than one market in the region. Each ASEAN post is to send US&FCS Vietnam their respective scheduled Gold Key Service clients twice a month. US&FCS Vietnam prepares a list of these clients and then circulates the list to all ASEAN posts for each to determine whether it is appropriate to approach the client about extending its Gold Key Service visit to their country as well. The first such list was circulated in May 1999.

Finally, US&FCS Ho Chi Minh City is further leveraging its own staff by using them to team-teach the FSN correspondence course, which introduces the local staff to various US&FCS programs and operations. A commercial officer prepared presentations of the first two lessons of the course, but has assigned the teaching of the remaining lessons to the local staff to teach each other. In addition to helping them practice their public speaking in English, the exercise also provides the FSNs experience in preparing presentations with graphics software, reinforces teamwork, and ensures that the staff who are presenting the material obtain a deep understanding of it.

US&FCS Vietnam has implemented its core program

In the first four years of operation, US&FCS Vietnam has established a high level of name recognition in country as well as with trade organizations in Washington. In addition to establishing a presence with the business community and Vietnamese authorities, the post has launched its core products and services. This includes the free export counseling sessions and advocacy support available to U.S. companies as well as the user fee products, such as the Gold Key Service, Agent/Distributor Service, and International Buyer Program. The post has also been very busy assisting and setting up a variety of seminars, trade missions, and events. For instance, in 1997, post hosted four events with a new staff: a multi-state catalog exhibition, PetroVietnam 97, a seminar on official development assistance, and a standards delegation. In 1998, the post participated in six trade missions, two trade fair certifications, and a few conferences. In 1999, the post's level of activity in events and missions slowed somewhat but it was more attributable to the current market realities. However, the post did establish the Business USA seminar this year as discussed above.

Although the post has contracted out much of its market research reporting responsibilities to outside contractors, it has produced a good range of products considering the level of experience of the new staff. The table below summarizes the production statistics of the post by fiscal semester, according to data in the post's quarterly reports.

US&FCS Vietnam Outputs, by Type and Fiscal Semester

OUTPUT	FY 97 2nd half	FY 98 1st half	FY 98 2nd half	FY 99 1st half
Gold Key Services	12	7	17	15
Agent/Distributor Services	2	2	1	3
Industry Sector Analyses	11	11	20	17
International Market Insights	35	41	96	59

Source: US&FCS Vietnam Quarterly Reports.

In determining client satisfaction with the post's products and services, we interviewed clients in Vietnam and the United States who purchased or received such services. According to nearly everyone we spoke with about US&FCS Vietnam's export counseling sessions, the post was given high marks for providing an informative and realistic picture of the market conditions. For some of the user fee products, we sampled over one-third of the 14 clients who purchased an

Agent/Distributor Service and over one-fifth of the 44 clients who purchased the Gold Key Service from the post through May 1999. We asked clients about the quality and timeliness of the products and services they received. We succeeded in reaching and obtaining answers from eight of those businesses.

While the effectiveness of the US&FCS services could not generally be measured, primarily because most of the businesses contacted had yet to take action on their respective research results, the quality of and customer satisfaction with the Agent/Distributor Service and Gold Key Service generally received high ratings from the clients. Several of the clients reported having used services of US&FCS posts elsewhere in the world and compared those from the Vietnam posts favorably to those obtained elsewhere. However, a few clients mentioned the need for more communication with the post about their products and/or industry before traveling to Vietnam so that the trade specialists and assistants have a better understanding of the company's needs.

We met with all of the staff individually and found that their morale was generally good. Staff reported working well on teams, and we observed effective communication between the staff in Hanoi and Ho Chi Minh City. For example, during regularly scheduled weekly conference calls between the two offices, we noted that local staff appeared uninhibited about reminding staff, including officers, at the other post about pending deadlines and other work that needed to be passed between the posts. During individual interviews, staff were able to discuss the work of the other post, at times mentioning each other with familiarity even though most staff between the offices had only met once. The post maintains frequent e-mail contact with US&FCS headquarters, and a detailed biweekly report by US&FCS Vietnam describing all events, contacts, and other significant activity by each staff member effectively helps keep staff, Washington-based officials at Commerce and State, and officials in the rest of the embassy informed of what the post is working on.

Factors affecting development of US&FCS Vietnam program

US&FCS has developed a solid core program in Vietnam, and several factors contributing to that success should be highlighted. During its first four years, the post has received an average of \$1.3 million per year in funding for its O&A functions, in addition to the over \$100,000 on the initial Hanoi office build out and about \$32,000 on the subsequent renovation of the Hanoi office, and about \$131,000 to build out the Ho Chi Minh City office. This level of funding ranks Vietnam among the highest cost per officer of countries with US&FCS programs of this size. These funds allowed the post to operate in a market that, at times, has had extremely high costs of doing business. But the funds also enabled the post to contract out almost all of its market research since it first opened.

The skills and prior experience of the officers assigned to the post have generally been appropriate for building up a new office. On the one hand, the initial SCO was recognized for his strengths on policy issues, which were key to opening doors for other U.S. trade agencies to establish a formal presence in Vietnam. On the other hand, the second ranking commercial officer had extensive experience with the internal administration of various overseas posts and at headquarters as a US&FCS regional director. He helped the post develop sound

administrative systems, which are discussed later in this report, and build out the US&FCS offices in Hanoi and Ho Chi Minh City. Along with a more junior officer, who was often praised for his business knowledge and ability to get things done, these officers provided a good blend of skills required to develop a new program.

After the initial SCO left the post in 1998, he was replaced by a senior officer with extensive experience managing constituent posts. The second SCO began focusing on developing the core US&FCS program by implementing staff training, increasing office-wide lateral communication, and clarifying individual responsibilities. His ability to strengthen the US&FCS program from within was lauded by some of his staff, as well as by officials elsewhere in the embassy. US&FCS should keep in mind the specific skills appropriate for building up a new program wherever it might open new offices in the future, and ensure that the officers it is assigning to such a new program have those skills.

B. Management needs to ensure progress on other issues to enhance US&FCS's effectiveness in Vietnam

As noted above, US&FCS Vietnam has accomplished much in the few years it has been in existence. While our inspection cites many achievements, we also highlight areas where we believe management will need to direct its attention in the future as the operation matures. Management will also need to follow through on many initiatives US&FCS has begun in order to further develop the commercial program in Vietnam.

We believe that US&FCS Ho Chi Minh City will need to do more outreach among the local U.S. business community. The market in the south is very commercially oriented, and US&FCS can play an important role in assisting U.S. companies penetrate this market. However, some local businesses are still not fully aware of the post's products and services and what US&FCS can do for them. Some of those we interviewed in the American business community had arrived before US&FCS Ho Chi Minh City was established, and were unaware of what US&FCS could offer them, in part because they had not had to rely on US&FCS thus far.

US&FCS Ho Chi Minh City should also continue building a closer relationship with the AmCham and other partner organizations. For example, when recruiting candidates through local commercial promotion agencies for the International Buyer Program in the past year, US&FCS Ho Chi Minh City submitted the names of a large number individuals who were denied visas by the U.S. Consulate. According to our interviews with officials from US&FCS, the embassy, and the consulate, confusion among local partners and applicants about the nature of the program and the procedures for obtaining the appropriate visa led to the submission of inaccurate information on some of the visa applications. All Ho Chi Minh City visa applications for the International Buyer Program were then rejected. Mutually acceptable roles for US&FCS Ho Chi Minh City and its partners, in recruiting or screening International Buyer Program applicants, need to be developed with the Ho Chi Minh City Consulate before this program can become an effective tool in matching U.S. companies with Vietnamese buyers.

The new SCO and the PCO in Ho Chi Minh City will need to concentrate on encouraging FSNs to develop key contacts. One possible suggestion is for FSNs to use more of the representation funds to develop these contacts. For example, FSNs could invite their counterparts from the various ministries to lunch to further promote U.S. commercial interests. We noted that a majority of the representation funds are being used by the officers on gatherings primarily with American businesses and AmCham.

In the long term, both US&FCS Hanoi and Ho Chi Minh City will need to focus some attention on promoting and supporting U.S. commercial activity in regions outside the metropolitan areas of these two cities. Many individuals we interviewed cited the potential for U.S. businesses in other regions within Vietnam (*e.g.*, DaNang, Mekong Delta, and Hue). At the time of our inspection, the SCO and PCO recognized that their products and services may be needed in other provinces and planned to visit these areas in the future. The new SCO will need to be made aware of the need to do more outreach. As noted previously, US&FCS Ho Chi Minh City and Hanoi plan to take the Business USA Seminar on the road to other regions, and we think this could be an effective vehicle for visiting other areas, developing new contacts there, and documenting the market potential in those areas. Programs other than the Business USA Seminar may be needed to expand services beyond Hanoi and Ho Chi Minh City.

US&FCS agreed with our first recommendation to increase the visibility of its operations in Ho Chi Minh City through more outreach and marketing, and has taken steps to address this. Both officers in Ho Chi Minh City have become more involved with AmCham and have held meetings with its Executive Director to discuss increased cooperation. In addition, the new SCO intends to visit Ho Chi Minh City every six to eight weeks and plans on meeting with AmCham and its members each time.

In response to our second recommendation, US&FCS agreed to work with the Vietnamese government and Consulate officials in Ho Chi Minh City to develop mutually acceptable terms for pre-screening International Buyer Program clients and has taken steps to address our concerns. US&FCS Ho Chi Minh City has included a consular module in its Business USA outreach program to better inform Vietnamese businesses on the proper procedures for obtaining visas to the United States. The Chief of the Consular Section intends to participate in the Business USA outreach program. Lastly, the commercial officers agreed to work more closely with the Consular Section and thought that the Consulate's new visa referral system may be helpful in that the PCO or SCO will be able to request that certain applicants receive special consideration.

US&FCS also agreed with our third recommendation to develop a long-term plan to target regions outside of Hanoi and Ho Chi Minh City and intends on using the Business USA program to further American commercial interests throughout Vietnam. The response stated that commercial officers had made visits to other cities since May 1999. In the action plan, US&FCS should elaborate on which office (Hanoi or Ho Chi Minh City) will be responsible for covering the most promising markets elsewhere in Vietnam and when each office intends to visit these markets.

Internal operations will need greater management attention

Our inspection also noted that both US&FCS Hanoi and Ho Chi Minh City may need to refine their internal operations in order to get the most out of both financial and human resources. Of high priority, we believe management should continue to transfer a majority of the market research responsibilities (*e.g.*, writing IMIs and ISAs) to the FSN and PCS staff. As noted above, the first SCO decided to contract out all market research responsibilities in the early years of operation because of the need to produce ample reports on the Vietnamese market and the FSNs' limited English writing skills. However, we believe it may not be justifiable to continue allocating such a large amount of the funds from the authorization for direct program support to market research contracts. US&FCS has done much to further its initial goal of promoting Vietnam's market potential. Hanoi and Ho Chi Minh City are fully staffed now, and program priorities are shifting. We note that the post obligated \$155,037 for market research contracts in FY 1998, representing 31 percent of direct program support expenditures.

At the time of our visit, the second SCO recognized the need to transfer market research responsibilities and had required the local staff to begin writing IMIs in fiscal year 1999. He intended to increase writing responsibilities in the next fiscal year by also requiring local staff to write ISAs. We support the SCO's decision to shift some of the writing responsibilities because we believe this is an effective vehicle for the local staff to thoroughly learn their industries and develop key contacts. We encourage the new SCO to review this issue and make adjustments as necessary. However, we note that the shift in writing responsibilities should be approached realistically in consideration of the developing research and language capabilities of the local staff. In the near future, it may be necessary to reduce the number of reports that the post commits to produce, focus on topics relevant to best prospect industries, and shorten the ISAs. US&FCS is currently conducting a test pilot project in select countries on shortening or changing the format of ISAs. We encourage US&FCS Vietnam to participate, if appropriate.

Management will also need to pay attention to the workloads assigned to the FSNs. Adequate industry coverage by the commercial assistants/specialists could be a potential problem in both cities if business increases. At the time of our inspection, industry coverage was assigned to only two FSNs and one PSC in Hanoi out of a total of 10 filled positions. In Ho Chi Minh City, industry coverage was assigned to three FSNs out of a total of six filled positions. Other FSNs were assigned to cover user fee programs including the Gold Key Service, Agent/Distributor Service, and International Buyer Program. We believe it will be important for management to ensure that the key industries in Vietnam are covered so that staff will be able to conduct meaningful export counseling sessions, stay abreast of the latest developments within the various industries, and advocate on behalf of U.S. companies. Responsibilities may need to be shifted among the FSNs, and job descriptions adjusted to reflect actual duties.

Both Hanoi and Ho Chi Minh City need to make a serious attempt to continue building the client management system (CMS) for Vietnam. CMS is a new database designed by US&FCS to capture and manage client information in a standardized way worldwide. Although some staff in both cities have been trying to input data on clients, post management has not stressed the importance of building this database or set target deadlines for data entry or for reducing

data input backlogs. In Hanoi, staff simply have not made CMS a priority in their work. In Ho Chi Minh City, where the office owns a business card scanner with software database features, some staff see little benefit in keying the already-scanned data into CMS. Others, notably the receptionist, try to remain productive during slower periods by inputting backlogs of contact information. If data entry of contact or client information is a priority, US&FCS officials need to send a clear signal to staff to input such data, and should provide a data transfer or conversion path to CMS databases from the business card database currently in use by US&FCS Ho Chi Minh City.

US&FCS agreed with our fourth, fifth, and sixth recommendations in this section and has already taken steps to address our concerns. The SCO will begin training the staff on writing ISAs in FY 2000 and require all market research reports (IMIs and ISAs) to be written in-house in FY 2001. The new SCO has also shifted some responsibilities among the staff and has assigned at least one industry sector to each commercial specialist, assistant, and clerk. Each of these staff members will also be assigned responsibility for Gold Keys, Agent Distributor Services, Trade Opportunity Programs, and business counseling in their respective industry portfolios.

US&FCS Vietnam has also made data entry into the new client management system a priority now that four staff members have been trained on the new system. The post reports that over 2,500 entries have been entered into the system.

II. Greater Cooperation Is Needed in Partnering Efforts

A. *US&FCS Vietnam has effectively leveraged local trade organizations*

US&FCS has developed good working relationships with Vietnamese partner organizations in both Hanoi and Ho Chi Minh City, and has leveraged these organizations to help it implement its program. In Hanoi, US&FCS has partnered with the Chamber of Commerce and Industry of Vietnam, the only national independent, non-governmental association of Vietnamese business enterprises. VCCI has its own budget and promotes trade, investment, and business activity in Vietnam while representing the Vietnamese business community and serving as a forum for exchange of information and ideas between business enterprises and the Vietnamese government. US&FCS has relied on VCCI to help schedule meetings between representatives of U.S. businesses and representatives of various Vietnamese businesses and government agencies.

In Ho Chi Minh City, US&FCS has partnered primarily with the Foreign Trade Development Center, an organization of the People's Committee of Ho Chi Minh City, which serves as the de facto ruling authority in the region. FTDC, an extension of the official ruling party, serves as the official trade promotion arm of the Ho Chi Minh City government.

US&FCS has relied on FTDC to assist in arranging appointments for both U.S. government and business representatives. FTDC has also recruited Vietnamese business representatives to participate in the International Buyer Program and the post's local Business USA Seminar series. In developing its relationship with FTDC, US&FCS has overcome differences in the cultural attitudes and commercial objectives between the staffs of US&FCS and the Vietnamese organization. For example, when US&FCS approached FTDC with the Business USA Seminar idea in 1998 and wanted to distribute copies of the *Thomas Register* to all seminar participants, FTDC officials initially felt that it would be better if Vietnamese businesses would approach FTDC individually to obtain the information available in the registry. FTDC argued that this would avoid situations of Vietnamese companies being potentially overwhelmed with the amount of data within the registry. US&FCS officials succeeded in persuading FTDC that the objective of disseminating information about U.S. businesses outweighed the risk that some Vietnamese businessmen might feel overwhelmed, and that such businessmen could be trusted to request assistance from FTDC or US&FCS when they felt it was needed.

B. *Implementation of the US&FCS-State of Florida joint partnership needs improvement*

US&FCS entered into a memorandum of understanding (MOU) in 1998 with representatives of the State of Florida to form a trade promotion partnership for the purpose of establishing a state presence in Vietnam and to support export trade between Florida and Vietnam. While a contractor was hired by US&FCS in January 1999 to support that partnership and the memorandum of understanding was renewed this past July, US&FCS's implementation of that partnership needs improvement.

The partnership is intended to promote Florida exports while also taking the steps necessary to establish a representative office, independent of US&FCS, for the state within two years. According to US&FCS and State officials, the contractor is supposed to spend about 25 percent of his effort on tasks directed by US&FCS, justifying in part US&FCS's contribution of 25 percent of the total joint project cost. Based on the MOU signed in 1998, US&FCS contributed approximately \$16,139 of the total cost of \$64,557 for the partnership.³

At the time of our May on-site inspection, the contractor had spent very little time on US&FCS-directed activities. In the previous months, he had spent most of his time preparing for a major cultural exchange event between Florida State University and Vietnam. The cultural event, a choir tour, was atypical of what the contractor would normally be working on for the state, but is not inconsistent with the joint project's agreement. The immense amount of time the contractor spent on the event, to the exclusion of work for US&FCS, illustrates that US&FCS may not yet be getting a return on its investment in the partnership. Two officials involved in drafting the original MOU pointed out that US&FCS would also benefit from the partnership to the extent that it provided a boilerplate or a documented process of how other states or U.S. government jurisdictions could register their own independent trade promotion offices within Vietnam. While this remains an objective of the partnership, to date no milestones or action plans with respect to that objective have been developed.

Separately, we found that while officials from headquarters and the state had an understanding of the objectives of the MOU, these objectives had not been communicated to the SCO, Commercial Attaché, or contractor in Hanoi. As a result, management at the post did not have a clear understanding of the role of the Florida representative or of the working relationships between US&FCS's program and that of the joint project. While the State of Florida had developed a specific work plan for its representative, US&FCS did not have a specific work plan for the representative other than his contract, which spelled out core responsibilities. There also appeared to be some confusion within the embassy as to the role of the contractor. Some officials were unsure whether the contractor was officially a representative of US&FCS, and thus also of the embassy mission, or of the State of Florida. Lastly, the contractor did not receive the same level of support and integration into the rest of the US&FCS office that other PSCs did, raising questions about how effective the contractor could be for US&FCS in the event he was tasked with US&FCS-specific trade promotion activity. For example, the contractor had not been provided access to US&FCS's computer network-based information databases (Lotus Notes, CMS, etc.) or provided secretarial support (for US&FCS-specific activity).



US&FCS Hanoi reception area in front of US-AEP (l) and Florida (r) office doors.

³The memorandum of understanding was renewed in FY 1999 after we completed our fieldwork.

To US&FCS's and the contractor's credit, representatives of U.S. businesses we spoke with in Vietnam viewed the contractor as a member of the US&FCS team and observed no distinction between the partnership's and US&FCS's mission. The personal relationships between the contractor, the commercial officers, and the rest of the office staff appeared good. While US&FCS is receiving partial reimbursement for office space that it previously had not been able to fully use, it needs to take steps to ensure that it is getting full value out the joint project. While the objectives of the MOU are spelled out, the new SCO needs to develop a specific work plan for US&FCS's joint efforts with Florida, including specific goals and objectives for at least the 25 percent of the project costs that US&FCS is paying. US&FCS needs to ensure that the individuals overseeing the management of the joint project incorporate activities that aim to increase trade to Vietnam.

US&FCS agreed with our recommendation, but the arrangement with the State of Florida has ended since the issuance of our draft report. US&FCS did, however, state that it will follow our recommendation for any future arrangements it enters into.

C. Other partnering efforts would benefit from better communication

US-AEP. US-AEP opened its office with US&FCS in early 1999, and is beginning to hire additional staff. According to initial staffing reports, US-AEP planned to hire FSNs at grade levels above any of those already on board for US&FCS. Whatever the US&FCS and US-AEP justification for hiring more experienced FSNs than US&FCS has, there was a potential for misunderstanding among current staff if the hiring decisions and resulting workload assignments to US-AEP staff are not rational and well explained. In addition, since the US-AEP director reports directly to a commercial officer of much lower pay, US&FCS must ensure that the communication and chain of authority over program direction remain clear and responsive to US&FCS priorities. Since our initial discussion of these issues with the post, US&FCS and the Director for US-AEP Vietnam have agreed to hire US-AEP staff at grade levels commensurate with those of current US&FCS FSNs.

Interns. During our inspection, it was brought to our attention that several summer interns conducting market entry-related research for various Florida businesses had been barred from the US&FCS Ho Chi Minh City facilities for lack of security clearances. Long-term visitors, like the interns, to US&FCS facilities require security assurance checks requested through US&FCS's Office of Foreign Service Personnel (OFSP), although the regional security officer with the State Department has the authority to also grant access to the facilities. An OFSP representative informed us that it normally requires two weeks to process a security clearance. However, US&FCS Ho Chi Minh City did not get the paperwork for the interns' visit submitted to OFSP before the interns arrived for their six-week visit.

US&FCS records indicate that the post initially thought the security office at the Consulate was responsible for providing the security clearances. US&FCS assigned the interns to work in the

“partner” offices, outside the security hard wall and in an area accessible to any other visitor passing through the metal detector check point. When the regional security officer discovered that the interns were working on the site, without clearances, she ordered the interns barred from the premises. At the time of our inspection, the interns were working out of their hotel rooms and, according to the post, did not receive their necessary cable clearances from OFSP until just a couple of days before their internships were over. The post also recently reported that although it had submitted requests for clearances to OFSP several weeks ago for additional interns, it was still awaiting clearance cables on the eve of the other interns’ arrival. OFSP needs to clarify and communicate procedures for posts to obtain the requisite clearances for interns, and determine and address why the process has recently taken longer than 14 days.



US&FCS agreed with our recommendation that headquarters clarify and communicate procedures for posts to obtain security clearances for interns, and address why the process has taken longer than 14 days. US&FCS stated that all financial and administrative management training sessions have included material on the recruitment and placement of interns. Information on placement of interns abroad is also available on Lotus Notes in the US&FCS operations manual. In the case of Vietnam, US&FCS explained that the post did not follow proper procedures. In the future, OFSP will send periodic reminders on the policy and procedures governing the program.

III. Weak Internal Control Systems Raise Concerns over the Use of Funds and Government Property

Internal control systems are organizational structures, operating procedures, and administrative practices adopted by all levels of management to provide reasonable assurance that programs and administrative activities are effectively carried out. The Federal Managers' Financial Integrity Act of 1982 requires managers to establish internal control systems to ensure that (1) obligations and costs are in compliance with applicable law; (2) funds, property, and other assets are safeguarded against fraud, waste, and abuse; and (3) revenues and expenditures applicable to agency operations are recorded and accounted for.

The key standards of internal control systems developed by the General Accounting Office include documentation, recording of transactions and events, authorization of transactions, separation of duties, supervision, and accountability for resources. Our inspection at Hanoi and Ho Chi Minh City reviewed internal controls over O&A and deposit funds including transactions associated with these funds, such as time and attendance records, travel vouchers, and user fee collections; expenses paid for administrative support services; and government assets including use and accountability of property, such as cellular phones and vehicles. While we found that some standards were being met at each post, we noted weaknesses that warrant immediate attention.

A. O&A funds are not adequately safeguarded against fraud, waste, and abuse

Each fiscal year, US&FCS Vietnam is allocated O&A funds based on the previous year's expenses and the coming year's projected needs. All overseas posts are authorized funds for the following categories: education allowance, administrative travel, residential and office short-term leases, FSN and PSC salaries, furniture and equipment, representation, and direct program support. In FY 1999, headquarters authorized US&FCS Vietnam \$1.67 million for its O&A expenses.

We reviewed whether controls were in place to ensure that obligations were in compliance with law and funds were protected against waste. Our inspection found that US&FCS Vietnam has developed excellent detailed financial systems to track O&A funds. However, the lack of controls over how these funds are spent has left the post vulnerable to potential fraud, waste, and abuse.

Excessive long distance phone calls are questionable

Telecommunication rates in Vietnam are expensive. For example, charges for overseas phone calls to the United States average approximately \$3.80 per minute. In FY 1998, post spent approximately \$119,542 for telephone tolls. We noted that excessive long distance telephone calls were being made and questioned whether numerous calls were for official use and in the best interest of the U.S. government.

For example, we calculated that Hanoi and Ho Chi Minh City spent a combined total of over \$16,000 to call a CompuServe Internet access number in the United States after Internet

accounts had been established with local Vietnamese providers. This practice continued up until the time of our inspection. We also calculated that Ho Chi Minh City spent over \$6,300 to dial a CompuServe/AOL Internet access number during the period August-December 1998, after local Internet accounts had been established.

While US&FCS states that the post needed the Internet accounts to communicate outside of Vietnam when the office was first opened, we question why the accounts in the United States were not discontinued after local Internet accounts were established and US&FCS's international telecommunications network was installed and operating in Vietnam. We also question why the high costs of the repeated calls were not flagged on phone bills by the certifying officers in Hanoi and Ho Chi Minh City or on the post's fiscal plans by the Deputy and Regional Directors for East/Asia Pacific in the Office of International Operations at headquarters. It appears that the officials in Washington never verified the validity of the high annual telephone expense during various visits to the post, but rather accepted the post's annual projections for budget purposes.

In addition to repeated long distance calls to Internet access numbers in the United States, we noted questionable calls to "1-800" numbers (such calls still incur long distance tolls in Vietnam), calls to U.S. residences, overseas calls that were made at odd hours considering the time difference, and calls to countries that do not appear to be engaged in regional activities with the post, including Czechoslovakia, India, Italy, the Netherlands, and Sweden. It appears that the bills for most of these calls were approved and certified without being scrutinized or questioned. Controls or verification processes appear to have not been followed since the post was first established.

Upon our return from Vietnam, we tested some of the questionable phone numbers. We discussed the telephone expenses with senior US&FCS management and sent a memo to the Deputy Assistant Secretary for the Office of International Operations, dated July 15, 1999, requesting certifications from all employees in Vietnam and officers who previously served there within three weeks. For those employees who did make personal phone calls, we requested arrangements be made to repay the government within two weeks from the date of the certification, and that receipts documenting payment be provided to our office. Employees reimbursed the U.S. Government approximately \$10,400 in personal phone calls based on their certifications. However, we still remain concerned with two of the certifications and unclaimed calls to countries with which US&FCS Vietnam does not appear to be programmatically engaged. We will continue to work with US&FCS management to resolve these issues.

In addition to the lack of controls, we noted that the first SCO rarely certified the telephone bills over the course of his assignment. Instead, he delegated the responsibility to the Commercial Attaché in Hanoi and the PCO in Ho Chi Minh City. When the second SCO arrived in August 1998, he began certifying payments for the telephone bills in Hanoi; however, the PCO continued certifying Ho Chi Minh City's bills. Shortly thereafter, the SCO recognized the high charges US&FCS Vietnam was incurring for phone bills and began requiring his approval before long distance calls were allowed. As a result of this action, monthly charges for overseas calls decreased from \$7,573 in January 1999 to \$1,724 one month later. However, Ho Chi Minh City's charges began to increase again in March and April. As a result of internal controls not

being in place for a significant amount of time, we believe that funds were not used effectively and were wasted. We believe that the new SCO needs to implement internal controls over the use of the telephones, scrutinize monthly phone bills, and require employees to certify and pay for all personal phone calls on a regular basis. It is also important that US&FCS officials in Washington regularly monitor expenses and budget projections to flag those cases where abuse or misuse may be a problem.

US&FCS agreed with our recommendation that the post implement controls over the use of the telephones, scrutinize monthly phone bills, and require employees to certify and pay for personal phone calls. The post claims that its phone bills have been high due to the lack of Internet availability and the local phone company's monopoly. The new SCO has instituted measures to monitor long distance phone and fax calls. We are pleased that the new SCO has taken steps to implement controls including requiring permission from a supervisor, be it a Deputy SCO, PCO, or commercial officer. However, we point out that while requiring permission from a supervisor is an important step, the new SCO needs to be aware that in the past, a majority of the long distance phone calls were claimed by commercial officers. The SCO needs to monitor use by the commercial officers as he is ultimately responsible for the funds.

O&A funds could be used more effectively

We reviewed other expenses to ensure O&A funds were being used effectively to enhance the program. In doing so, we found instances where we believe management could make better use of post funds, considering the current US&FCS budget situation. For instance, we noted that both Hanoi and Ho Chi Minh City are spending O&A funds on weekly fresh flower arrangements, totaling approximately \$2,000 annually. US&FCS Hanoi is also spending O&A funds to employ a second driver on a contract basis. Based on interviews conducted at the post, it appears that the need for a second contract driver is questionable since most of the FSNs prefer to drive their own motorbikes around town when conducting official business. The log maintained by US&FCS Hanoi's full-time driver shows that on average he makes only three to four trips a day, primarily for the SCO and Commercial Attaché.

US&FCS Hanoi is also paying monthly charges for a CompuServe account in the United States that it no longer needs or uses. Post officials explained that they had not had time to contact the vendor to disconnect the account. US&FCS Ho Chi Minh City spent funds on individual Internet accounts for a majority of the staff over a period of approximately eight months when the post first opened. Eventually, post officials realized that only five or six accounts were needed and were in the process of having some accounts terminated at the time of our inspection. However, we noted that the post continued to pay for an Internet account for an officer on a temporary duty assignment three months after he left. Lastly, we found that Ho Chi Minh City is paying for a dedicated telecommunications line that connects the US&FCS facility with the consulate; however, the line is not being used because the consulate has not turned on the connector. A consulate official stated that after construction is completed on the new facility, the consulate will address this issue. We believe that the new SCO needs to closely

monitor how O&A funds are allocated. Furthermore, given that the amounts in each year's detailed O&A budget are based primarily on prior-year levels, current allocations for US&FCS Vietnam, particularly for telecommunications, may be significantly overestimated.

US&FCS agreed with our recommendation that the Regional Director for East Asia and Pacific and the SCO need to manage operating and administrative funds more closely and be held accountable for managing such funds. US&FCS acknowledges that the post's budget has been high in the past due to the opening of offices in Hanoi and Ho Chi Minh City and high telecommunications expenses. Headquarters recognizes that the posts' actions to establish additional communication links, including personal Internet accounts in the United States that we cited, was wasteful and that the post should have cut back on duplicate arrangements. US&FCS has adjusted the FY 2000 O&A budget for post and will move toward a zero-based budgeting approach in the next fiscal year. In the action plan, US&FCS should include a copy of US&FCS Vietnam's O&A budget for this fiscal year.

Processes surrounding some transactions may need to be changed

In reviewing transactions and the manner in which they are processed, we noted concerns that need to be addressed. Specifically, we found possible misuse of the imprest fund in Hanoi and balances not reconciling in Ho Chi Minh City. In Hanoi, the post has been paying the salary of a temporary Gold Key assistant out of the imprest fund. Because this temporary employee worked for US&FCS for an extended period of time, and the arrangement was more of an employer-employee relationship, we believe she should have been on a PSC contract and paid accordingly. US&FCS should only pay for services out of the imprest fund if the threshold is under \$500 and the agreement for the service does not constitute an employer-employee relationship requiring constant supervision. We note that the *Federal Acquisition Regulations* and *Treasury Financial Manual* prohibit the use of an imprest fund for paying PSCs. In the future, US&FCS Vietnam needs to ensure that any contracts and arrangements for services are in accordance with regulations and departmental policies.

It was brought to our attention that a driver, hired under a contract with a third party for driver services, was regularly earning overtime pay for time clocked during lunch hours and occasional late Friday evenings and weekends. We reviewed the contract, which states that daily working hours are from 8:00 a.m. to 5:00 p.m. and a work week is 44 hours, from Monday to Saturday. We reviewed the driver's monthly time and attendance records from December 1998 to April 1999 and spot-checked the calculation of overtime pay for individual days and entire weeks. We did not find any instances where the driver would have been accruing overtime for having worked all day without taking breaks. In fact, even though the method the post used to tabulate hours to calculate overtime payments to the driver changed throughout the time period, the post consistently subtracted one hour from the hours worked each day when the driver had recorded working the entire core day of nine hours. However, we did note that rarely did a workday pass when the driver did not earn overtime pay, raising a question of whether the post has negotiated a contract for driver services commensurate with its work schedule.

We also noted that the driver has regularly been granted overtime, frequently for Friday evenings and weekends. However, due to the poor documentation maintained in the driver's log, we were unable to determine whether the overtime, regardless of how it was calculated, was for official business (see section below on government property for additional information). We suggest that the post follow the terms of the contract and only authorize overtime for official business hours worked beyond the specified workday and on weekends. In addition, we point out that, according to the *Foreign Affairs Manual*, O&A funds should not be used to pay overtime when staff use the driver for home transportation and decide to stop for dinner or to socialize. Furthermore, overtime shall not be paid out of O&A funds when officers use the vehicle for other authorized personal use on the weekends including transportation to the airport or for out of town journeys.

Lastly, we noted concerns with the time and attendance records. Specifically, we noted that the former SCO was signing his own leave slips even though OFSP has notified foreign service officers that they are not to sign their own leave slips. We also point out that on a few occasions one or two FSNs have been asked to perform duties or run errands that appear personal. SCOs should be reminded that they are not to sign their own leave slips, and officers should not request FSNs to perform duties and errands that are personal.

US&FCS agreed with recommendations 11 through 14 in this section and has taken action to address our concerns.

B. Multiple systems used to track overseas collections do not reconcile

US&FCS provides a variety of products and services for sale to the public. The revenue and expenses associated with the production and delivery of these user fee products and services are treated separately from O&A funds, which are appropriated by the Congress. This trust fund account is no-year money and cannot be commingled with any other funding authorization. In accordance with OMB Circular A-25, goods or services provided by an agency for sale to specific recipients should recover their costs; however, exceptions can be granted.

Although US&FCS, in conjunction with its parent agency, ITA, has never developed an accounting system that could be used to determine whether user fee products and services recover their costs, there are many other systems and processes in place to monitor this trust fund account. However, the lack of controls over these funds as exhibited by the multiple separate and irreconcilable systems used to track revenues and expenses of user fee products, as well as the many steps involved in processing user fee deposits, can lead to unresolvable errors and discrepancies in the data.

We attempted to reconcile revenue collected by US&FCS Vietnam for user fee products and services, based on the multiple systems in place. The table below summarizes the total revenues

collected by US&FCS Vietnam in FY 1997 and 1998, as reported by each tracking system. As has been noted in several prior OIG reports, these systems do not reconcile.

Total Collections for US&FCS Vietnam, by Fiscal Year and Tracking System				
	<i>US&FCS Vietnam</i>	<i>Embassy of Vietnam <u>a/</u></i>	<i>Office of Trade Event Management</i>	<i>ITA's Office of Accounting</i>
<i>FY 1997</i>	N/A <u>b/</u>	N/A <u>b/</u>	\$106,560	\$136,795
<i>FY 1998</i>	\$126,886	\$70,198	\$107,698	\$147,900

Notes:

- a/ The cashier at the embassy does not have access to receipts for the post's credit card collections, which were about \$86,000 and \$12,000 in FY 1997 and 1998, respectively.
- b/ Neither of these systems had been fully implemented and operational for the entire fiscal year.

Without a full and accurate accounting of data, neither US&FCS Vietnam nor ITA can determine whether the post recovers its costs through goods or services sold in Vietnam, as required by OMB Circular A-25. Nor can they verify whether all revenue collected was deposited in the appropriate account at the Department of the Treasury.

For example, when US&FCS Vietnam deposits cash and checks collected from the sale of its products and services with the embassy cashier, State's accounting system does not distinguish between deposits by agency. Instead, deposits from all agencies are recorded sequentially. As a result, the embassy cannot generate a monthly report itemizing only US&FCS's deposits, which would provide the post with a tool to cross-reference weekly deposits. Even if State was able to produce such a report, it still would not account for all revenue collected, because US&FCS Vietnam collects revenue from credit cards, which is not accounted for by the cashier.

When US&FCS Vietnam accepts credit cards as a form of payment for its products and services, it sends the credit card vouchers to the credit card company. The post never receives any confirmation acknowledging receipt, either from the credit card company directly or through ITA's Office of Accounting. Again, without a confirmation from the credit card company, the post cannot know if the revenue it collected was deposited in the appropriate trust fund account.

Although US&FCS Vietnam reports data to US&FCS's Office of Trade Event Management in headquarters, which tracks collections and obligations associated with user fee products and services, neither US&FCS nor ITA recognizes this system as an official accounting system. This system was designed and is administered primarily as a management tool, and does not provide internal controls or tracking to verify that funds are deposited in the proper accounts. In addition, ITA's Office of Accounting does not conduct reconciliations on overseas deposits, as we have found in previous OIG reports. The failure to attempt reconciliations on this trust fund account has been cited as a material weakness during financial audits on ITA. Based on prior OIG reporting and this inspection, we believe that this weakness needs to be addressed.

C. *More supervision over ICASS is needed to ensure expenses are accurate*

US&FCS Vietnam must pay a portion of the costs of administrative support services overseas through the International Cooperative Administrative Support Services system. At most posts, the services are provided by units of the State Department's Administrative Section, such as the personnel office, Budget and Fiscal Office, and General Services Office. The goal of ICASS is to obtain quality services at the lowest cost, encourage use of the best and most economical service provider, provide participating agencies with more of a voice in the administrative decision-making process, provide a transparent system of cost-sharing and reimbursement for services, and ensure user satisfaction. Our inspection reviewed US&FCS's internal controls over the management of and charges for ICASS services to ensure that expenditures were accounted for and funds were protected against waste.

It is not unreasonable to expect large increases in overhead costs, like those captured in ICASS, when an operation virtually doubles its staffing and office space as US&FCS Vietnam did between 1997 and 1999. But, according to our interviews and review of US&FCS Vietnam's ICASS charges, it appears that the 154 percent increase in ICASS expenses for the post in Vietnam during this period went largely, if not entirely, unscrutinized by US&FCS. There are other numerous examples of charges that could probably have been avoided or adjusted if a US&FCS official, knowing the right points in the ICASS process to raise objections or provide supporting documentation to justify workload counts, had actively participated in the ICASS process. For example, we noted that charges for financial management services increased from about \$14,000 to over \$36,000 between FY 1997 and 1999 based on an increase in the estimated number of vouchers processed quarterly from 189 in FY 1997 to 825 in FY 1999, without US&FCS questioning these assumptions. While it is an acceptable practice to estimate when determining the initial invoice for the fiscal year, adjustments should be made prior to the issuance of the final invoice.

In our review of ICASS worksheets and workload distributions, we noted that the post has been paying a portion of costs for personnel services based on vacant positions. In FY 1998, a majority of the positions in Ho Chi Minh City were not filled during the fiscal year, yet the post was billed as if services had been provided for these vacant positions. In FY 1999, the post was also charged expenses on vacant positions. US&FCS is supposed to notify the service provider of the dates positions are to be filled, and the service provider is supposed to make any needed mid-year adjustments. However, it appears this has not taken place in the first two years of implementing ICASS. US&FCS may have to inquire with the appropriate State officials on what basis the service provider in Vietnam can disallow mid-year adjustments based on vacant positions. We question why US&FCS paid for services based on vacant positions and why adjustments were not made at the mid-year to account for changes in dates that the positions would be filled.

In addition, we also discovered that in FY 1999, the post was charged a portion of costs for services associated with building operations in Hanoi based on expenses anticipated for the new collocated facility at the Rose Garden. We believe that the post should have questioned these

charges because US&FCS had not even considered or agreed to move to the new facility at the time the invoice was issued.

In reviewing the ICASS invoices, we also found that the post is paying for services it is not using. For example, US&FCS is paying for special telecommunication lines but not using them to make long distance calls. These lines permit the post to place a long distance call back to a central point in the United States (*e.g.*, Maryland) free of charge and then connect the call to its final destination at the appropriate rate, thereby greatly reducing overseas long distance tolls. Given the high long distance telephone bills that US&FCS Vietnam has incurred in the past, these lines should have been used for official business calls (see Section III A above). US&FCS Vietnam is also paying for inventory services that it is not using (see section below on government property for more information).

We also observed that the ICASS Council in Vietnam is not carefully scrutinizing the post's budget or getting actively involved with the service providers. The Council does not hold regular meetings, nor has it formed working groups. Furthermore, Council members have not done evaluations on the service providers to critique the quality of services received. The new SCO should make a concerted effort to strengthen the ICASS Council and coordinate with the ICASS Chairman to form working groups. Several ICASS representatives on the Council remarked that they did not have enough time or training, they did not understand how ICASS worked, or they saw little incentive or potential benefit to their program to put forth the effort to review ICASS bills and assumptions.

US&FCS should not be paying unnecessary ICASS charges simply because the staff responsible for ICASS oversight are too busy or untrained. Insufficient attention to ICASS charges has been raised as a concern in nearly every OIG inspection of US&FCS's overseas operations since ICASS was piloted in FY 1997 and fully implemented in FY 1998. US&FCS needs to hold posts accountable for avoiding unnecessary ICASS charges through their participation in the ICASS process, for example, by scrutinizing expenses and verifying workload cost assumptions. Officers who will be responsible for managing ICASS need to be given the appropriate training to do so. Moreover, US&FCS needs to consider offering incentives for officers to achieve savings through the ICASS process and provide guidance on how posts can achieve ICASS savings. For example, US&FCS needs to consider how ICASS savings might somehow be returned, at least in part, to the posts' program budget for the offices achieving the savings. US&FCS should also prepare and disseminate checklists of either common lessons learned or critical steps taken thus far by officers or others in US&FCS who have successfully reduced ICASS charges or kept them from growing.

US&FCS agreed with recommendations 15, 16, and 18 to (1) provide the Embassy's Budget and Fiscal Office with realistic dates that vacant positions are expected to be filled, as well as request that adjustments in ICASS charges at mid-year be made if warranted, (2) hold posts accountable for avoiding unnecessary ICASS charges through participation in the ICASS

process, and (3) prepare and disseminate checklists of common lessons learned and critical steps taken by posts that have successfully reduced ICASS charges.

With respect to recommendation 17 that headquarters consider whether and how ICASS savings may be returned, at least in part, to the program budget of the posts achieving the savings, US&FCS agreed but with reservations. US&FCS explained that the difficulties in creating incentives to return ICASS savings to the post that generated them are numerous but stated that it is considering setting up a reward schedule with specific criteria and a fixed dollar amount for posts that achieve savings. While we recognize the complexity of determining ICASS cost savings for each post due to the lag time in achieving savings, we believe that headquarters must provide some incentive to posts to reduce charges. We request that in the action plan, US&FCS elaborate on the reward schedule that it is considering implementing and when it intends on implementing such a schedule.

D. More controls over government property are needed

Internal controls are needed to ensure that government property is adequately safeguarded against waste, loss, unauthorized use, and misappropriation. Our inspection reviewed controls over residential and office inventory and other assets, including government vehicles and cellular phones. We noted a lack of sufficient documentation on the vehicles, potential unauthorized uses of the vehicles, unauthorized use of cellular phones, weaknesses in accountability with respect to residential property, and potential waste of office inventory.

In Vietnam, the Chief of Mission permits officers to use government vehicles for transportation to and from work. Officers pay \$15 a month for this use; however, this monthly fee does not include use of the vehicle on the weekends or for personal trips to the airport. Officers are permitted to use a government vehicle on the weekends if they are traveling a reasonable distance out of the city but they must pay *all* costs associated with the use. The State Department's General Services Office (GSO) does not permit use of a government vehicle on the weekend for transportation in and around Hanoi or Ho Chi Minh City. Furthermore, the post's motor vehicle policy does not permit use of a government vehicle by a spouse for personal use. Even though US&FCS owns and contracts for its own vehicles, US&FCS staff are subject to the same rules as the rest of the embassy staff, as if US&FCS were sharing in the embassy's motor pool.

According to records reviewed at both US&FCS Hanoi and Ho Chi Minh City, neither post completely fills out the drivers' logs in accordance with the *Foreign Affairs Manual* (6 FAM 228.6). In particular, the purpose of the trip and whether the trip was for official business or other authorized use is not recorded. Instead, only the name of the staff who used the vehicle is recorded. Without complete documentation and justification, we could not verify whether improper use was taking place but, based on interviews, documentation in the drivers' logs, and overtime records, we noted various trips that seem questionable, such as use of the vehicle late at night, on weekends, and near holidays. In all situations when the vehicle and driver were used on the weekends, US&FCS paid the driver's salary plus overtime. According to records reviewed, however, no payments have ever been made by officers or US&FCS staff for the use

of the vehicle on the weekend, including trips to the airport and trips out of town. We identified times when the former SCO's wife used the vehicle during business hours for apparently personal purposes.

In addition to the poor documentation noted on the drivers' logs kept by the primary drivers in Hanoi and Ho Chi Minh City, we observed that a driver log has not been established for the new contract driver who was recently hired in Hanoi. US&FCS Vietnam is required to maintain complete and accurate documentation on all vehicles, including those driven by contract drivers, to ensure that unauthorized use of government property does not take place. Officials who used the vehicles for personal purposes need to identify those instances and repay all costs associated with each trip, in accordance with the motor vehicle policy of the embassy.

In addition to the lack of documentation on the vehicles and questionable uses of the vehicles, we learned that the former SCO's wife was using a government cellular phone purchased by US&FCS Vietnam. The SCO claimed that Washington authorized spouses to use government property for security reasons; however, we could not find anyone in Washington who ever authorized this or who had knowledge of such an authorization. Although the spouse paid for all phone calls made on the cellular phone, we believe that US&FCS needs a clear official policy regarding such use. Absent such a policy or post-specific policy, foreign commercial officers should not provide government-owned cellular phones to their spouses. If US&FCS management believes that use of a government-owned cellular phone by a spouse or dependent is warranted at some posts or in particular situations, then we suggest that a policy be distributed worldwide indicating when it is appropriate to authorize such use.

Our inspection also noted weaknesses in accountability over residential property and potential waste of office inventory in Ho Chi Minh City. To date, US&FCS Vietnam does not officially keep track of residential property it purchases for officers; however, we did request and obtain a listing while on-site. Although US&FCS headquarters does not mandate overseas posts to track residential inventory, the *Foreign Affairs Manual* requires that all residential property be tracked regardless of cost. The OIG has previously recommended that headquarters issue a worldwide policy in accordance with the *Foreign Affairs Manual*, but US&FCS argued that it is following the guidance of the Department's inventory policy. We reiterate that the Department's policy does not address regulations governing foreign affairs agencies, such as US&FCS. Regulations outlined in 6 FAM 220, "Personal Property Management," require residential property to be accounted for regardless of cost. During our follow-up, we met with the Department's Personal Property Division and a memo was sent to ITA notifying the bureau of the need for US&FCS to comply with the regulations. As a result of the memo, ITA requested a waiver from the State Department to waive the threshold for accountable property for ITA and US&FCS's overseas posts to \$5,000.

We believe that waiving the threshold for accountable property to avoid tracking residential property not only contradicts the regulations outlined in the *Foreign Affairs Manual*, but can also pose accountability problems for US&FCS in the future. As it stands now, US&FCS is unable to account for residential property it has purchased for officers' homes. US&FCS, in consultation with ITA, needs to issue an official policy notifying overseas posts of their

requirement to track residential property regardless of cost pursuant to FAM regulations. In addition, US&FCS should provide guidance to overseas posts on acceptable expenditures for residential property, including the purchase of decorative items.

During our inspection, we discovered that US&FCS is paying for inventory services under ICASS that it is not using. GSO informed us that it is willing to conduct inventories of residences, but to date, US&FCS has not requested GSO to do so. US&FCS should request that official inventories of the residences be conducted in accordance with normal procedures and when new items are added. Lastly, we noted that some household items worth less than \$500 were purchased for officers' homes using petty cash. The receipts for these household items were turned into the embassy cashier when the US&FCS administrative assistant replenished the imprest fund. However, GSO never received a copy of the petty cash receipts, which should have been used to compile a comprehensive listing of residential inventory. US&FCS needs to ensure that any household furnishings are accounted for regardless of whether they are paid for with petty cash or a purchase order.

In reviewing office inventory, we found fairly new excess personal computers stored in an empty office in the Ho Chi Minh City facility. Based on interviews at the post, we determined that these computers were purchased during the fit-out in FY 1998. However, when a new international network communication and database system (i.e., Lotus Notes) was installed in Vietnam in fiscal year 1999 as part of a headquarters technology initiative, new computers had to be purchased because the existing computers were not compatible with the new system. Thus, the old computers were hardly used during their short time in service before they became surplus. When we brought this to the attention of officials in US&FCS's Office of Information Services, they told us that they were unaware that new computers were sitting in storage in Ho Chi Minh City and said that they could use these computers. Post management and the Office of Information Services need to coordinate and ship the computers where they are needed. In the future, US&FCS should implement controls to prevent uncoordinated purchases of computers and software, particularly when there are Washington-based worldwide technology initiatives underway.

US&FCS agreed with recommendations 19 through 25 in this section and has taken steps to address our concerns. The post has established a drivers' log and passengers are required to sign the log after each trip. The post is also requiring individuals to identify and pay for non-official trips in accordance with the Embassy's motor-vehicle policy. Regarding recommendation 21 that US&FCS prohibit the use of government-owned cellular phones by non-US&FCS employees unless there is a policy authorizing such use, as in cases where security is a concern, US&FCS has drafted a directive stipulating that dependents may be issued cellular phones only for security reasons, and may use them only in the local calling area, not for long-distance or other toll calls. We have received a copy of this directive and are very pleased that OIO has taken steps to address our concerns about telecommunication expenses. In the action plan, we request that US&FCS include a list of posts that meet the criteria for obtaining cellular phones for dependents and who qualifies as a dependent.

With respect to recommendation 22 that an official policy notifying overseas posts of their legal requirements to track residential property regardless of costs and provide guidance to the posts on acceptable expenditures, US&FCS indicated that it has sent new guidance to post requiring the posts to maintain an inventory of all government-owned residential property, regardless of cost. We are pleased that the Office of International Operations has taken this action and request that a copy of the cable be included in the action plan. US&FCS has taken action on recommendations 23-25.

IV. Underutilized Space in Hanoi and Ho Chi Minh City Is of Concern

Since the opening of the two office facilities in Hanoi and Ho Chi Minh City, US&FCS has incurred costs for excess office space. US&FCS headquarters initially planned for both facilities to be “business centers,” which would offer office space to multipliers and U.S. businesses on short-term arrangements. However, the potential market was not adequately assessed, and the demand for office space from partners or U.S. businesses never materialized to justify US&FCS’s decision to rent space beyond its own needs. In addition, neither headquarters nor post management actively marketed the office space to potential partners or U.S. businesses. More recently, in FY 1999, the State Department requested that US&FCS collocate its Hanoi office with other embassy sections at a location closer to the embassy but away from the downtown business district where US&FCS currently is. US&FCS’s initial decision to move the office was based, in part, on the assumption that the move would reduce costs. We believe that US&FCS can significantly improve the process for making similar decisions in the future. The original relocation plan would have provided US&FCS with more space than it currently was using or could justify. However, when we began to question the need for the additional space, US&FCS staff renegotiated the office relocation arrangements with the State Department and were able to reduce its space in the new facility, the Rose Garden. Even with this reduction, the new Hanoi office will be somewhat larger than the present facility, and US&FCS may still incur higher operating costs than had it stayed at its current downtown location because of the added costs for common areas and State Department overhead charges.⁴

A. *Excess office space should be reduced*

Since both US&FCS offices in Vietnam were originally designed to be “business centers,” similar to a “commercial center,”⁵ each facility was procured and designed to have more space than that needed for US&FCS staff. Headquarters intended on making the excess space available to U.S. businesses and partner organizations on a cost-recovery basis through user fees. However, no assessment of the market demand for such office space was ever carried out to justify the need for excess space in each facility. US&FCS initially spent over \$100,000 to build-out the entire Hanoi facility and \$130,000 to build out the entire Ho Chi Minh City facility.⁶

⁴At the time of our fieldwork, final cost figures were not available. However, the increase in space in conjunction with the increased costs associated with this facility (e.g., charges under the ICASS lease plus separate ICASS charges) will likely result in higher operating costs.

⁵In accordance with Title IV of the Jobs Through Exports Act of 1992, US&FCS opened four commercial centers in Brazil, Indonesia, China, and South Africa under ITA’s Big Emerging Markets strategy. The purpose of the centers was to provide additional resources, including office space for partners and short-term business tenants, on a user fee basis for the export promotion of U.S. goods and services.

⁶In late 1998, US&FCS spent an additional \$32,000 to renovate the Hanoi office because the original space allocated for partners and U.S. businesses was underutilized. Space for partners was reduced while space for US&FCS staff was increased.

Until FY 1999, neither headquarters nor post management actively marketed the Hanoi facility to potential partners. However, in FY 1999, US&FCS was able to get the U.S.-Asia Environmental Partnership Program to set up its office in the Hanoi facility. In addition, US&FCS entered into a joint project with the State of Florida in which the state representative began occupying some of the other designated partner space. Despite US&FCS's recent attempts to fill partner space, the Hanoi office still has excess space. At the time of our inspection, approximately one-fifth of the total floor space—four small offices—was not being utilized and probably would have remained empty considering the unlikelihood that Hanoi would need to hire additional staff.

In Ho Chi Minh City, approximately one-third of the entire floor plan—four large offices and one small office—is empty. Since the opening of the facility, neither post management nor headquarters has actively marketed the partner space in Ho Chi Minh City, and there are no future plans to do so. In fact, some post officials expressed an interest in using some of the partner space as a commercial library/information center, although headquarters is trying to move away from supporting commercial libraries. We believe that both post management and headquarters officials should first attempt to market the empty office space in Ho Chi Minh City to partners and multipliers. Any remaining excess space should be reduced as soon as possible.



US&FCS Ho Chi Minh City office interior

US&FCS agreed with our recommendation but with reservations. US&FCS acknowledges that it must make the most effective use possible of the space it leases for reasons of economy and practicality. In the situation of Vietnam, US&FCS states that the offices were designed from a medium- to long-term perspective and on the assumption that expansion would continue in the region. The agency claims that the excess space may be needed if a bilateral trade agreement is signed this year. In the meantime, US&FCS states that it will make every effort to find partners to occupy the excess space in Hanoi and Ho Chi Minh City.

We reiterate our recommendation that US&FCS determine and document the likelihood that full costs can be recovered from partners or others on a user-fee basis when making decisions to lease additional office space, and that the existing empty space in Ho Chi Minh City be marketed or reduced. In the action plan, US&FCS should provide us with a status report on its efforts thus far to find partners for Hanoi and Ho Chi Minh City.

B. *US&FCS needs guidelines for justifying future office moves*

In September 1998, the U.S. Ambassador to Vietnam asked US&FCS to move its Hanoi office from the downtown business district to a building closer to the embassy. The Ambassador

wanted to collocate multiple agencies, including US&FCS, the Foreign Agricultural Service, the U.S. Information Service, consular affairs, and others, closer to the embassy. The new facility, located in a dual commercial and residential building named the Rose Garden, is on the outskirts of town some distance from the downtown business district. Although US&FCS initially hesitated to accept the proposal, it did agree to move on the basis that it would save significant costs while at the same time increasing its office space. US&FCS told the State Department of its decision to move in a January 1999 cable.

We understand the potential advantages of collocating U.S. agencies in one facility, but we believe the process used by US&FCS to reach its decision to move can be improved. For example, US&FCS should have a better process for determining its future space requirements and should have assessed the move's impact on its clients.

US&FCS had originally approved plans to lease 448 square meters in the Rose Garden—an increase of 60 percent over its current space. However, there was no basis for such a large amount of space given that the current facility is underutilized and future increases in staff do not seem likely. After we met with both US&FCS and embassy personnel, US&FCS asked if it could reduce its new space allocation. The State Department agreed to reduce the amount of space for US&FCS to 370 square-meters—still a 28-percent increase over current space. In July, we continued to raise questions about the move and the need for excess space. When US&FCS finally re-approved its move decision, it requested that every effort be taken to reduce its space allocation in the Rose Garden to no more than 310 square meters, a figure that State agreed to.

US&FCS officials assumed they would save money based on lower lease costs at the Rose Garden but did not have a good understanding of how the lease would be structured or the total build-out costs that would be charged to them. Moreover, they never knew of State's intention to make the lease an ICASS lease until late in the process, or of the added costs associated with such a lease. It still remains unclear what additional charges may be billed to US&FCS for the use of common areas or services at the Rose Garden, or to make the building comply with security requirements. The new SCO will need to closely monitor ICASS charges each year to ensure that US&FCS is paying an appropriate amount of its share for the common areas at the Rose Garden. Appendix II provides a summary of some of the known costs and illustrates that if US&FCS had not decreased the amount of space it will occupy at the Rose Garden, the relocation would have been very costly and unjustifiable on the grounds of projected cost savings.

In the future, US&FCS headquarters needs to conduct a more thorough analysis when deciding whether to relocate its facilities. Such proposals should be carefully evaluated to determine both the program and financial costs associated with relocating an office. US&FCS should make sure it has reliable, comprehensive, and independent data in order to make an informed decision. If more than one option exists, relevant and comparable data should be collected and the pros and cons of each option should be weighted carefully.

Furthermore, to the extent that factors such as location within the local market, amount of office space, physical security, or other variables are important to US&FCS's mission, they, too, should be independently assessed before decisions about office relocation are made. US&FCS

should develop standards for justifying future US&FCS office moves or new office locations, and determine the appropriate responsibilities for the post and headquarters for meeting those standards.



US&FCS agreed with recommendations 27 and 28 in this section. The new SCO will monitor ICASS charges each year to ensure that US&FCS is paying an appropriate amount of its share of the common areas at the Rose Garden. In the action plan, US&FCS should provide us with the FY 2000 initial invoice for ICASS and any other documentation indicating US&FCS's charges under ICASS for the Rose Garden.

Lastly, US&FCS agreed that headquarters needs to provide more active involvement and stronger oversight in all decisions relating to office relocations or expansion of existing office spaces. The Office of International Operations intends to prepare a policy statement to the field regarding criteria to be considered in deciding on an office move. The action plan should include a copy of this policy statement.

RECOMMENDATIONS

We recommend that the Under Secretary for International Trade, and the Director General and Assistant Secretary for US&FCS, take the steps necessary to:

1. Increase the visibility of US&FCS Ho Chi Minh City in the local U.S. business community through more outreach and marketing (see page 10).
2. Work with the Vietnamese government and consulate officials in Ho Chi Minh City to develop mutually acceptable terms for pre-screening International Buyer Program clients (see page 10).
3. Develop a long-term plan for how U.S. commercial activity in regions outside the metropolitan areas of Hanoi and Ho Chi Minh City will be promoted and supported in the future (see page 10).
4. Transfer more of the market research responsibilities from private contractors to foreign service nationals and adjust reporting requirements, as needed (see page 12).
5. Ensure that the key industries in Vietnam are covered, by shifting responsibilities among FSNs and adjusting job descriptions, as needed (see page 12).
6. If data entry of contact or client information is a priority for US&FCS, direct staff to key in such data, and provide a data transfer or conversion path to Client Management System databases from the business card database currently in use by UC&FCS Ho Chi Minh City (see page 12).
7. Ensure that the US&FCS-State of Florida joint partnership is provided the tools, guidance, and other management oversight necessary for US&FCS to receive its 25 percent share of the benefits from the project. If this benefit is not measured by the contractor's allocation of time, then it should be demonstrated through the use of US&FCS-specific milestones or performance indicators (see page 14).
8. Clarify and communicate procedures for posts to obtain the requisite security clearances for interns, and determine and address why the process has recently taken longer than 14 days (see page 16).
9. Ensure that US&FCS Vietnam implements internal controls over the use of the telephones, scrutinizes monthly phone bills, and requires employees to certify and pay for all personal phone calls (see page 18).
10. Ensure that the Regional Director for East Asia/Pacific and the Senior Commercial Officer in Hanoi manage operating and administrative funds more closely and are held accountable for managing such funds. In addition, the operating and administrative

- budget should be reviewed and adjusted to ensure that funds are utilized effectively to meet top priorities and allocated appropriately (see page 18).
11. Ensure that any contracts and arrangements for services, such as temporary assistants hired to help with Gold Key Service, are in accordance with regulations and departmental policies and the appropriate method of payment is used (see page 21).
 12. Ensure that the terms of the driver's contract in Hanoi are adhered to and authorize overtime only for hours worked beyond the specified workday and on weekends that is for official business (see page 21).
 13. Require the Senior Commercial Officer to submit his leave slips to his supervisor at post for authorization (see page 21).
 14. Prohibit officers from requesting foreign service nationals to perform personal duties and errands (see page 21).
 15. Provide the Embassy's Budget and Fiscal Office with realistic dates that vacant positions are expected to be filled and request that adjustments in ICASS charges at mid-year be made if warranted (see page 24).
 16. Hold posts accountable for avoiding unnecessary ICASS charges through their participation in the ICASS process, for example, by scrutinizing the expenses charged to US&FCS and verifying workload distributions (see page 24).
 17. Consider whether and how ICASS savings might be returned, at least in part, to the program budget of the posts achieving the savings, and implement acceptable options, if any (see page 24).
 18. Prepare and disseminate to US&FCS posts worldwide checklists of common lessons learned and critical steps taken by posts that have successfully reduced ICASS charges or kept them from growing unnecessarily (see page 24).
 19. Maintain complete and accurate documentation on use of all government vehicles and all drivers to ensure that unauthorized use of government property does not take place (see page 26).
 20. Require persons who used US&FCS vehicles or drivers for personal use to identify those instances and repay all costs associated with each trip in accordance with the embassy's motor vehicle policy. (see page 26).
 21. Prohibit the use of government-owned cellular phones by non-US&FCS employees unless there is a policy authorizing such use, as in cases where security is a concern (see page 26).

22. Issue an official policy notifying overseas posts of their legal requirement to track residential property regardless of cost and provide guidance to overseas posts on acceptable expenditures for residential property (see page 26).
23. Request that the Senior Commercial Officer task the General Services Officer for an official accounting of residential property US&FCS Vietnam has purchased (see page 26).
24. Ensure that any household furnishings are accounted for regardless of whether they are paid for with petty cash or a purchase order (see page 26).
25. Implement controls to prevent uncoordinated purchases of computers and software, particularly when there are Washington-based worldwide technology initiatives underway (see page 26).
26. Determine and document the likelihood that full costs can be recovered from partners or others on a user fee basis when making decisions to lease additional office space. Market the existing empty partner space in Ho Chi Minh City or reduce the space (see page 30).
27. Require the new SCO to closely monitor ICASS charges each year to ensure that US&FCS is paying an appropriate amount of its share for the common areas at the Rose Garden and that only appropriate costs are being distributed to US&FCS's ICASS invoice (see page 30).
28. Provide active involvement and stronger oversight by headquarters in all decisions to relocate or expand existing overseas offices or to acquire new office space. Develop standards for justifying future US&FCS office moves or new office locations, and determine the appropriate responsibilities for the post and headquarters for meeting those standards (see page 30).

Appendix I

Acronyms

AmCham	American Chamber of Commerce
ASEAN	Association of Southeast Asian Nations
CMS	Client Management System
Ex-Im Bank	U.S. Export - Import Bank
FAM	Foreign Affairs Manual
FSN	foreign service national
FTDC	Foreign Trade Development Corporation
GSO	General Services Office
ICASS	International Cooperative Administrative Support Service
IMI	International Market Insight
ISA	Industry Sector Analysis
ITA	International Trade Administration
MOU	Memorandum of Understanding
O&A	Operating and Administrative
OFSP	Office of Foreign Service Personnel
OIG	Office of Inspector General
OIO	Office of International Operations
OPIC	Overseas Private Investment Corporation
PCO	principal commercial officer
PSC	personal services contract
SCO	senior commercial officer
TDA	U.S. Trade and Development Agency
US-AEP	U.S.-Asia Environmental Partnership
US&FCS	U.S. and Foreign Commercial Service
VCCI	Chamber of Commerce and Industry in Vietnam

Appendix II

Cost Summary of Various US&FCS Hanoi Relocation Options

Options	Proposed Space (sq. meters)	Estimated Fit Out Cost (\$000s)	Duration of Lease	Analysis Assumptions a/			Estimated Nine-Year Total Costs (\$000s)	
				Rent Increase or Decrease at Renewal	Change in ICASS Overhead for Office Space	Other ICASS Charges for Common Services	Low	High
Remain at current location (Central Building)								
No renegotiation b/	280	0	undetermined	none	none	none	1,935	b/
Renegotiate Current Lease c/	280	0	7 years	decrease d/	none	none	756	790
Move to Rose Garden								
October 1998 proposal	448	120	undetermined	initial decrease with 20% increase in year 8	up to a 10% increase	unknown new costs at time of proposal e/	918 plus unknown common costs e/	998 plus unknown common costs e/
July 1999 proposal	370	48	9 years (initial 3-year period / two additional 3-year periods)	initial decrease with built in increases f/	up to a 10% increase	unknown new costs at time of proposal e/	707 plus unknown common costs e/	928 plus unknown common costs e/
July 1999 agreement	310	48 g/	9 years (initial 3-year period / two additional 3-year periods)	initial decrease with built in increases f/	up to a 10% increase	unknown new costs at time of agreement e/	600 plus unknown common costs e/	785 plus unknown common costs e/

Notes:

- a/ The total cost of various combinations of assumptions was calculated, and only summaries are presented here.
- b/ The current lease at the Central Building expired on January 2000. US&FCS and State officials used this option as a benchmark to calculate cost savings in the justification for the initially proposed Rose Garden option. No analysis of varying assumptions was carried out for this option. However, this was never a realistic option for benchmark purposes since the per square-meter rental cost of the current lease (\$64 per sq. m) is over twice what it can reportedly be renegotiated to, given current real estate market rates and new lease rates in the Central Building.
- c/ Figures are based on e-mail exchanges between US&FCS Vietnam and headquarters.
- d/ The SCO, at the time of our inspection, believed that the landlord would renegotiate the current lease at a more favorable rate of \$25 per square meter based on rates other building tenants had received. At the end of the renegotiated 7-year lease, it was assumed that a new Central Building lease would include a 20% increase in the rental rate. This increase is figured into years 8 and 9 of the estimated 9-year total cost.
- e/ ICASS overhead is intended to capture ICASS-related personnel costs as well as charges for common areas. Costs for common areas such as security, food pantry, restrooms, reception area upkeep, conference room, etc. are not factored into the 10% increase in overhead because they are not known yet.
- f/ According to State officials, rent increases at each 3-year renewal period would be capped at 20 percent.
- g/ State officials have indicated that additional design costs may be incurred.

ATTACHMENT A - US&FCS Response to Draft Inspection Report



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

FEB 24 2000

TO: Jill Gross
Acting Assistant Inspector General
For Inspections and Program Evaluations

FROM: Marjory E. Searing *MS*

SUBJECT: US&FCS Response to Draft Inspection Report No. IPE-11798, January
2000 ("US&FCS Vietnam Is Fully Operational, but Some Areas Need
Improvement")

This memorandum responds to your Draft Inspection Report, which summarizes OIG findings from a May-June, 1999 inspection of the US&FCS posts in Vietnam (Hanoi, Ho Chi Minh City).

D) GENERAL COMMENTS:

We appreciate what we regard as the OIG team's balanced assessment of the strengths and weaknesses of one of our newest US&FCS commercial offices. "Opening up" in a politically-controversial environment, in light particularly of the historic baggage associated with the relationship between the United States and Vietnam, was a difficult undertaking. The unforeseen Asian financial crisis added complications which, without actually forcing us to abandon our initial purpose, brought a reconsideration of means and objectives. We recognize that, to some extent, your report questions our conclusions, and the process by which they were reached.

We also acknowledge an inconsistency identified, sometimes implicitly, by the report. On the one hand, the Commercial Section scored solid achievements in establishing an impressive physical presence first in Hanoi, then in Ho Chi Minh City, and in recording major program successes, particularly in the area of advocacy for U.S. firms and cooperation with U.S. entities seeking to develop trade links between the two countries. On the other hand, lapses in day-to-day management of post operations have led to shortcomings and to some abuses which must be addressed if we are to make the most of our resources and investment. We have begun taking corrective actions to that end.

In response to your criticism of our decision to move the Commercial Section in Hanoi to a new site, we would argue that we opted for a less conservative course than advocated by the OIG team. We well realize that the OIG's recommendations come down on the side of caution, and we value the prudent counsel provided by the team in analyzing the costs and benefits of moving our Hanoi operations from the Central Building to the Rose Garden. Aside from tangible considerations, our decision was in part subjective and



forward-looking, in part influenced by pressures the team has downplayed in its report. It never was the case that our options were clear cut. Even the OIG team's detailed study of what it identified as the advantages and disadvantages of the move is inconclusive. At this point, lacking evidence to the contrary, we believe that our decision to move is appropriate. It is certainly defensible, and we hope that, to the extent that these can be anticipated, developments in Vietnam will confirm the propriety of this choice.

II) SPECIFIC COMMENTS

Recommendation 1: Increase the visibility of US&FCS Ho Chi Minh City in the local business community through more outreach and marketing

Response: agree. Both Commercial Officers in Ho Chi Minh City have become very active members of key AmCham committees and subcommittees. The Principal Commercial Officer (PCO) recently held a meeting with the Executive Director of the AmCham to discuss increased cooperation. The Senior Commercial Officer (SCO) plans to visit US&FCS Ho Chi Minh City every six to eight weeks and each time will call on the AmCham and meet its members. The SCO sees the AmCham as a full partner in US&FCS operations, and plans to make the AmCham a primary resource for US&FCS Vietnam's program planning.

Recommendation 2: Work with the Vietnamese Government and Consulate officials in Ho Chi Minh City to develop mutually acceptable terms for pre-screening International Buyer Program clients.

Response: agree. Beginning in January 2000, the Consulate General in Ho Chi Minh City began issuing B-1 (business) visas. US&FCS Ho Chi Minh City has also added a consular module as part of the Business USA outreach program. The Chief of the Consular Section will participate in these expanded programs, as will the Chief of the Consular Section in Hanoi.

US&FCS Ho Chi Minh City officers will work closely with the Consular Section. It may also be helpful that a new visa referral system is being instituted, whereby Consulate-General officers, including the PCO and SCO, can request that certain applicants receive special consideration on the grounds of national interest.

Recommendation 3: Develop a long-term plan for how U.S. commercial activity in regions outside the respective metropolitan areas of Hanoi and Ho Chi Minh City will be promoted and supported in the future.

Response: agree. Since May 1999, US&FCS Vietnam officers have made visits to cities outside Hanoi and Ho Chi Minh City. Post is committed to expanding its outreach and building on contacts made in Danang, Can Tho, Vung Tau and Haiphong through the

Business USA program, which provides an excellent opportunity to further American commercial interests throughout Vietnam.

Recommendation 4: Transfer more of the market research responsibility from private contractors to foreign service nationals, and adjust reporting requirements, as needed.

Response: agree. Market research delivered in FY 2000 was contracted for in FY 99. In FY 2000, the SCO will begin training staff in ISA writing skills. Beginning in FY 2001, all industry sector analyses (ISAs) will be written in-house by post's commercial specialists, as are all International Market Insights (IMIs), more than 100 of which were submitted in FY 99. In FY 2001, all ISAs will be selected in accordance with post's Best Prospects list. Post plans to submit ten ISAs in FY 2001.

Recommendation 5: Ensure that the key industries in Vietnam are covered, by shifting responsibilities among FSNs and adjusting job descriptions, as needed.

Response: agree. The new SCO has already assigned each commercial specialist, commercial assistant and commercial clerk at least one industry sector. The more senior commercial specialists have the majority of industry-sector assignments and are responsible for the majority of best-prospect industries. Job descriptions and work plans will be revised to reflect these changes. A total of more than 100 industry sectors have been assigned for coverage by US&FCS Hanoi and Ho Chi Minh City. Additionally, each commercial specialist, assistant and clerk will be assigned responsibility for program-specific activities, such as the Gold Key Service, ADSs, TOPs and business counseling, in the industry sectors assigned.

Recommendation 6: If data entry of contact or client information is a priority for the US&FCS, direct staff to key in such data, and provide a data transfer or conversion path to Client Management System databases from the business card database currently in use by US&FCS Ho Chi Minh City.

Response: agree. At the time of the OIG team's visit, no one at US&FCS Vietnam had received any training on CMS. Since then, four staff members have received training and in turn have begun to train other employees at post. Data entry has been made a priority, and at present over 2,500 entries are in post's databases. US&FCS Vietnam will continue not only to add to this database, but to evergreen it regularly.

Recommendation 7: Ensure that the US&FCS-State of Florida joint partnership is provided the tools, guidance, and other management oversight necessary for US&FCS to receive its 25 percent share of the benefits from the project. If this benefit is not measured by the contractor's allocation of time, then it should be demonstrated through the use of US&FCS-specific milestones or performance indicators.

Response: agree. This recommendation is moot inasmuch as we have ended our formal partnership with the State of Florida, whose legislature did not authorize the funds required to continue our association. The point remains valid in its application to similar arrangements into which the US&FCS would enter, either in Vietnam or elsewhere. On the whole, we feel that we received good value from the State of Florida representative, as did the Florida exporters on whose behalf he worked on two missions along with post's staff. We acknowledge that this employee's duties could have been more formally structured and accounted for, and should be in the event of a comparable arrangement.

Recommendation 8: Clarify and communicate procedures for posts to obtain the requisite security clearances for interns, and determine and address why the process has recently taken longer than 14 days.

Response: agree. Within 48 hours of receiving a request for a Student Volunteer Intern Security check, the Office of Foreign Service Personnel (OFSP) forwards the paperwork to the Office of Security. Once this has been done, the norm is for the Office of Security to respond to OFSP in less than two weeks. The time frame depends on the workload of the office and on the individual under review.

Under most circumstances, OFSP sends a clearance cable to post within the two weeks of receipt of all the documentation. Exceptions are usually due to inadequate documentation or to the fact that the Commercial Section did not follow proper procedures. In the example cited in the report, post was late realizing that it needed a clearance for the students from Florida. Post's perception was that the Regional Security Officer would allow these students to do research in the Consulate without the check. Since the students were either at post or en route before documentation was submitted, neither OFSP nor the Office of Security could respond in time for the students to begin work as planned by post.

Since 1997, all administrative and financial management training sessions conducted in Washington and overseas have included text material and an in-depth verbal briefing (Washington only) on the recruitment and placement of interns. The following individuals assigned to Vietnam received Administrative and Financial Management training in Kuala Lumpur, Malaysia, in July 1999:

Do Tran Minh Ha, Hanoi
John Lancia, Hanoi
Nguyen Thuy Thuy Trang, Hanoi

Information on the placement of interns abroad can also be found on Lotus Notes in the Commercial Service Operations Manual. An additional means of ensuring that US&FCS employees are aware of the procedures is to include these in the consultation package officers receive when in Washington for briefings and debriefings. OFSP will also send periodic reminders overseas on the policy and procedures governing the program.

Recommendation 9: Ensure that US&FCS Vietnam implements internal controls over the use of the telephones, scrutinizes monthly phone bills, and requires employees to certify and pay for all personal phone calls.

Response: agree. Post acknowledges that its phone bills have been high, especially during the initial years of its operation. This was justifiably due to the lack of Internet availability and to the local phone company's monopoly, resulting in charges of \$4 per minute for calls to the United States. After Internet became available in Vietnam, these telecommunications expenses went down somewhat, but post agrees that they can go down further and must be subject to close checks. Both US&FCS Hanoi and Ho Chi Minh City have implemented in-house systems to track calls, and, with the planned installation of an International Voice Gateway (IVG) line between Hanoi and Ho Chi Minh City, we should see a greater reduction in these costs.

The new SCO has instituted the following measures:

- o permission must be requested from a supervisor (Deputy SCO, PCO, or Commercial Officer) before placing an international call;
- o fax users and overseas callers must enter identifying information in a log book located near fax machines and phones;
- o all overseas calls and faxes are audited by an American officer to ensure accountability;
- o call-tracking software has been installed to establish the origin of each call within the Commercial Section.

Recommendation 10: Ensure that the Regional Director's office for East Asia/Pacific and the Senior Commercial Officers in Hanoi manage operating and administrative funds more closely and are held accountable for managing such funds. In addition, the operating and administrative budget should be reviewed and adjusted to ensure funds are utilized effectively to meet top priorities and allocated appropriately.

Response: agree. The allocation of operational and administrative (O&A) funds to US&FCS Vietnam has been high because this post incurred substantial expenditures associated with the opening of the Commercial Section in Hanoi, then in Ho Chi Minh City. To a large extent, the high costs of operating this post during and following its launch phase were allowed to carry over into fiscal year 1999. High telecommunications costs are attributable to the high tolls levied by the Vietnamese system and to the need to bypass the initially unreliable links established by the US&FCS and State between post and headquarters. We acknowledge that the redundancy which eventually characterized the system's operation was wasteful, and that post should have cut back on duplicate

arrangements. It was this redundancy, however, which ensured the continuity of communications which, in the best of cases, were never entirely reliable or satisfactory.

We have considerably cut back US&FCS Vietnam's O&A authorization for fiscal year 2000, and will take a zero-based budgeting approach to determining next fiscal year's allocation to post. Meanwhile, the Regional Director will conduct an in-country review of post's O&A budget in the third or fourth quarter of this fiscal year.

Recommendation 11: Ensure that any contracts and arrangements for services, such as temporary assistants hired to help with Gold Key Service, are in accordance with regulations and department policies and the appropriate method of payment is used.

Response: agree. In an effort to achieve cost recovery for Gold Key Services, US&FCS Hanoi initially tried hiring a person who was paid directly from funds collected from that program. To date, all costs incurred by this employee have been recovered. However, to ensure that no problems arise regarding procedures or regulations, post agrees that it would be appropriate to end this arrangement and make this contractor a full-time employee. This can be accomplished by placing this person into a full-time, established position, which is currently vacant. Post has begun the process of requesting permission to fill this vacancy.

Recommendation 12: Ensure that the terms of the driver's contract in Hanoi are adhered to, and authorize overtime only for hours worked beyond the specified workday and on weekends that is for official business.

Response: agree. Post will ensure that terms are adhered to, and will authorize overtime only for hours worked beyond the specified workday and on weekends that is for official business.

Recommendation 13: Require the Senior Commercial Officer to submit his leave slips to his supervisor at post for authorization.

Response: agree. The new SCO will submit his leave slips to the Deputy Chief of Mission for authorization.

Recommendation 14: Prohibit officers from requesting foreign service nationals to perform duties and errands that are personal.

Response: agree. The new SCO has informed all staff that FSNs shall not be requested to perform duties or run errands which appear to be personal.

Recommendation 15: Provide the Embassy's Budget and Fiscal Office with realistic dates that vacant positions are expected to be filled and request that adjustments in ICASS charges at mid-year be made if warranted.

Response: agree. US&FCS Vietnam's ICASS representative will watch this issue to ensure that adjustments are made to ICASS charges by mid-year.

Recommendation 16: Hold posts accountable for avoiding unnecessary ICASS charges through their participation in the ICASS process, for example by scrutinizing the expenses charged to US&FCS and verifying workload distribution.

Response: agree. Post has committed to scour through the record of ICASS charges.

Recommendation 17: Consider whether and how ICASS savings might be returned, at least in part, to the program budget of the posts achieving the savings, and implement acceptable options, if any.

Response: agree, with reservations. For some time, OIO has been considering an effective means of providing posts with an incentive to generate ICASS cost savings. The difficulties in creating an incentive to return ICASS savings to the post which generated them are numerous.

First, it is impossible to demonstrate what the exact amount of cost savings will be. The unit cost of an ICASS service can change radically from year to year due to factors beyond the control of the Commercial Service. Such factors include: changes in the State Department's allocation of ICASS staff-time costs within the ICASS cost distribution structure; whether or not agencies have been added to or withdrawn from an ICASS service; and changes in the make-up of the ICASS cost pool (wage and price increases, exchange-rate gains and losses, staff increases or departures, etc.). Thus it has not been possible to set up a standard algorithm to return ICASS savings to post, either in whole or in part, because of our inability to derive exact amounts.

Second, there is a long lag in achieving savings. ICASS is a cost estimation system, with most parameters set at the beginning of the fiscal year, changes in a post's consumption of ICASS services often do not show up in the ICASS bill until 12-18 months after the effective date of the change. Because savings are not contemporaneous with the actions that generated them, it is difficult if not impossible to issue a bounty to a post generating savings.

Finally, in many instances, ICASS costs generated at post result from a new program or tool instituted by US&FCS, such as lockboxes, credit-card collections, convenience checks, etc. Many such new programs entail certain start-up costs which must be defrayed by ICASS savings at post. The net benefit to the Commercial Service in such instances comes in the form of better services and improved productivity.

Given these difficulties, creating a methodology for returning the actual ICASS savings accumulated by post is complicated. The best near-term alternative to provide the desired incentive to achieve efficiencies in ICASS is to set up a reward schedule with specific criteria and a fixed dollar amount for posts which achieve savings. US&FCS is considering the best way to implement such a system.

Recommendation 18: Prepare and disseminate to US&FCS posts worldwide checklists of common lessons learned and critical steps taken by posts which have successfully reduced ICASS charges or kept them from growing unnecessarily.

Response: agree. Our first general checklist was sent worldwide February 1. ICASS bulletins are sent periodically. Posts are instructed to follow the guidance provided, follow up with inquiries to headquarters when necessary, and submit best practices/lessons learned to headquarters for general dissemination.

Recommendation 19: Maintain complete and accurate documentation on use of all government vehicles and all drivers to ensure that unauthorized use of government property does not take place.

Response: agree. Post has already established a driver's log identifying passenger, destination, and time. Passengers are required to sign and indicate whether the trip is made for official or other purposes. Post is discouraging non-official use of the US&FCS vehicle (see also our response to recommendation 20, below).

Recommendation 20: Persons who use US&FCS vehicles for personal use should be required to identify those instances and repay all costs associated with each trip in accordance with the Embassy's motor-vehicle policy.

Response: agree. Post is now in compliance with this recommendation.

Recommendation 21: Prohibit the use of government-owned cellular phones by non-US&FCS employees unless there is a policy authorizing such use, as in cases where security is a concern.

Response: agree. Headquarters has drafted a directive stipulating that dependents may be issued cell phones only for security reasons, and may use them only in the local calling area, not for long-distance or other toll calls. The headquarters directive states that cell phones may be used only when it is not possible to use a calling card or government phone, and may not be used as an alternative to a residential phone.

Recommendation 22: Issue an official policy notifying overseas posts of their legal requirements to track residential property regardless of costs and provide guidance to overseas posts on acceptable expenditures for residential property.

Response: agree. On December 9, 1999, OIO issued new guidance on overseas property management via USDOC cable 6017, AFCS Collective 2491. This guidance directed posts to maintain an inventory of all USG-owned residential property, regardless of purchase price. This is a new procedure only for US&FCS self-inventoried posts. Those posts provided with property management/inventory services through ICASS are already receiving this inventory.

OIO headquarters is currently developing a residential furniture policy, which will include guidance on acceptable expenditures.

Recommendation 23: Request that the Senior Commercial Officer task the General Services Officer for an official accounting of residential property US&FCS Vietnam has purchased.

Response: agree. The SCO has done this, and has received a completed inventory list for both residential and office property.

Recommendation 24: Ensure that any household furnishings are accounted for regardless of whether they are paid for with petty cash or a purchase order.

Response: agree. This action has been completed.

Recommendation 25: Implement controls to prevent uncoordinated purchases of computers and software, particularly when there are Washington-based worldwide technology initiatives underway.

Response: agree. Following this report, OIS designated a Field Liaison specialist whose responsibilities include asset management and coordination with US&FCS system administrators at overseas posts. The Field Liaison specialist is now updating the computer inventory database to identify post-by-post equipment, and developing a certification process to convey key equipment specifications and procurement information to the network of US&FCS system administrators.

Recommendation 26: Determine and document the likelihood that full costs can be recovered from partners or others on a user-fee basis when making decisions to lease additional office space. Market the existing empty partner space in Ho Chi Minh City or reduce the space.

Response: agree, with reservations. We agree that we must make the most effective use possible of the space we lease, for reasons of economy and practicality. The OIG team's recommendation, however, is predicated on an assumption of flexibility which circumstances do not always bear out. When the US&FCS opened two offices in Vietnam, the local economy had been expanding at a rate among the highest in the region, albeit from a low base. It was assumed that this expansion would continue, like that of the entire region, but it did not because of the Asian economic crisis. The US&FCS offices in Vietnam were designed from a medium- to long-term perspective. The excessive capacity they offer at present may turn out to be needed if a bilateral trade agreement is signed this year.

We agree that, in the meantime, we must make every effort to find partners to occupy the excess space of our Hanoi and Ho Chi Minh City offices. Finding such partners is easier in expansionary economic times than in the present period of stagnation. Our commercial staff in Vietnam are looking for associations with which we can share space in the attractive facilities we occupy.

Recommendation 27: Require the new SCO to closely monitor ICASS charges each year to ensure that US&FCS is paying an appropriate amount of its share of the common areas at the Rose Garden and that only appropriate costs are being distributed to US&FCS's ICASS invoice.

Response: agree. The SCO will monitor ICASS charges linked to use of the common areas at the Rose Garden building. US&FCS Hanoi occupies 18 percent of the total USG office space at the Rose Garden complex and is being charged that percentage for the use of the common areas. US&FCS Hanoi is being charged 10 percent of the total cost of the use of the "common area" multimedia room.

Recommendation 28: Provide active involvement and stronger oversight by headquarters in all decisions to relocate or expand existing overseas offices or to acquire new office space. Develop standards for justifying future US&FCS office moves or new office locations, and determine the appropriate responsibilities for the post and headquarters for meeting these standards.

Response: agree. The DAS for OIO will prepare a policy statement to the field regarding the criteria to be considered in deciding on an office move.

We already refer to such standards as cost, practicality, and effectiveness in determining the desirability of an office move. There are also less tangible considerations influencing our decisions. In the case of the Hanoi Commercial Section's move to the Rose Garden, the Ambassador's persuasive advocacy for creating an American Center consisting of several USG agencies played a significant role. Fluctuations and lack of transparency of the information provided by the Embassy made it difficult to calculate the costs of the relocation, but it was never clear-cut that staying at our current location was the better

choice. The projected costs listed in Appendix II of the OIG team's report show that the total costs of staying in place vs. moving, estimated over a period of nine years, are very close, even including the still-unknown ICASS charges we will be paying. Time will tell whether this move was as cost-effective as envisioned in the planning phase.