

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



**PUBLIC
RELEASE**

***INTERNATIONAL TRADE
ADMINISTRATION***

*Recent Overseas Inspections Found US&FCS
Delivering Services Effectively But Facing
Internal Constraints*

Inspection Report No. IPE-9178 / September 1997

Office of Inspections and Program Evaluations



TABLE OF CONTENTS

EXECUTIVE SUMMARY i

INTRODUCTION 1

PURPOSE AND SCOPE 1

BACKGROUND 2

OBSERVATIONS AND CONCLUSIONS 4

I. Posts Are Generally Effective in Providing Trade Promotion Services 4

II. Some Overseas Posts Do Not Manage Their Resources Well 5

A. Posts do not adequately plan resource use 5

B. Posts do not adequately monitor resource use 7

C. Posts do not evaluate the effectiveness of their products and services 8

III. Regional Directors Failed to Provide Adequate Oversight of Posts 10

IV. Potential Savings Justify Aggressive US&FCS Involvement in ICASS Development and Cost Studies 14

V. Posts Do Not Properly Follow Bureau of Export Administration’s Export Licensing Regulations 17

VI. US&FCS Needs to Improve Its Use of Personal Service Contractors 20

VII. US&FCS Needs to Address Other Issues Limiting Its Effectiveness 23

A. Overseas resource allocation model requires management attention 23

B. Performance evaluation practices undermine evaluation system credibility 26

C. Interagency coordination overseas needs improvement 27

D. Posts inadequately use information technology 30

RECOMMENDATIONS 32

ATTACHMENT: Agency Response 35

EXECUTIVE SUMMARY

In a recent round of inspections of US&FCS overseas operations, we visited Germany, Indonesia, Malaysia, Poland, and Thailand. These five countries accounted for over \$42 billion in U.S. exports in 1995 (approximately 7 percent of total U.S. exports), and the latter four are among the International Trade Administration's "big emerging markets." The combined US&FCS staffing, including contractors, at these five posts was about 120, or about 13 percent of the more than 950 US&FCS staff overseas. We interviewed nearly every one of the staff in the five countries and held extensive discussions with ITA officials in Washington, representatives of other federal agencies overseas, foreign and U.S. business representatives, and foreign government officials.

Our individual inspection reports discussed primarily post-specific concerns. For this report, we broadened our focus to address systemic or cross-cutting issues of US&FCS. Although we discuss a number of concerns in this report, we still found that US&FCS was doing a good job in delivering its services. We observed that foreign service nationals (FSNs) play a critical, positive role in US&FCS's efforts to promote U.S. exports. We believe that the continuity and local expertise FSNs provide are crucial to any successes US&FCS has in promoting U.S. exports, and that US&FCS should continue seeking creative ways to recruit, develop, encourage, and retain FSNs.

We also found that the location of US&FCS offices in core business districts and outside U.S. embassy and consulate compounds had a significant positive impact on the effectiveness of their operations. The additional burden of senior commercial officers (SCOs) having to travel to meet with other federal government agency representatives located inside the embassy appeared to be outweighed by the benefits of improved client access, positive client perceptions of US&FCS having a commercial rather than a government orientation, and reduced travel time for US&FCS staff in meeting with contacts outside the embassy. We encourage US&FCS to continue seeking cost-effective ways to locate its staff in core business districts and outside embassy and consulate compounds where security considerations permit.

Most of our concerns involve internal constraints that prevent US&FCS from maximizing its effectiveness. The following cross-cutting issues require management's attention:

- **Some overseas posts do not manage their resources well.** Several posts were pursuing activities without adequate regard for their relative priority or payoff. Posts were generally trying to do everything well, without effectively prioritizing activities to meet customer needs and best use the post's skills and available resources. We believe that every US&FCS post should have a clear understanding of its priorities, how those

priorities translate into day-to-day activities, and how managers in the field will be rewarded for and held accountable for improving the use of available resources.

We also found that none of the posts we visited had a time or resource management system in place that would effectively enable their managers to estimate reliably the unit costs of various post products and services, or to determine how best to allocate resources to maximize their effectiveness. There was also little consistent follow-up with clients that would enable posts to assess the relative impact of their products and services. The posts' limited follow-up efforts were not consistent, and focused primarily on documenting "success stories." We believe that US&FCS can do more to encourage posts to assess the relative payoffs of different products and services. (See page 5.)

- **Regional directors failed to provide adequate oversight of posts.** Many of the post-specific problems that we noted, and their potential adverse effects on the agency's export promotion efforts, are compounded by the failure of the regional directors to routinely provide the necessary oversight and appropriate guidance to posts, and to hold the respective SCO accountable for post management weaknesses. The regional director's position description defines essential oversight and management duties that were not being carried out. These include responsibilities for monitoring the efficiency of post operations, problem-solving, and performing on-site reviews. We believe that regional directors could be strengthened by such actions as describing their role in the overseas *Operations Manual*, holding them more accountable for their management duties, and raising the stature and skills and experience requirements of the positions. (See page 10.)
- **Potential savings justify aggressive US&FCS involvement in ICASS development and cost studies.** The Foreign Affairs Administrative Support system (FAAS), under which the State Department formerly provided support services to and billed U.S. agencies overseas, was inefficient and did not distribute costs fully or equitably. A new administrative cost system, known as International Cooperative Administrative Support Services (ICASS), is being tested and will go into full effect in fiscal year 1998. ICASS is designed so that U.S. agencies will have greater control over their services and pay costs that more closely reflect the services they receive. After ICASS begins operating, US&FCS's total payment for overseas administrative support is expected to increase from \$11 million to \$17 million.

ITA plans to reassess ICASS and its alternatives after one full year of experience. Less expensive and/or higher quality service may be obtainable from sources other than the Department of State. If ITA undertakes any cost comparisons, it needs to ensure that

justifiable comparisons are made and that all viable options, including private sector services and continued participation in some or all of ICASS services, are considered fully.

One of the principles of ICASS is that councils of in-country representatives of federal agencies are well-positioned to identify and evaluate the cost-effectiveness of service options available to them. We agree with this approach, and we believe that US&FCS resources provided to field representatives, on a selective basis, to undertake local or regional feasibility and comparative cost studies, could provide useful information that could provide large savings for US&FCS. Additionally, to ensure that cost-effective, high quality services are received, US&FCS needs to provide for active, aggressive ICASS Council participation and attention to ICASS and other administrative training for U.S. and non-American administrative staff. (See page 14.)

- **Posts do not properly follow BXA’s export licensing regulations.** The Department’s Bureau of Export Administration relies on the US&FCS posts to assist in fulfilling its export control activities. Specifically, BXA requests the posts to perform pre-license checks and post-shipment verifications (collectively known as “BXA checks”) to verify the legitimacy of certain export transactions. BXA requires that an American officer conduct the checks, but of US&FCS posts in the five countries we recently visited, FSNs alone were conducting the checks in three, and an American contractor was conducting checks at a fourth. BXA was unaware of the posts’ noncompliance because all four posts failed to (1) request or receive a waiver from BXA to use FSNs for end use checks, and/or (2) properly identify who conducted the checks in its response cables to BXA.

The posts need to improve their end use check process to comply with BXA’s policy on who may conduct these checks. In addition, by working with other embassy officers, the posts may increase their access to potentially important information about the local business or organization receiving the controlled items. US&FCS should also discuss with BXA the possibility of using qualified American personal service contractors (PSCs) to conduct BXA checks. (See page 17.)

- **US&FCS needs to improve its use of personal service contractors.** Due to hiring ceilings and the inability of some posts to acquire additional American officers and FSNs, US&FCS has been relying on PSCs to perform an increasing share of core US&FCS functions, such as market research, specialized client services, and business counseling. OMB regulations and US&FCS’s *Operations Manual* prohibit contractors from supervising government employees; controlling money, property, or other valuable resources; and exercising discretionary government authority, including representing the

U.S. government before a foreign government. However, we found US&FCS PSCs performing each of these prohibited activities.

Increased reliance on PSCs has also contributed to decreased morale and increased confusion over duties, responsibilities, and chain of command. Pay differences, lack of clarity in PSC responsibilities, and cultural differences are sources of friction between PSCs and FSNs that can result in decreased office productivity and effectiveness. Reliance on PSCs for work that traditionally provides opportunities for FSNs to develop could put US&FCS's corporate knowledge base at greater risk due to PSC turnover.

US&FCS believes that, with its current hiring restrictions, it cannot provide the level of services demanded of it by U.S. businesses without relying on contractors for professional office functions. However, it is possible that the current level of permanent staff assigned to certain foreign posts and domestic offices is not necessary and that reallocating some permanent staff allotments may alleviate constraints at other posts. Unfortunately, without a sound justification for US&FCS's current resource allocations (see page 23), it is difficult to demonstrate clearly how the agency may be truly constrained by current hiring ceilings.

To ensure compliance with Office of Management and Budget (OMB) regulations, US&FCS should consider meeting with the appropriate OMB representatives to review US&FCS's interpretation of OMB regulations, and to explore possibilities of temporary waivers or exemptions. To help SCOs deal with FSN/PSC communication problems, US&FCS should provide practical policy guidance to the field, perhaps in the form of "best practices," addressing acceptable and unacceptable professional relationships and assignments of responsibilities, and ways to improve office communication and cooperation. (See page 20.)

- **Overseas resource allocation model requires management attention.** As early as 1984, we were recommending that ITA base resource allocation decisions on assessments of where export potential was greatest. Our general concern was that the agency lacked a defensible method of allocating its limited staff resources. In 1992, we highlighted the agency's two-step resource allocation involving both an independent resource allocation model and management's separate judgments on policy and legislative priorities. But since 1992, a significant amount of management judgment has crept into the model, blurring the line between these two important steps. This makes it difficult to identify the results of the more objective economic analysis and determine the impact or appropriateness of the more subjective application of policy determinations on the final allocation decisions.

The allocation model relies on several types of quantitative and qualitative data that, in conjunction with a complex weighting scheme, is intended to rank every US&FCS country by their U.S. export potential. We examined certain variables used in the model and spoke with US&FCS staff who work on it, provide data to it, and rely on its results. We found that, unlike the model we reviewed in 1992, the results of the current model reflect some policy decisions and do not provide an independent assessment of each country's potential for U.S. exports, thus compromising one of the original purposes of the model. US&FCS should clarify the line between the resource allocation model and management's policy judgements by removing or further separating the role management priority and policy variables play within the model, and by ensuring that subjective variables remain independent of those management priorities and policies.

Administration and departmental policies and other subjective variables play a key role in determining where resources should be directed. We believe that such management policy determinations should be based consistently on explicit criteria and built upon the results of an objective resource allocation model. If senior management is to remain accountable for the decisions it makes, its subjective influence on allocation decisions must remain clearly identifiable and separable from the objective resource allocation model rankings. The necessary management judgments, made after the allocation model provides information about relative export potential, should be documented sufficiently so that the final resource allocation decisions have clear and defensible justifications. It is important that the entire allocation process be transparent so that scarce US&FCS resources are allocated in the most advantageous manner possible to expand U.S. trade. (See page 23.)

- **Performance evaluation system practices undermine evaluation system credibility.** In our recent post inspection reports, we describe the circumstances in which SCOs in the field demonstrated management weaknesses. Senior US&FCS and other ITA officials were aware of some of those weaknesses, yet took no action to address or correct them. The reluctance within US&FCS management to take action against known non-performers raises serious questions about the efficacy and integrity of the US&FCS performance evaluation and management processes. Interviews with US&FCS staff repeatedly highlight a seriously flawed performance evaluation system that is especially useless in dealing with poor or marginal performers. US&FCS's tendency to give its officers high performance ratings undermines the credibility of the evaluation system, frustrates truly outstanding performers whose accolades are diluted, and handicaps managers' ability to impose formal sanctions on or otherwise deal with non-performers without the heightened risk of allegations that individuals are being "singled out." (See page 26.)

- **Interagency coordination overseas needs improvement.** The benefit of interagency coordination was one of the driving forces behind the formation of the Trade Promotion Coordinating Committee (TPCC) in 1990, and much of its policy-oriented focus has been predicated on improved coordination between federal agencies that seek to expand U.S. trade opportunities. Yet we found many examples of the lack of interagency coordination at posts overseas that (1) result in missed trade opportunities, (2) contribute to general inefficiencies, or (3) risk unfair treatment of competing U.S. firms.

In sum, US&FCS headquarters can use the TPCC agenda of improving coordination and synergy between federal agencies to expand trade opportunities and reinforce US&FCS performance standards for SCOs and other staff in the field. US&FCS can consider rewarding or recognizing, as appropriate, specific overseas *improvements* in interagency coordination. More importantly, US&FCS needs to “institutionalize” TPCC goals, so that productive synergies depend less on personal relationships between commercial officers and representatives of other agencies who rotate in and out of posts. (See page 27.)

- **Posts inadequately use information technology.** Businesses and markets around the world are rapidly entering the “information age,” and the TPCC has recognized the need for US&FCS to strengthen its outreach efforts through technological linkages. Yet US&FCS has no coherent technology strategy, and we saw numerous examples of posts lacking adequate hardware, software, training, and information technology support in the field. In Germany, two trade specialists had to bring their personal laptops to work because their desktop computers were not working. At two other posts, almost no one in the office knew the basics about operating recently installed software. No one at the US&FCS posts appeared to use the Commerce Information Management System database for any significant work in their operations. Furthermore, Internet access does not appear to be universally available, and the posts’ “home pages” on the Internet were not always providing useful links to the pages of other ITA or related organizations.

Technical support in the field is inadequate. After the elimination of regional automation coordinator positions in 1994, “system administrators” were designated at each post. We found that some system administrators were unqualified to do much more than forward questions on to the US&FCS headquarters staff. At times, the posts’ technical support questions have gone unanswered by US&FCS headquarters. Local support can be difficult or expensive to obtain and, in Germany, was complicated by headquarters not making documentation available for use by local vendors.

During our interviews at headquarters, we were told that US&FCS was drafting new guidance and a plan for information technology support for its foreign and domestic operations. We were not provided copies of this draft plan, but we were told simply that US&FCS is seeking to decentralize its support. We emphasize the need for US&FCS to upgrade its information technology capabilities, and we look forward to seeing US&FCS's forthcoming strategic plan for information technology. (See page 30.)

Recommendations addressing our concerns are on page 32.



The US&FCS/ITA response to our May 1997 draft report accepted explicitly many of the recommendations we made and described generally the agency's concerns about many of the issues discussed in our draft report. The response, however, was not clear on how or whether the balance of our specific recommendations would be addressed. As appropriate, we have added additional comments and clarified several points throughout the final report. We have also asked that we be provided with an action plan within 60 calendar days, in accordance with the procedures described in DAO 213-5. The action plan should (1) address the evaluation's recommendations and (2) provide a status report on any information technology plans or studies of ICASS, discussions with OMB regarding the use of PSCs, revisions to the overseas and domestic resource allocation models, and other issues that will have a profound impact on future US&FCS operations. The entire agency response is included as an attachment.

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 inspections of U.S. and Foreign Commercial Service operations in Germany, Indonesia, Malaysia, Poland, and Thailand during the period September 8 through September 27, 1996.¹ We discussed some of our preliminary observations with the respective ambassadors, consuls general, and senior commercial officers (SCOs). In addition, we briefed the Director General and Deputy Assistant Secretary for International Operations at US&FCS headquarters. Because several of our inspection issues and concerns involved other members of the US&FCS network and International Trade Administration headquarters, we conducted additional work in ITA headquarters and discussed pertinent matters with other US&FCS field personnel. This report covers the many issues that transcend individual posts. This program evaluation was conducted in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

PURPOSE AND SCOPE

The purpose of this report is to provide agency managers with timely information about operations, including current and foreseeable problems and to encourage effective, efficient, and economical operations. By highlighting problems transcending our recent individual inspection reports, the OIG hopes to help managers move quickly to eliminate these problems.

The purpose of the five country inspections was to evaluate the effectiveness of the US&FCS posts in assisting U.S. businesses to expand their trade and business opportunities. We also looked at the policies, procedures, and practices being followed by the US&FCS posts in carrying out assigned functions and activities. This included determining whether established goals were being achieved, evaluating the economy and efficiency of operations, and assessing the posts' compliance with applicable regulations and policies. We also examined the coordination between the posts and other organizations in achieving the overall goals of ITA and the Department of Commerce.

¹ See *Final Inspection Report US&FCS Post in Germany* (IPE-9287, August 1997), *Final Inspection Report US&FCS Post in Indonesia* (IPE-9285, May 1997), *Final Inspection Report US&FCS Post in Malaysia* (IPE-9284, April 1997), *Final Inspection Report US&FCS Post in Poland* (IPE-9288, April 1997), and *Final Inspection Report US&FCS Post in Thailand* (IPE-9286, April 1997).

In conducting the inspections, we (1) reviewed the organizational structure and operating approaches used in administering activities at the posts; (2) interviewed appropriate representatives of the Commerce, State, Defense, and Agriculture Departments, Trade and Development Agency, U.S. Information Agency, U.S. Agency for International Development, private sector, and host governments; and (3) examined pertinent files and records relating to the posts' operations. The inspections also included a review of ITA headquarters and district office activities that support the posts' operations.

Based on these overseas inspections and our later follow-up work, we have identified several problems and inadequacies that significantly hamper US&FCS's export promotion efforts. We believe that by addressing each of the cross-cutting issues we identify in this report, the US&FCS will benefit by improved effectiveness and efficiency or reductions in cost. We have separated the issues into two groups, based generally on our sense of how readily US&FCS may be able to address them.

In addition to the many country-specific recommendations in our recent inspection reports, there are five cross-cutting issues that we believe can be addressed immediately by additional actions that we recommend to the Director General. We treat these five issues individually in our "Observations and Conclusions" section following our general observation about the quality of work performed by the posts. We provide specific recommendations to address these concerns. An additional four cross-cutting issues may require more effort of US&FCS to fully resolve, and we group them together under one general observation dealing with "other issues." We hope to review at least two of these issues in greater depth within the coming year.

BACKGROUND

The International Trade Administration administers a variety of programs and activities designed to increase U.S. exports. In addition to its headquarters operations, ITA maintains a network of U.S. Export Assistance Centers, district offices, domestic branch offices, and foreign posts in 69 countries.

The U.S. and Foreign Commercial Service, located at ITA headquarters and in domestic and foreign field offices, is structured to provide business firms with a base of export assistance support stretching from individual U.S. cities to specific foreign markets. Domestic operations are conducted through a network of 98 domestic offices, including 19 U.S. export assistance centers. Personnel at these offices primarily counsel U.S. firms on exporting, including how to get started, how and where to find foreign buyers, and how to successfully compete for foreign business.

The 138 foreign commercial offices perform a number of activities that are directed at improving the trade position of the United States, including identifying trade or investment opportunities, finding potential representatives or agents, providing business consultation to U.S. visitors at foreign posts, making business appointments with potential trading partners or host government officials, assisting in the implementation of export controls and other trade regulation activities, and preparing market research on a country's "best prospects" industries.

The overseas posts are generally staffed by three types of professionals: (1) American career officers within the foreign service, who rotate among posts on three or four-year assignments and are intended to provide the primary professional contact with U.S. businesses, the U.S. government, and senior foreign business and government officials; (2) career foreign service nationals (FSNs), who provide critical local continuity by maintaining foreign business and government contacts, and handling most of the specialized and general market research and business consulting; and (3) personal service contractors (PSCs), who provide the balance of support through specialized services beyond what current career staffing levels permit.

The five countries we visited together accounted for over \$42 billion in U.S. exports in 1995 (approximately 7 percent of total U.S. exports), and four of them are classified as part of ITA's "big emerging markets." The export potential of the countries were ranked individually between 7 and 28 according to US&FCS's fiscal year 1996 overseas resource allocation model. The combined staffing (including contractors) at the five posts is about 128, or about 13 percent of US&FCS's entire overseas presence.

OBSERVATIONS AND CONCLUSIONS

I. Posts Are Generally Effective in Providing Trade Promotion Services

In general, the US&FCS posts we visited were vigorously participating in activities that we would expect to be helpful in promoting U.S. exports, including undertaking advocacy efforts, providing business counseling, conducting market research, establishing and maintaining local contacts, connecting U.S. businesses with interested local companies and contacts, and providing a range of products and services. The quality and appropriateness of the activities we observed were generally good, and we would expect that level of performance to result in export actions. We did not attempt to evaluate the impact of US&FCS operations, or the validity of the many reported success stories resulting from its efforts.

The staff we met at the posts appeared well-qualified and motivated for their work, with a few exceptions. It is worth noting that every commercial officer with whom we spoke told us that FSNs are the backbone of US&FCS's overseas operations, and the continuity and local expertise they provide are crucial to any successes US&FCS has in promoting U.S. exports. We agree and encourage US&FCS to continue seeking creative ways to recruit, develop, encourage, and retain these critical local contributors.

Most of the US&FCS posts we visited had offices located in core business districts, outside their respective embassy and consulate compounds. At each location outside the embassy, we found that ready access to US&FCS by local and U.S. businesses contributed to the US&FCS staff's ability to promote U.S. exports. Business district locations and ready access facilitate easier scheduling and greater frequency of meetings between staff and outside contacts, as well as decreased travel times and a local perception of US&FCS having a business rather than government orientation. Locating outside the embassy, however, complicates meetings between US&FCS staff and other federal government staff located within the embassy, but it appeared that the benefits outweighed this drawback. Indeed, at three of the five posts we visited, US&FCS is already collocated with other federal government agencies outside the embassy. We encourage US&FCS, where security considerations permit, to continue seeking cost-effective ways to locate its staff in core business districts and outside embassy and consulate compounds.

In its response, US&FCS wrote, "we would have appreciated more feedback on what programs in the five countries reviewed seemed to work most effectively, Instead, the draft report dwells on problem areas at five posts and extrapolates into systemic weaknesses...."

The one-week inspections with subsequent follow-up were not designed to assess the individual impact or effectiveness of specific products or services provided by the posts; but rather to

measure generally the effectiveness of the posts' assistance in delivering the US&FCS's prescribed products and services to their clients. During the inspections, we observed the activity of the posts and satisfied ourselves that the posts were generally effective in delivering such products and services to their clients. As previously stated, we did not attempt to evaluate the impact of individual products and services, and therefore did not recommend which were most effective or suitable as "best practices." Moreover, our identification of problems and recommendations are based on significant amounts of follow-up work at US&FCS/ITA headquarters in addition to the inspection visits, and lead us to conclude that the issues we raise are indeed "cross-cutting" or systemic.

II. Some Overseas Posts Do Not Manage Their Resources Well

We found that most of the posts we visited did not (1) adequately develop or implement a strategic plan for the most effective use of their resources, (2) monitor resource usage to permit costing of various products and services, or (3) evaluate the usefulness, effectiveness, and adequacy of their products and services through effective follow-up. As a result, although each post was vigorously pursuing a number of activities to promote U.S. exports, the comparative cost and value of such activities are not well known.

A. Posts do not adequately plan resource use

Although the posts we visited were actively promoting U.S. exports, most did not have an effective plan to clarify their objectives or align their resources with priorities. Without forward-looking plans and retrospective or up-to-date information systems on resource usage, overseas posts are ill-equipped to maximize the effectiveness of their resources.

In Malaysia, for example, poor resource management and priority setting contributed to postponements and cancellations of the valuable gold key service, while other services of apparent lesser priority were delivered. Despite the Thailand SCO's view that the post had insufficient human resources, the post allocated staff to a commercial library that contributed little to the post's objectives. In Poland and Germany, some market research was being produced due to the perception that US&FCS headquarters required a predetermined number, or quota, of reports, rather than to meet an identifiable demand for particular reports. None of the five posts had determined whether their market research had the appropriate level of resources devoted to it or whether it had the intended impact.

On a positive note, we found that the SCOs in Poland and Indonesia developed sound plans for their offices to better assist U.S. firms seeking to export. The plans identified key sectors, focused on several country-specific issues, and included specific goals and measurable milestones.

In addition, the strategies were well integrated into the office's operations and the staff's individual work plans.

Overseas staff are in daily contact with foreign government and business representatives, U.S. businesses, and other U.S. government agencies. Overseas posts are generally very active and must handle tactfully and professionally many activities and events with pressing deadlines. Moreover, competition in overseas markets is fierce. One small step can make the difference between a successful business transaction and a failed one, and every missed overseas transaction translates into less economic activity in the United States. Thus, US&FCS must take advantage of every reasonable opportunity to use fully the resources at its disposal while maintaining the high standards of service that U.S. businesses expect. US&FCS cannot afford missed opportunities resulting from inadequate planning.

We believe that US&FCS can begin immediately to take steps to improve the quality of resource management in its overseas operations. Every US&FCS post should have a clear understanding of its priorities and how they translate into day-to-day activities. Planning must account for the "crisis" periods of high workload that are inevitable in US&FCS's operations. US&FCS should reward and, as appropriate, hold accountable managers in the field for *improving* how they allocate the resources provided to them. In addition, US&FCS should have clear requirements that post strategic plans adequately specify post priorities and criteria that can guide day-to-day activities.

The US&FCS response stated that our draft did not reflect "an appreciation for the 'responsive' or 'reactive' nature" of overseas work, "which is inherently unpredictable." We disagree. We explicitly state that planning must account for crises and unpredictable work loads. However, these do not preclude developing strategic plans that present post priorities clearly and develop criteria for prioritizing daily activities.

In response to our specific recommendations, US&FCS described plans to make performance evaluations more realistic, the addition of several elements to Quarterly Reports to better assess effectiveness of SCO's resource management, and the general contents of Strategic Commercial Plans (SCPs). While the plans may be useful, we do not believe that this response deals adequately with either of the recommendations.

We stress here, as we did in the draft report, that field managers should be rewarded and held accountable for *improving* their use of resources. While the SCPs we reviewed did describe the bulk of post activities, they did not provide guidance as to how various elements of the strategy might be prioritized—guidance that is critical given the unpredictability of the post's day-to-day activity. We are not suggesting that instruments, such as the SCP, forecast resource use on

specific ad hoc assignments. Rather, our recommendation is intended to help transform the SCP from a largely descriptive report of intended general post activity into a strategic document that can assist post management to deal more effectively with competing demands on the post. We have edited the recommendation to include the specification of “criteria” in the SCPs.

B. Posts do not adequately monitor resource use

None of the posts we visited had a resource or time management system that would effectively enable managers to estimate reliably the unit costs of various post products and services. For example, staff could not accurately determine how many hours each trade specialist spent on the various products and services. Similarly, the Poland post has a well-maintained library, but the post’s management does not track who uses the facility, how often, or for what purpose. We recognize readily that the cost of individual products and services will vary by client and circumstance, but without measures of approximate relative effort and expense involved in producing various outputs, managers cannot assess the cost and benefit tradeoffs of competing activities. Such assessments are necessary to maximize the productivity of their post. Without feedback of time and cost information at the posts, management cannot reliably determine what resources have been or should have been devoted to various activities.

As pressure increases on all federal agencies to tie performance, outputs, and impacts to cost and budget requests, US&FCS will come under increasing pressure to evaluate the cost and benefit of its various activities. US&FCS should review the potential value to both field and headquarters managers of obtaining estimates, perhaps based on staff time, of the relative unit costs of US&FCS products and services. If warranted, US&FCS should consider providing at least some larger posts with resources to monitor and evaluate, on an experimental basis, the staff and other resource time spent on various post products and services to develop estimates of their unit costs to assess their cost effectiveness.

The US&FCS response to this section appears to disagree with our observations and recommendations but then states it is implementing the recommendation on a pilot basis in Brazil. The response (1) states, “we are not sure what the desirable outcome is of tracking precisely how much time is spent on discrete activities,” (2) questions how various post functions can be quantified, (3) suggests dangers of assuming that unit costs can be measured, (4) describes other problems with relying too simply on unit cost measures, (5) maintains that smaller posts are more likely to need the assistance we recommend, and (6) states that it does not think that our recommendation will be useful.

We agree with much of what the response says about the problems of relying solely on unit costs to allocate resources. We do not advocate unit costs as the sole means of allocating resources, but as an important input for management in making decisions. Along with unit costs, effectiveness of products and services and other such management information should be evaluated. We are encouraged that US&FCS is beginning, at least on a pilot basis with one of its larger posts, to implement the intent of our recommendation.

C. Posts do not evaluate the effectiveness of their products and services

Most US&FCS posts we visited did not adequately follow up on their products and services in order to measure the impact of their operations and their effectiveness in serving the American business community. Without this information, the posts could not effectively determine (1) the relative importance of their products and services, (2) the need to modify, add, or delete products and services based on that determination, or (3) the appropriate amount of resources to devote to each of their programs.

In our recent visits, most sites possessed neither a requirement nor a specific mechanism to obtain qualitative feedback on the relative importance of their services, such as business counseling, trade event support, gold key services, and trade missions. Trade specialists indicated that most feedback received is unsolicited from US&FCS clients. They also stated that the feedback they do solicit is almost exclusively focused on recording “success stories” and depends on the specialists’ available time and their interest in obtaining such feedback. Their efforts are not coordinated to compare various products and services.

The US&FCS constituent post in Berlin, Germany, conducts more gold key services than other German posts, but it does not consistently follow up with clients to determine whether clients benefitted from the service or what other services might be beneficial. In Thailand and Malaysia, we also found inconsistent follow up and evaluations of products and services. We noted in our Thailand report that neither the senior commercial officer nor her deputy have adequately assessed and prioritized the post’s products and services to ensure efficient, high-quality assistance to U.S. businesses. We were pleased to note, however, that the post has started to automate its follow-up on gold key services.

US&FCS told us that in response to our previously expressed concerns, US&FCS had been improving its follow-up requirements for posts worldwide. We were told that a headquarters unit, Export Promotion Services (EPS), conducts quality assurance surveys of post customers in order to obtain feedback on products and services for the posts. However, we found the EPS quality assurance surveys to be inadequate for post needs. EPS managers indicated that because

their surveys captured only a fraction of US&FCS customers and had a low response rate (for example, a recent survey of 150 Trade Opportunity Program clients generated only 13 responses), they were statistically invalid and therefore not projectable to all posts worldwide. Furthermore, officials indicated that the response rates were too low for meaningful country-specific reporting and that the surveys were not designed for constituent post-specific reporting. The posts cannot rely on EPS's quarterly reports to be helpful in this regard.

It is incumbent upon SCOs to ensure that the products and services offered by US&FCS overseas posts are first appropriate and useful, and then that the posts are consistently rendering quality products and services. The SCOs must have an effective strategy for delivering products and services and then consistently follow up on those products and services for both input into the planning process and to ensure that high quality is maintained.

The US&FCS response describes in detail the attempts and intent of EPS to measure and report on the results of products and services provided at post. The response also asks whether "the OIG is suggesting that posts be permitted to offer selected items from the US&FCS menu of export assistance programs?"

Firstly, we followed-up with EPS after our field inspections and, as we described in the draft report, found the EPS efforts to be inadequate for post needs. Hence, we reaffirm our recommendation that US&FCS review the potential value of obtaining estimates, based on staff time, of the unit cost of US&FCS products and services. If warranted, US&FCS should consider providing at least the larger posts with resources to monitor and evaluate staff time and other resources spent on various post products and services in an attempt to develop estimates of their unit costs.

Secondly, if a post can demonstrate to the appropriate US&FCS officials that certain products and services are not cost-effective to provide or are duplicative of those available in the private sector then, yes, those products and services should be thoroughly analyzed for dropping and, as appropriate, resources should be reallocated to other activities, and district offices and others should be notified of the change in the post's mix of available products and services. There is a domestic need for some standardization of products offered by overseas posts, but this should not force posts to provide products and services that are not cost-effective or otherwise readily available elsewhere. It is our understanding that EPS has already allowed some posts to eliminate certain products, such as the international company profiles (ICPs).

III. Regional Directors Failed to Provide Adequate Oversight of Posts

US&FCS's overseas operations are managed by the Office of International Operations. The Deputy Assistant Secretary for International Operations oversees five regional directors, who are responsible for monitoring US&FCS operations in their geographic regions and serving as headquarters points of contact for their overseas posts. The East Asia and the Pacific region comprises 13 countries, while the Europe region comprises 48 countries.²

Some of the post-specific problems noted in our individual inspection reports and their potential adverse effects on the agency's export promotion efforts have been compounded by the failure of regional directors to provide necessary oversight and to hold SCOs accountable for post management weaknesses. Equally important, when the regional director might have been able to help an SCO better handle post problems or provide guidance and support, the regional director did not. Too frequently, regional directors were unable or unwilling to carry out some of these major duties described in their position description:

- Conducting periodic on-site post management reviews of each post's operations, personnel, and administration to determine that goals and workloads are realistic and operations are efficiently and effectively run.
- Ensuring that the post's annual country commercial guide and work plan use US&FCS resources efficiently.
- Identifying systemic or recurring problems with a post's implementation of US&FCS programs.
- Negotiating problematic and precedent-setting program and personnel-related issues with senior State Department officials concerning issues relating to specific posts.

The fulfillment of these duties would encourage efficiency and accountability, and provide a conduit for innovations and lessons learned that could benefit other parts of US&FCS. Unfortunately, these duties have not been carried out consistently in the regions we visited.

² The East Asia and the Pacific region includes: Australia, China, Hong Kong, Indonesia, Japan, Malaysia, New Zealand, the Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam. The Europe region includes 25 posts in Eastern Europe, 16 in Western Europe, seven in Russia/NIS, and 12 American Business Centers.

For example, the former regional director³ for East Asia and the Pacific told us that he was unable to act on the specific management problems we found in Malaysia and Thailand because he had not received formal feedback on them. In fact, the regional director never visited either post during his three-year tenure. Yet, the regional director and more senior managers in US&FCS admit they were aware, in the case of Malaysia, of the SCO's disengagement from the post's operations from informal feedback from clients and other ITA personnel. For example, one ITA official spoke of having to direct all inquiries around the SCO, to Malaysia's junior officer, knowing from experience that the SCO would not be responsive.

And in the case of Thailand, the former regional director told us that although he was not aware of many of the specific problems identified by our inspection team, he did have knowledge of FSN concerns over the pay structure and the possible conflict between FSNs and American PSCs. He became aware of this problem as the SCO in Bangkok for the four years immediately preceding the current SCO, prior to becoming the regional director. The post size also doubled since he left, suggesting the possibility that prior personnel-related issues could have worsened or new issues emerged.

By not visiting posts in Thailand and Malaysia, the former regional director did not have the benefit of in-depth discussions with the American, Thai, and Malaysian staff that could have alerted him to the existing management problems that he may have been able to help the SCOs correct. The former regional director also responded that because both the Thai and Malaysian posts' basic quantitative performance goals were generally maintained, there was no cause for him to take action against either SCO. The regional director, in attempting to explain his lack of involvement and oversight, also stated that he could not devote more time to monitoring those specific field operations, because he, like other regional directors, was often required by other US&FCS and ITA officials to work instead on various high profile projects. However, we question the merit of this argument since the regional director's primary and most critical responsibilities are to oversee commercial officers and operations in the field and strengthen their ability to promote U.S. exports.

In another case, critical planning and staffing decisions have been delayed by poor cooperation between the SCO in Germany and US&FCS management, notably the regional director for Europe. In the spring of 1995, the regional director asked the SCO to develop a comprehensive staffing plan to determine the changes necessary to realign US&FCS staff and resources with the changing needs of U.S. businesses in the German market. The regional director waited more than a year for a draft document to be submitted by the SCO and his deputy, and has yet to establish a deadline for submission of a revised plan. The regional director stated that he had aggressively

³ He served in that position from October 1993 until October 1996.

attempted to obtain the draft plan, but we believe that such an extended delay may have justified additional action. We note that this regional director has an excellent working relationship with the SCO in Poland.

Few, if any, of the overseas regional director's other functions and responsibilities are as critical as effective oversight and management of assigned posts. Other tasks, like policy support, can be carried out by other staff within ITA during times of urgency, but only regional directors are explicitly responsible for and in a position to provide essential program oversight and direction to officers in the field. There is no other staff to "pick up the slack" and carry the burden of this management duty. Organizationally, the regional director is the focal point for management of virtually all commercial officers. The regional directors are the Director General's and other US&FCS headquarters managers' primary link to the worldwide network of commercial officers.

The management priorities and high-profile projects of senior political leadership are valid responsibilities for regional directors when tasked through the Deputy Assistant Secretary for International Operations. But a balance must be struck, and any imbalances should err on the side of regional directors' primary function— regional management of posts. There is no excuse for regional directors, and by extension their senior management, not being informed about and accountable for the performance of individuals whom they are charged with managing.

One step US&FCS should take to increase the stature of regional management is to update its *Operations Manual* to include a new section covering the functions of regional directors within the Office of International Operations. This section is conspicuously absent from the manual, particularly because regional management of US&FCS domestic operations is addressed elsewhere. A clear statement of the overseas regional directors' responsibilities would reinforce their importance to US&FCS as a whole. It is also important to reemphasize the regional manager's primary role and clarify the importance of getting this work done. This should help limit the assignment of regional managers to other tasks.

Additionally, as the ITA considers restructuring itself along its strategic missions, US&FCS should examine how it can strengthen its management of overseas field operations. For example, increasing the stature, responsibility, accountability, and attractiveness of the headquarters regional director positions would provide a strong incentive for commercial officers with greater management experience to return to Washington and manage overseas operations. An increase in the rank and experience requirements of regional directors, and the Deputy Assistant Secretary for International Operations, may better enable them to maintain their field management responsibility as a priority when dealing with either SCOs in the field or other senior US&FCS and ITA officials.

The US&FCS response recommended that our report more fully reflect the need for regional directors to be responsive to the needs of senior political leadership within the Department. We agree that this is a valid function of the positions, but only when tasked through the appropriate US&FCS chain of command and when it does not compromise regional directors' ability to manage their posts well. We have revised the text accordingly.

The response said that US&FCS was adding the suggested section to the *Operations Manual* and that US&FCS was taking steps to reclassify regional directors at the Officer Counselor level. We encourage US&FCS to follow through with the rest of the recommendation by considering how particular management experience—not simply that of any officer with the requisite rank—may also be required for the positions.

The response does not clearly indicate whether US&FCS accepts that additional action is required to fulfill the two recommendations regarding management work plans. While we welcome US&FCS attempts to educate reviewing officials on giving appropriate feedback to rated employees and the related procedures, we do not agree that the current generic performance plans address the recommendations that would *clarify* the importance of regional director managerial responsibilities. We believe that the existing vague and implicit references to the responsibility to reward and correct behaviors obscure the importance of this critical job element.

IV. Potential Savings Justify Aggressive US&FCS Involvement in ICASS Development and Cost Studies

The Foreign Affairs Administrative Support system (FAAS), under which the State Department formerly provided support services and billed agencies, was inefficient and did not distribute costs fully or equitably. The new administrative cost allocation system, known as International Cooperative Administrative Support Services (ICASS), is being tested and will go into effect in fiscal year 1998. ICASS is designed so that US&FCS and other U.S. agencies will have greater control over their services and pay costs that more closely reflect the services they receive. Overall costs for overseas administrative support charged to US&FCS overseas offices are expected to increase from \$11 million to \$17 million. This increase of about 55 percent reflects largely the costs under FAAS that are not currently being passed on to US&FCS.

While the State Department will continue to provide many services, such as local guard protection, alternative providers exist for other support functions at many posts. Participating agencies, through their local ICASS Councils, are empowered to choose service providers according to cost, convenience, effectiveness, and other criteria. US&FCS has not decided if an outside party should provide the bulk of its overseas administrative services or whether US&FCS could efficiently provide services for itself. US&FCS is considering various options, such as establishing its own administrative section, contracting out with other federal agencies, and procuring the services from the private sector.

This summer, ITA had planned to contract for a study to determine both the feasibility and cost of creating a section of 16 to 20 employees to provide most, if not all, of US&FCS overseas administrative support—the largest component of US&FCS overseas support costs. Such a US&FCS administrative section or the use of other public and private sector providers may, in some cases, be able to provide less expensive and/or higher quality service than the State Department. However, the management control review, under which the feasibility study would have been conducted, was terminated before completion and ITA decided to reassess ICASS and its alternatives after one full year of experience. If ITA does undertake any cost comparisons, it needs to ensure that justifiable comparisons are made and that all viable options, including local private sector services and continued participation in some or all ICASS services, are considered fully. For example, it is likely that under ICASS the State Department will continue trying to reduce its own administrative costs, so that any ITA comparisons of State Department costs would need to account for realistic projections of State Department cost reductions. Furthermore, given ITA's downsizing efforts and the National Performance Review's objectives of reducing central administrative overhead, it is prudent to look at alternatives other than adding 16 to 20 positions.

We question ITA headquarters's ability to determine the most cost-effective alternative plan for acquiring services overseas. US&FCS officers in the field, in consultation with headquarters, are in a much better position to evaluate quickly the cost-effectiveness of options available to them. In fact, local interagency cooperation is one of the key principles of forming in-country councils of the overseas representatives of federal agencies under ICASS. We believe that US&FCS resources provided to field representatives on a selective basis, to undertake local or regional feasibility and comparative cost studies, could provide useful and relevant information that may provide large savings to US&FCS. Ideally, each affected federal agency will provide funding support for these studies. However, we believe that the potentially high returns to US&FCS and the likelihood of higher bills for services from the State Department under ICASS may be sufficient to justify US&FCS providing funding to selected ICASS Councils for such studies without waiting for funding agreements with other agencies.

Local knowledge of, and participation in, administrative cost issues by US&FCS staff will continue to have profound effects on the US&FCS's overseas costs. For example, in Germany, a focused US&FCS effort to track costs and question invalid charges resulted in greatly reduced FAAS charges. Any support system under ICASS that involves interagency billing warrants similar scrutiny. Yet during our September 1996 post inspections, we observed several instances of inadequate staff training and management participation in ICASS, which has the potential to expose US&FCS to unnecessary and/or high costs. For instance, in Poland, one of four ICASS pilot posts, the SCO showed only modest interest in participating on the ICASS Council because she was frustrated by a lack of headquarters guidance or assistance. Post ICASS Councils make many decisions that could affect the amount of money US&FCS pays for administrative support. In Indonesia, due to scheduling conflicts, no American officers were able to attend training in administrative issues, including an important ICASS session. Several months later, however, the commercial attaché attended ICASS training in Thailand with other officers from the region. To ensure that cost effective and high quality services are received, US&FCS needs to direct senior post participation on the ICASS Councils and appropriate post participation on ICASS working groups, as well as provide ICASS and administrative training for U.S. and non-American administrative staff.



The US&FCS response gives examples of the various methods used by US&FCS to facilitate the exchange of information regarding ICASS issues and takes issue with our draft report questioning the ability of ITA headquarters to centrally determine the most cost-effective plan for acquiring services overseas. While the efforts to improve communication may be notable, we maintain, as US&FCS accepts in its response, that officers in the field are better able to evaluate quickly the cost-effectiveness of options available to them. In general, it will be more difficult for headquarters-directed studies of centrally-planned administrative support structures to give appropriate weight to the comparative costs and benefits of decentralized field alternatives.

The response cites two external studies by Arthur Andersen and Price Waterhouse. In addition, ITA refers to its management review initiated in fiscal year 1997 and the resulting preliminary analysis of administrative support. However, the two external studies were not cost comparisons, toward which our first recommendation in this section was directed. After we received the response, we spoke with ITA officials who informed us that the preliminary analysis would be the only product of the management review as the review was suspended soon after it began. ITA told us the preliminary analysis was not yet complete. No further reviews will be considered until after ICASS has been in place for one year. We maintain that the potentially large savings to US&FCS and the time it would likely take to implement alternative arrangements justify supporting proactive and justifiable cost comparisons without waiting one year.

In its response, US&FCS indicated its willingness to consider providing resources to selected ICASS Councils for local studies, when recommended by posts. Therefore, we have revised the second recommendation in this section from “Consider providing...” to “Invite and provide ...” And finally, the response described how overseas personnel have been actively involved in ICASS Councils and working groups, and how US&FCS has supported effective training programs for its staff. US&FCS separately provided us a copy of an assessment of the readiness of overseas posts. That assessment, based on a polling of posts, suggests that SCOs are generally confident about their readiness and training for ICASS. We recognize the effort put into assembling the training materials and organizing participation, but maintain, as we noted in our draft report, that we observed several instances of inadequate staff training and management participation in ICASS.

V. Posts Do Not Properly Follow Bureau of Export Administration's Export Licensing Regulations

The Department's Bureau of Export Administration (BXA) relies on the US&FCS posts to assist it in fulfilling its export control activities. Specifically, BXA requests the posts to perform pre-license checks and post-shipment verifications (collectively known as "BXA checks") to verify the legitimacy of certain export transactions. BXA requires that an American officer conduct the checks, but in three of the five countries we visited, FSNs alone were conducting the checks. BXA was unaware of the posts' noncompliance because all three posts failed to (1) request or receive a waiver from BXA to use FSNs for the checks, and/or (2) properly identify who conducted the checks in its response cables to BXA. The posts need to improve their BXA check process to comply with the bureau's policy on who may conduct the checks. In addition, by working with other embassy officers, the posts may increase their access to potentially important information about the local business or organization receiving the controlled items.

According to BXA's handbook, *How to Conduct Pre-License Checks and Post-Shipment Verifications* (March 1996), BXA checks are performed to verify the legitimacy of export transactions occurring under BXA's export licensing jurisdiction. BXA licensing officers and export enforcement personnel, as well as other federal agencies involved in the licensing process, can request that a post conduct a BXA check on a foreign company or organization. Pre-license checks determine if an overseas person or firm is a suitable party to a future transaction involving controlled U.S.-origin goods or technical data. Post-shipment verifications confirm whether goods exported from the United States were received and are being used in accordance with the provisions of the export license.

In Germany, Indonesia, and Thailand, FSNs conducted all of the checks requested by BXA from October 1995 through August 1996. The BXA handbook clearly states that BXA checks should be conducted by U.S. citizens who are U.S. government employees. Three cited disadvantages of FSNs conducting the checks are (1) the decreased credibility of the check, (2) the possible reluctance to testify against a fellow citizen in a U.S. court, and (3) the lack of access to classified material. Only BXA has the authority to determine whether special circumstances outweigh these concerns. These posts have neither requested nor received a waiver from BXA to allow their FSNs to conduct the checks. If necessary, the posts could seek such a waiver. However, at the time of this report, BXA has permitted only one post to use FSNs and will not likely grant waivers freely. Without a waiver, American officers need to perform all checks. During our on-site inspection, we informed the respective SCOs that while FSN participation in conducting checks can be useful due to their knowledge of local business clientele, they should stop relying solely on FSNs immediately.

BXA officials informed us that they will not normally consider checks completed if they are conducted solely by FSNs. At the posts in Indonesia and Malaysia, US&FCS was not fully identifying the name and position of the individual conducting the checks within the response cables to BXA. Without a clear statement in the response cable indicating the name and position of the person conducting the check, BXA cannot accurately determine whether the check was properly completed.

In addition, after completing our on-site inspections, we discovered that one post (Poland) allowed an American PSC to conduct a BXA check. Because this person uses the title "Commercial Attaché," BXA officials assumed that this individual was a commercial officer and approved the BXA check results. After discussing this matter with BXA officials, it is clear that BXA does not, at this time, permit the use of PSCs to conduct these checks. BXA officials are interested in learning more about US&FCS's use of PSCs and what, if any, clearances PSCs are granted. We suggest that US&FCS discuss this matter with BXA, especially if US&FCS would prefer sometimes to use American PSCs rather than American officers to carry out this work.

Despite these posts' noncompliance with BXA guidance, our review of the posts' files discovered an adequate amount of information-gathering (such as correspondence with the subject company or organization and copies of documentation of the transaction at issue). In all cases reviewed, an on-site visit was performed with the subject organization as suggested by BXA. Some posts' processes for conducting the checks could be improved, however, by involving other embassy personnel or sections that may have information on how certain items could be inappropriately used or diverted or about the subject company or organization. While the Germany, Indonesia, and Poland posts adequately coordinated their BXA checks with other agencies at the embassies, the Malaysia and Thailand posts could do more.

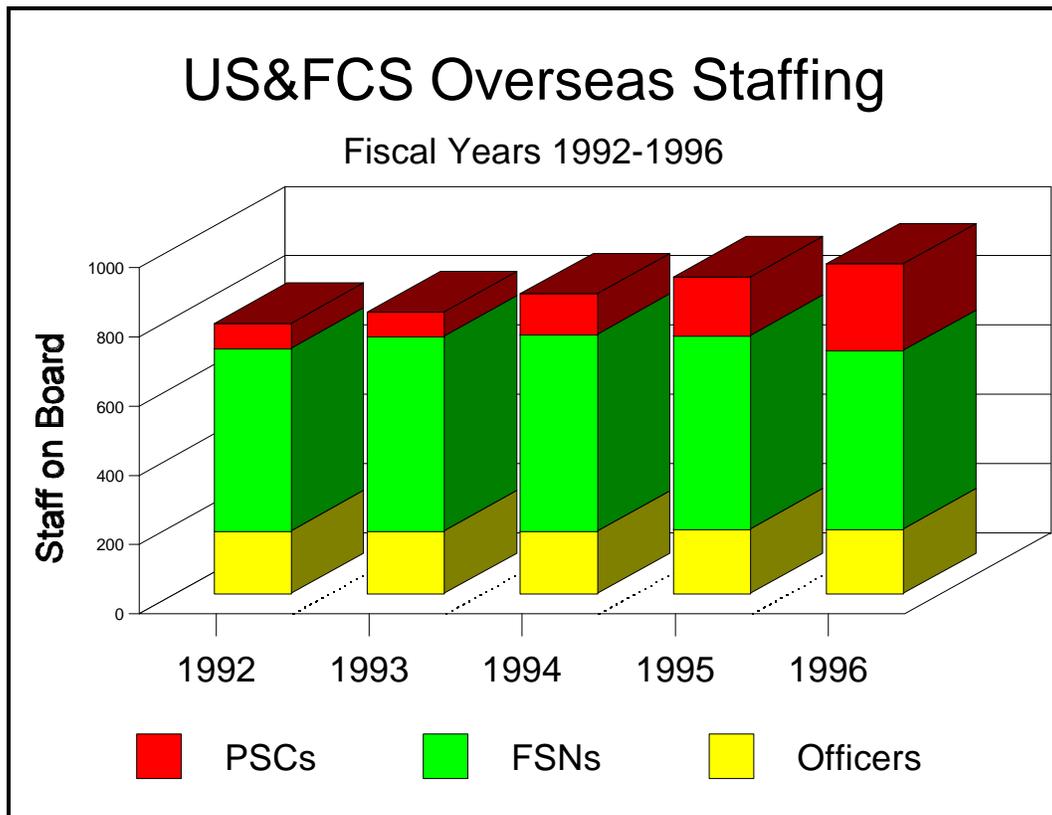
All of the posts should review the embassy's "blue lantern" implementation plan, which defines how checks of State Department controlled items are conducted and which sections of the embassy participate. The "blue lantern" plan may provide additional sources of information for the posts to access during BXA checks. Depending on the number of BXA checks conducted each year, US&FCS should balance the greater access to information, which could improve the depth of analysis for these checks, with the likely burden on the post or the other sections.

The US&FCS response describes significant actions being taken or planned that would fully address each of the recommendations in this section, with two caveats. First, since the receipt of US&FCS's response, our office has issued a draft report to BXA that covers some of these issues in greater detail (see *Export Application Screening Procedures Could Benefit from Further Changes*, draft, August 1997, OIPE-9524). Second, the response suggests that seeking comment from BXA at the end of each performance cycle will hold officers in the field accountable for

following or violating BXA procedures. This alone would not have identified the violations we observed and described in our draft report because the posts' response cables did not always identify the position and employment status (e.g., PSC) of the person conducting the check. It is our understanding that BXA is now beginning to monitor for possible violations more closely, which, in concert with US&FCS's proposed action, should enable BXA and US&FCS to fulfill this recommendation.

VI. US&FCS Needs to Improve Its Use of Personal Service Contractors

Due to hiring ceilings and the inability of some posts to acquire additional American officers or FSNs, US&FCS has been relying on personal service contractors to perform an increasing share of core US&FCS functions, such as market research, specialized client services, and business counseling (see figure below). We found that some posts are also using PSCs for prohibited activities. According to OMB regulations, contractors are prohibited from supervising government employees; controlling money, property, or other valuable resources; and exercising discretionary government authority including representing the U.S. government before a foreign government.⁴ Until recently, PSCs had been primarily used by US&FCS overseas in support and clerical positions, such as chauffeurs and librarians.



American PSCs are useful substitutes for American officers when U.S. or host country business representatives request an American contact at the post or when sensitive information must be

⁴ OMB Circular A-76 (Revised) and OMB Policy Letter No. 92-1, "Inherently Governmental Functions." US&FCS integrated OMB's policies on PSCs into its *Operations Manual*.

handled. In addition, the flexibility of such contracts can be beneficial for short-term needs or to explore new markets. But in several countries PSCs were serving as general replacements for American officers, which can lead to their involvement in prohibited activities. In Poland we found an American PSC in essence supervising FSNs, and performing export licensing checks for BXA (see page 17). Seeing the PSC referred to as “Commercial Attaché” in an end-use check response cable, BXA even assumed that this individual was a commercial officer. In the Düsseldorf and Hamburg constituent posts in Germany, US&FCS hired American PSCs to “provide leadership” in lieu of replacing the principal commercial officers (PCOs) at each of those posts. US&FCS has claimed that the contractors are temporary (even though US&FCS has not determined whether to assign an American officer to either post) and perform only core export promotion functions. But these PSCs are essentially replacements for the PCOs, have been given the title “Director,” and are in effect supervising FSNs at those posts. The post in Thailand has considered using American PSCs in more supervisory roles in the place of American officers, but did not do so because of cultural problems between American PSCs and FSNs.

At many posts, the addition of PSCs has contributed to decreased morale and increased confusion over duties, responsibilities, and chain of command. In Thailand, the staff expressed concerns about the perceived pay disparities between FSNs and American PSCs, especially considering the FSNs’ relative experience, local contacts, and knowledge of the local market. In contrast, in both Germany and Poland, PSCs were paid significantly less than FSNs for performing essentially the same functions, causing morale problems. The result of these FSN/PSC conflicts is often a divided office, with reduced interaction among the staff and adverse effects on productivity and effectiveness. Management at these posts needs to improve the integration of PSCs into post operations.

There are other issues related to US&FCS’ increased reliance on PSCs. For example, we found that the continuity of local contacts provided by FSNs is invaluable to US&FCS trade promotion efforts. And at some posts, much of the work in researching various industry sectors develops technical knowledge and builds relationships between the researcher and local contacts. Increased reliance on temporary PSCs for this type of work jeopardizes the US&FCS corporate knowledge base because of the higher rate of PSC turnover.

US&FCS’s *Operations Manual* clearly describes the types of activities that PSCs are not allowed to perform. It also says, “generally, professional commercial office functions, which meet long term office requirements, should not be contracted out.” US&FCS believes that with its current hiring restrictions, it cannot provide the level of services demanded of it by U.S. businesses without relying on contractors for professional office functions. While we are sympathetic to the predicaments of particular posts, it is not clear that the current number of full-time equivalents (FTEs) assigned to every foreign and domestic post is necessary. It is possible that reallocating some FTE could alleviate constraints at other posts. Unfortunately, without a sound justification

for US&FCS's current resource allocations (see page 23), it is difficult to demonstrate how US&FCS may be truly constrained by current hiring ceilings.

Because it needs to comply with OMB regulations, US&FCS should consider meeting with the appropriate representatives of OMB to review US&FCS's interpretation of OMB regulations and to explore possibilities of temporary waivers, exemptions, or US&FCS use of contracting arrangements that permit otherwise prohibited supervisory responsibilities. Condoning the use of PSCs for prohibited activities is not a substitute for providing adequate justifications for adjusting hiring ceilings. Regardless, to help SCOs deal with FSN/PSC communication problems, US&FCS should provide practical policy guidance to the field, perhaps in the form of "best practices," addressing acceptable and unacceptable professional relationships and assignments of responsibilities, and suggesting ways to improve office communication and cooperation.

The US&FCS response accepts each of the recommendations in this section, and states that US&FCS will develop a "Standards of Conduct policy" (explicitly outlining functions that may be performed by PSCs, FSNs, and non-U.S. citizens) to be distributed, incorporated into training, and written into the US&FCS *Operations Manual*. US&FCS also intends to compile an inventory of best practices on the use of PSCs and explore the possible use of personal service agreements as an alternative to PSCs. These actions, together with the dissemination of the best practices instrument to the field and the other actions described in the response, would largely satisfy these recommendations. However, we are concerned that the focus of the response appears to weigh heavily on the future education and accountability of officers in the field, when some of the improper uses of PSCs we observed in the field, in Düsseldorf and Hamburg for example, have been explicitly sanctioned by headquarters officials and, to our knowledge, continue. US&FCS needs to address these continuing violations of the OMB regulations on the use of contractors.

VII. US&FCS Needs to Address Other Issues Limiting Its Effectiveness

A. *Overseas resource allocation model requires management attention*

As early as 1984, the OIG was recommending that ITA base resource allocation decisions on assessments of where export potential was greatest. Our general concern was that the agency lacked a defensible method of allocating limited staff resources. In 1992, we highlighted the agency's efforts in developing a resource allocation model, observing that "this model and management judgement are the primary tools by which resources are allocated," and "we view this method of allocating resources as both appropriate and desirable."⁵ We still endorse a two-step allocation method involving both an independent resource allocation model and management's separate judgments on policy and legislative priorities, but we believe that the first step needs to be more clearly distinguished from the second. It appears that considerable management judgment has crept into the model since our 1992 evaluation, blurring the line between these two primary tools. This makes it difficult to identify the results of the more objective economic analysis and determine the impact or appropriateness of the more subjective application of policy determinations on the final allocation decisions.

In our recent overseas inspections, several US&FCS and other U.S. government officials complained about what they believed to be disparate allocation of resources. Other ITA officials at headquarters echoed these complaints and cited examples of where they believed resources were not optimally allocated. This apparent disparity raised questions about the methodology and criteria used by US&FCS to allocate its resources overseas. Subsequently, several senior agency managers confirmed that US&FCS continues to allocate resources based on and justified by the US&FCS overseas resource allocation model.

The model relies on several types of quantitative and qualitative data that, in conjunction with a complex weighting scheme, is intended to rank every US&FCS country by its relative U.S. export potential. For example, the model uses economic indicators such as the growth in gross domestic product and volumes of trade with the United States. We did not extensively review the mathematical equations underlying the resource allocation model or the appropriateness of its weighting scheme. However, we did examine certain variables used in the model and spoke with US&FCS staff who work on it, provide data to it, and rely on its results. We also reviewed the annual rankings of several countries whose US&FCS operations we were already familiar with.

⁵ U.S. Department of Commerce, Office of Inspector General, *Evaluation of US&FCS Management of the Foreign Service Personnel System and Resource Allocation Methodology*, Inspection Report Number IRM-4539, March 1992.

We found that, unlike the model we reviewed in 1992, the current model explicitly includes references to policy determinations about which countries and industries are policy priorities. For example, three variables (trade promotion, trade policy, and comparative government advantage, which together account for 39 percent of the weight in the model) are each susceptible to management influence. Specifically, the guidance provided to the ITA officials making these subjective assessments directs them to consider regional initiatives, country-specific increases in US&FCS workload, or U.S. government trade policies or issues. Each of these variables is affected by specific management views on priority industry and country markets, views that can be independent of the more objective economic and trade data measuring the U.S. export potential in those markets.

Therefore, the results of the model reflect some policy decisions and do not provide an independent assessment of each country's potential for U.S. exports. Since the rankings of the current model are not independent of managers' policy positions and thus do not provide entirely independent assessments, the model should not be cited as an independent justification for allocation decisions. US&FCS should clarify the line between the resource allocation model and the second step of the allocation decision-making process by removing or further separating the role management priorities and policies play within the model, and by ensuring that subjective variables in the model remain independent of those management priorities and policies.

Administration and departmental policies and other subjective variables play a key role in determining where resources should be directed. We believe that such management policy determinations should be based consistently on explicit criteria, documented sufficiently, and built upon the results of an objective resource allocation model. Management should rely on mathematical techniques to integrate the two steps if appropriate. But if senior management is to remain accountable for the decisions it makes, its subjective influence on allocation decisions must be clearly identifiable and separable from the objective resource allocation model rankings. It is important that the entire allocation process be transparent so that scarce US&FCS resources are allocated in the most advantageous manner possible to expand U.S. trade.

Based on our limited analysis, we are not making other recommendations on restructuring the model. A more complete analysis should include further examination of (1) the mathematics of the model itself; (2) the processes used to generate qualitative data; (3) how other governments allocate their trade promotion resources; (4) prior reviews of US&FCS's resource allocation model; (5) the logical interdependence of the domestic and overseas resource allocation models; and (6) a closer review of US&FCS justifications for resource allocations.

The US&FCS response raises several concerns but none, we believe, that affect our analysis. We have nonetheless clarified our use of the word "subjective" and revised the first recommendation

in this section both to address one of the agency's concerns and to clarify our continuing concern over US&FCS's allocation model.

In particular, the agency was concerned "with the [draft] report's implied definition of 'subjective' as 'arbitrary' or somehow 'inappropriate.'" We discussed this with agency representatives and reviewed thoroughly our draft text. We made only minor edits to this text because we think the draft report stated clearly our belief that "administration and departmental policies and other subjective variables play a key role in determining where resources should be directed." Our use of the word "subjective" is not intended to be negative in any way. We use it simply to refer to those variables subject to personal influence or judgement.

The response also expressed the concern that the allocation model should be forward-looking, in accordance with the timing of allocation decisions. We agree, and see nothing in our report that would suggest otherwise. A final point raised by the response expresses uncertainty about our second recommendation and cites the agency hope that the model take policy judgements into account. We disagree that the model should include policy judgements.

We believe that US&FCS needs a resource allocation decision process that incorporates both (1) an independent modeling or ranking of US&FCS countries according to criteria that best justify US&FCS resource allocation (e.g., U.S. export potential) and (2) management policies, priorities, and decisions. Our first recommendation—harden the line between the two steps—is intended to draw a clear line between these two parts of the decision process. Our second recommendation—make and document management decisions—in concert with the first, is intended to simply ensure that resource allocation decisions are defensible and transparent. In addition, subjective variables may play a valid role in the first stage so long as they remain independent of the management discretion in the second stage. The second stage could also be mathematically modeled if US&FCS so chose, so long as it remained clearly distinguishable from the first stage.

After we issued our draft report, our office participated in two preliminary discussions with US&FCS about their attempt to overhaul the resource allocation model and what we meant by our first recommendation. We observed a briefing by the Office of Planning to the Office of International Operations where a strategy to separate management discretion from the first stage model was proposed and discussed. We also offered to sit in on future meetings where the agency and its consultants would begin to more specifically describe the US&FCS mission and translate that into measurable variables or modules of the model. But we remain concerned that the resource allocation model may still be viewed by ITA managers as the "end all" answer to US&FCS resource allocations.

B. Performance evaluation practices undermine evaluation system credibility

In our recent post inspection reports, we describe the SCOs' management weaknesses we observed. Senior US&FCS and other ITA officials were aware of some of those weaknesses, yet no action was taken to address or correct them. The apparent paralysis within US&FCS management to take action against known poor performers raises doubts about the efficacy and integrity of the US&FCS performance evaluation and management system. Interviews with US&FCS staff highlight a seriously flawed performance evaluation system, which can be especially useless in dealing with poor or marginal performers. Personnel performance ratings are so generally inflated that more than one rating officer has reported that poor performers are "damned with feigned praise and a fully satisfactory rating."

The practice of giving inflationary ratings makes it easier for managers to avoid documenting and confronting weak performers. But it also undermines the credibility of the evaluation system, frustrates truly outstanding performers whose accolades are diluted, and handicaps managers' (and promotion boards') ability to formally sanction or otherwise deal with poor performers without the heightened risk of allegations that managers are "singling out" individuals. Senior US&FCS managers' response that the foreign service personnel system is more effective at weeding out poor performers than is the civil service system is no defense. They claim that every performance evaluator is free to be objective, but this is undermined by their belief that they are powerless at times to dismiss known poor performers.

Rationalizing that, in the absence of dramatic failures, any field performance is "fully satisfactory" potentially undermines an effective US&FCS operation. When any evaluator of officer performance either downplays the significance of performance ratings or hesitates to document weak performance, the ability of US&FCS to sustain its high level of services is compromised. It is the responsibility of each manager and evaluator—up the line through the regional director, the Deputy Assistant Secretary for International Operations, and the Director General—to accurately reflect the performance of their subordinates within the performance evaluation system.

Another factor possibly contributing to inflated performance ratings of SCOs is the inherent conflict of interest regional directors face when writing evaluations. SCOs being reviewed by a regional director may rotate into the regional director position, reversing the superior-subordinate relationship if a regional director rotates to an SCO position within the same region. Similarly, a more senior SCO being reviewed by a regional director may in the future become a direct supervisor of the regional director when that officer rotates out to a field position, also reversing the relationship. Given the relatively small size of the commercial corps of officers, there are a number of opportunities for such potential conflicts of interest to hamper the objectivity of the performance evaluation system.

A review of the US&FCS performance evaluation system seems to be in order and should explore these issues in greater detail. Further review of the system could cover: (1) a systematic sampling and review of specific performance evaluations; (2) apparent impacts of certain key words in written reviews; (3) use of personnel evaluations by promotion panels; (4) the incidence of grievances; (5) the tradeoffs between relying on boilerplate performance plans and accountability for achieving specific elements; (6) guidance and training for US&FCS managers on personnel performance and evaluation; and (7) the “best” practices of other federal agencies and the overseas trade promotion personnel systems of foreign governments.

In the US&FCS response, the agency agreed with our observation, and said that it would “explore the informal recommendations listed” in the section, inviting OIG representation at that time. For the record, we did not intend for our final paragraph to specify the scope of any future US&FCS review of its performance evaluation system, but simply to suggest examples of what might be fruitful areas to examine.

C. Interagency coordination overseas needs improvement

In our inspection reports of US&FCS posts overseas, we commented on how interagency coordination and communication can be an asset to US&FCS’s trade promotion efforts. Recognizing the benefits of interagency coordination, President Bush organized the Trade Promotion Coordinating Committee (TPCC) in 1990. Nineteen federal agencies involved in trade promotion form the TPCC, with the Secretary of Commerce as the chair.⁶ The TPCC has focused on developing a national export strategy and identifying areas that require greater attention or improved coordination, such as streamlining U.S. export controls or export financing. While these and other TPCC-identified areas, such as consolidating trade-related reporting from embassies, have contributed to better interagency coordination at embassies, we found many examples of US&FCS not coordinating adequately with other agencies in the field. Improvements are needed.

⁶ The 18 other entities represented on the TPCC are: Agency for International Development, Environmental Protection Agency, Export-Import Bank of the United States, Council of Economic Advisers, United States Information Agency, National Economic Council, United States Trade and Development Agency, United States Trade Representative, Office of Management and Budget, Overseas Private Investment Corporation, Small Business Administration, and the Departments of Agriculture, Energy, the Interior, Labor, State, Transportation, and the Treasury.

We found that a lack of coordination among agencies can result in missed trade opportunities. The US&FCS operation in Poland coordinates extraordinarily well with most of the embassy sections, including the Agricultural Section, the Office of Defense Cooperation, and the Department of State's Economic Section. However, there is room for US&FCS Poland to improve its cooperation with the U.S. Agency for International Development (USAID), which is located in the same building. There are perhaps hundreds of USAID contractors who visit Poland every year and talk to Polish businesses and government entities. We believed the post would be in a better position to funnel any potential trade leads to the U.S. business community if a greater effort was made to interact with USAID. Since the issuance of our draft report on US&FCS Poland in April, US&FCS reported that the Deputy SCO in Poland had been assigned the responsibility of coordinating with USAID.

Lack of interagency coordination can also result in inefficiencies. In Germany and Thailand, US&FCS was either unaware or simply did not pursue several opportunities to share space and resources with the United States Information Service (USIS). US&FCS was unaware that USIS could provide US&FCS library customers in Thailand with on-line and walk-in access to CD-ROM information, collocated reference material, support for an Internet "home page" accessible via the World Wide Web, and other library services. Similarly, US&FCS has not taken advantage of meeting space, trade information, and possible joint efforts with USIS staff located in the USIS center in Frankfurt, Germany. In contrast, US&FCS Malaysia's commercial library *is* collocated with USIS's information center, but disagreements over how the two centers should operate has inconvenienced visitors and frustrated staff. US&FCS Malaysia is also collocated with the Foreign Agricultural Service and appeared to regularly coordinate with it during the Ambassador's weekly meetings. But, in a recent case, US&FCS failed to inform the agriculture counselor in advance of an agriculture-related trade mission to Kuala Lumpur, leaving him little time to prepare for their arrival.

We found at least one example where interagency coordination appeared effective in helping an American firm, but could result in the unfair treatment of competing U.S. firms. In Thailand, US&FCS and the U.S. military track major Thai military-related procurement. The agencies also advocate on behalf of U.S. bidders in order to help them secure the sales. In at least one case, the US&FCS post and the U.S. military in Bangkok have each advocated for a different U.S. firm bidding for the same procurement. According to government-wide guidelines, advocacy efforts must be closely coordinated to ensure effective, but equal and non-discriminatory treatment. Although there was no evidence of disparate treatment in this case, we question whether two or more agencies should advocate for different U.S. firms and recommended that US&FCS seek specific guidance on such situations from the ITA Advocacy Center and the Department of Defense in Washington.

Coordination often depends on the personality and style of SCOs and their counterparts in other federal agencies. Unfortunately, personal conflicts can lead to animosity between agency officials and less than fully productive working relationships. In Thailand, the SCO had not fully addressed concerns raised by the Ambassador and the Deputy Chief of Mission, which at times lead to a problematic working relationship. US&FCS coordination with other Department of State officials is also important. Traditionally, US&FCS and State's economic section have had complementary but sometimes overlapping responsibilities. In Germany, conflict over responsibilities for trade policy (an economic section function) and promotion (a US&FCS function) has been exacerbated by the personalities of the principals involved. In some cases, redefining responsibilities and working guidelines between agencies could be helpful. In Poland, for example, there is a misunderstanding of the services expected from the US&FCS personnel by the U.S. Trade and Development Agency (TDA). Due to TDA's small size, it must rely heavily on embassy personnel (especially US&FCS) for in-country assistance. However, the SCO in Poland believes TDA is too demanding of the commercial staff's time. A Memorandum of Understanding (MOU) defining the services provided by US&FCS to TDA might alleviate the problem in Poland as well as other US&FCS posts.

So while opportunities for interagency coordination are not being fully exploited by US&FCS in the field, it will not suffice for US&FCS headquarters to simply remind overseas officers of the importance of such coordination. US&FCS headquarters can also use the TPCC agenda of improving coordination and synergy between federal agencies to expand trade opportunities and reinforce US&FCS performance standards for SCOs and other staff in the field. For example, US&FCS can consider rewarding or recognizing, as appropriate, specific overseas *improvements* in interagency coordination. More importantly, US&FCS needs to encourage the development of methods to "institutionalize" TPCC goals, so that productive synergies become less dependent on personal relationships between commercial officers and representatives of other agencies who regularly rotate among overseas and domestic posts.

The US&FCS response appeared to accept the recommendations of this section, but maintained that the recommendations had already been addressed or should have been directed to the TPCC Secretariat. The response cited that the agency had sent updated advocacy guidelines to all posts in a joint Commerce/State cable, and that the new 1997 performance evaluation format should address the first recommendation. While we welcome the additional attention given to TPCC activities in the performance evaluations, we would like to stress that SCOs should be rewarded and held accountable for *improvements* in coordination, not only for the maintenance of the status quo. By focusing on *positive change*, performance appraisers can send strong signals that neither complacency nor the taking of good relationships for granted are acceptable.

We agree with the agency that the TPCC Secretariat should hear of our observations, concerns, and recommendations, and we will provide the Secretariat with a copy of this final report. However, it was our intent that US&FCS take the initiative on our recommendations and share them with other agencies, as appropriate, through the Director General's participation in TPCC forums. We believe that US&FCS need not wait for the TPCC, as a whole, to move forward on recommendations such as ours, but rather, should take the lead by beginning to recognize positive changes and to institutionalize improvements, unilaterally if necessary.

In addition, the response describes that US&FCS tried to negotiate an MOU with TDA, as suggested in our draft report, but that TDA declined. We suggest that attempts to negotiate an MOU by the Under Secretary may be justified.

D. Posts inadequately use information technology

Businesses and markets around the world are rapidly entering the "information age," and the TPCC has recognized the need for US&FCS to strengthen "outreach efforts through technological linkages with our private sector and state and local partners to increase their participation in our export promotion efforts." Yet US&FCS has no coherent strategy for ensuring necessary technology and support in the field. During our recent overseas inspections, we saw numerous examples of posts lacking adequate hardware, software, training, and information technology support.

At many posts, hardware and software were either inadequate or not being fully utilized. For example, in Germany we noted two trade specialists working on their personal laptops because their desktop computers were not working and US&FCS had not repaired them. At two other posts, almost no one in the office knew the basics about operating Microsoft Windows, which had been recently installed. As far as we could observe, no one at the US&FCS posts uses the centrally-provided Commerce Information Management System database for any significant work in their operations. Furthermore, Internet access does not appear to be universally available, even though it could be a powerful research tool for staff, in effect serving as an up-to-date substitute for much of the reference material kept by staff. All five posts had a "home page" available over the Internet, but most were not taking full advantage of the opportunity to provide useful links to the pages of other ITA or related organizations.

Technical support in the field is inadequate. After the elimination of regional automation coordinator positions in 1994, "system administrators" were designated at each post. We found that some system administrators had no specific training in computer or software support and were unqualified to do much more than forward questions to the US&FCS headquarters staff. At one post we were shown several dozen messages asking for computer support that had gone

unanswered by headquarters. The US&FCS staff in Poland told us of the difficulties and the extremely high expenses of obtaining local computer support. Obtaining local support in Germany was complicated by headquarters not making available US&FCS hardware and software documentation for use by local vendors.

During our interviews at headquarters, we were told that US&FCS was drafting new guidance on information technology support for its foreign and domestic operations. We were not provided copies of this draft guidance, but we were told simply that US&FCS is seeking to decentralize its support. The Office of Domestic Operations has already contracted for much of its support from the Economics and Statistics Administration's Stat-USA group, no longer relying on US&FCS's Office of Information Systems for support. We believe that it is most important that ITA and US&FCS upgrade their information technology capability, and we urge them to move ahead to address their deficiencies in this area. We look forward to seeing US&FCS's forthcoming strategic plan for information technology.



The US&FCS response indicates that strategies are being formulated for “dealing with a number of IT issues,” and that posts have already been advised on contracting for Internet access and linking World Wide Web pages to other ITA pages. We encourage the communication of practical and technical IT information to the field, and we look forward to seeing forthcoming strategic plans for information technology.

RECOMMENDATIONS

We recommend that the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service direct appropriate officials to:

Resource Management and Planning (see page 5)

1. Reward and, as appropriate, hold managers in the field accountable for improving how they allocate the resources provided to them.
2. Require that post strategic plans adequately specify post priorities and criteria to guide day-to-day activities.
3. Review the potential value of obtaining estimates, based on staff time, of the unit cost of US&FCS products and services. If warranted, consider providing at least the larger posts with resources to monitor and evaluate staff time and other resources spent on various post products and services in an attempt to develop estimates of their unit costs.
4. Assist overseas posts in determining (1) the relative importance of their products and services; (2) the need to modify, add, or delete products and services based on that determination; and (3) the appropriate amount of resources to devote to different products and services based on estimates of product costs and follow-up with clients.

Regional Management (see page 10)

5. Improve the stature, responsibility, and accountability of the headquarters regional director positions, including considering the possibility of increasing the rank and experience requirements of officers assigned to the position.
6. Ensure that the work plans of all International Operations office regional directors *clearly* indicate that, as managers of SCOs, they are accountable for rewarding worthy performance, correcting poor performance, and achieving improvements through the effective use of the performance appraisal system and the application of appropriate awards or corrective actions. In addition, revise the Deputy Assistant Secretary's work plan, as necessary, to reflect a similar accountability for management of the performance of the regional directors.

7. Ensure that the work plans of senior commercial officers (and of their deputies, as appropriate) *clearly* indicate that as managers of post programs, they are accountable for rewarding worthy performance, correcting poor performance, and achieving improvements through the effective use of the performance appraisal system and the application of appropriate awards or corrective actions.

International Cooperative Administrative Support Services (see page 14)

8. If ITA undertakes any cost comparisons of alternative sources of overseas support services, ensure that justifiable comparisons are made and that all viable options, including private sector services and continued participation in some or all ICASS services, are considered fully.
9. Invite and provide resources to selected ICASS Councils through their US&FCS post to contract out for independent local or regional evaluations of support service alternatives.
10. Ensure aggressive/active post participation on ICASS Councils and working groups and provide ICASS and administrative training for U.S. and non-American administrative staff.

Bureau of Export Administration Procedures (see page 17)

11. Ensure that all posts have access to the current BXA procedures. Obtain from BXA, and provide to the field, an explicit clarification of the circumstances that may warrant waivers from required procedures on who can conduct pre-license checks and post-shipment verifications.
12. Hold senior officers in the field accountable for any violations of procedures.
13. Engage in discussions with appropriate BXA officials about the possibility of US&FCS relying, at least in part, on appropriately qualified PSCs to conduct checks for BXA.
14. Have each US&FCS post review the embassy's "blue lantern" implementation plan to expand the scope of information-gathering within the embassy for completing pre-license checks and post-shipment verifications.

Personal Service Contractors (see page 20)

15. Ensure that the use of PSCs at every post is in full compliance with OMB regulations and US&FCS policies, holding SCOs and other managers accountable for violations, as appropriate.
16. Meet with the appropriate representatives of OMB to review US&FCS's interpretation of OMB regulations and to explore possibilities of temporary waivers or exemptions.
17. Provide practical policy guidance to the field, perhaps in the form of "best practices," addressing acceptable and unacceptable professional relationships between FSNs and PSCs and assignments of responsibilities.

Overseas Resource Allocation Model (see page 23)

18. Clarify the line between the two steps of the allocation decision-making process—the model and management judgments—by removing or separating the role management priorities and policies play within the model and by ensuring that subjective variables in the model remain independent of those management priorities and policies.
19. Make necessary management judgments, after the allocation model provides information about relative export potential, and document them sufficiently so that the final resource allocation decisions have clear, defensible justifications.

Interagency Coordination Overseas (see page 27)

20. Reward and hold accountable SCOs for specific overseas improvements in interagency coordination and include appropriate elements in their performance plans.
21. Encourage the development of methods (such as the required adoption of "best practices") to "institutionalize" TPCC goals, so that interactions become less dependent on personal relationships between commercial officers and representatives of other agencies who rotate.
22. Communicate to the TPCC the need to focus coordination issues on the *embassy operations level*, including the possibility that the TPCC might highlight embassy coordination in its annual report.



UNITED STATES DEPARTMENT OF COMMERCE
The Under Secretary for International Trade
Washington, D.C. 20230

JUL 29 1997

MEMORANDUM FOR Frank DeGeorge
Inspector General

FROM: Timothy J. Hauser, Acting 

SUBJECT: US&FCS Response to Draft IG Report: IPE-9178, "Recent Overseas Inspections Found US&FCS Delivering Services Effectively but Facing Internal Constraints"

Thank you for the opportunity to comment on the OIG's draft report, which incorporated your observations from five individual post reviews. Attached please find the US&FCS response to each subsection of the draft report, with specific comments responding to the OIG's recommendations.

If you or your team have any questions, please do not hesitate to contact me.

Attachment

U.S. and Foreign Commercial Service

Response to OIG Report IPE-9178

I. Posts Are Generally Effective in Providing Trade Promotion Services
(P 4)

We appreciate the OIG's assessment of the US&FCS' overseas operations and welcome external reviews which highlight areas where improvements can be made. We take OIG's criticisms in the vein of constructive attempts to help US&FCS management focus on possible weaknesses and recommend courses of action which could benefit all posts. We point out, however, that the five posts which were reviewed and which formed the basis for this cross-cutting report may not be entirely reflective of the operations of 138 US&FCS posts in 69 countries.

We note that this section is entitled "Posts Are Generally Effective in Providing Trade Promotion Services," but we note little in the way of commentary on *how* posts are effective. We would have appreciated more feedback on what programs in the five countries reviewed seemed to work most effectively, so that we can adapt those programs elsewhere and use them as "best practices," as suggested throughout this draft report. Instead, the draft report dwells on problem areas at five posts and extrapolates into systemic weaknesses at US&FCS posts on the whole.

US&FCS is in full agreement with the OIG's recommendation to "encourage US&FCS to continue seeking creative ways to recruit, develop, encourage and retain [FSNs]."

Likewise, we continue to explore locating in core business districts, outside of chancery buildings, including collocation with other agencies, as a cost-effective means to better serve our constituency.

II. Some Overseas Posts Do Not Manage Their Resources Well
(Pp 4-7)

A. Posts do not adequately plan resource use.

Posts plan for the kinds and numbers of market research products on an annual basis, through a polling process involving EPS, TD, MAC, and industry itself. What is not reflected in the draft report is an appreciation for the “responsive” or “reactive” nature of much of our work overseas, which is inherently unpredictable.

Posts must respond to every legitimate request for business assistance that we receive -- from large companies needing advocacy at the highest levels to small companies needing a single form letter. For political reasons, we must also respond to requests for CoDel and governors’ mission support, etc. Rather than only stressing the need for planning, strict schedules, etc., it also would be helpful to posts to stress the need for flexibility and responsiveness (within our overall mandate) and to reward these qualities.

B. Posts do not adequately monitor resource use.

While we agree that effective time management is crucial if we are to derive maximum benefits from our sometimes scarce resources, we are not sure what the desirable outcome is of tracking precisely how much time is spent on discrete activities. And even if such a purpose was identified, how can we measure the “unit cost” or output success of cultivating contacts in government ministries, keeping current on sectoral matters by analyzing the trade press, or generally familiarizing oneself with the local way of doing business? Familiarity with each of these factors and dozens more such “intangibles” helps our officers get a U.S. company “delivered to market” much more quickly. It oversimplifies reality to assume we can measure success primarily in terms of “unit costs” when the deliverable is a complex product born of multiple, sometimes unquantifiable, inputs.

C. Posts do not evaluate the effectiveness of their products and services.

We will better coordinate the roles of EPS, ODO, and OIO in tracking the effectiveness of US&FCS products and services. It is not practical for our overseas posts to do successful follow up on their own -- it takes repeated international telephone calls and faxes to obtain the information needed at post to evaluate the long term success of some post programs. To comply with the Government Results and Performance Act, US&FCS plans to develop a methodology to assess the effectiveness of an entire delivery system of export promotion services.

U.S. and Foreign Commercial Service

Response to OIG Report IPE-9178

Recommendation 1: Reward and, as appropriate, hold managers in the field accountable for improving how they allocate the resources provided to them.

The performance evaluation system provides a mechanism for rewarding and holding managers in the field accountable. However, we suspect that the Regional Directors often do not use this tool effectively, as we mention in our response to Section VII. We accept the recommendation to hold Regional Directors responsible for problems at their posts; hence, we also now will expect more realistic appraisals.

In addition to the performance evaluation process, Regional Directors can use posts' Quarterly Reports and budget reviews to gauge the effectiveness of SCOs in managing their resources. This information is then used in preparing the SCO's evaluation. In early 1997, the Office of International Operations added several key elements to the Quarterly Reports format, including an assessment of posts' core activities and reporting on the numbers of PSCs paid out of O&A budgets and trust funds.

As to rewarding officers for exceptional acts of management, in July of 1996 the US&FCS delegated awards authority to supervisors of American Foreign Service employees which allows supervisors to grant "special act or service" awards to subordinate American FS employees. These awards range from \$1 to \$10,000, and the level of approval depends on the recommended level of the award (from SCOs/RDs to the Under Secretary/Deputy Under Secretary). A "special act or service" is a contribution or accomplishment in the public interest that is a non-recurring contribution either within or outside of job responsibilities, a scientific achievement, or an act of heroism. These awards do not affect awards recognition under the FS Selection Board review process, and aligns the Foreign Service awards options more closely with options available to Civil Service supervisors/employees. We will encourage greater use of this award to reward instances of managerial excellence.

Recommendation 2: Require that post strategic plans adequately specify post priorities to guide day-to-day activities.

In effect, the Strategic Commercial Plan (SCP), prepared annually by all posts, encompasses the bulk of post activities carried out on a daily basis. The topics addressed in the SCP directives form the core of post programs in support of the overall US&FCS mission to promote U.S. exports and U.S. business interests abroad. Posts are required to specify actions and activities that will be undertaken in the following areas: trade and investment policy initiatives; advocacy; financing; outreach; trade events; and reporting. Of course, the SCPs do not take into account the myriad of "ad hoc" assignments given to posts throughout the year in response to Administration priorities, goals and objectives. Such assignments (Secretarial missions and visits, support for international summits, etc.) often require considerable staff time and resources—something that cannot be forecast with any degree of accuracy in the posts' SCP.

U.S. and Foreign Commercial Service

Response to OIG Report IPE-9178

Recommendation 3: Review the potential value of obtaining estimates, based on staff time, of the unit cost of US&FCS products and services. If warranted, consider providing at least the large posts with resources to monitor and evaluate staff time and other resources spent on various post products and services in an attempt to develop estimates of their unit costs.

In fact, it is more likely that smaller posts would need assistance in estimating staff time etc. than would larger posts. At larger posts, responsibilities are more clearly drawn among officers and FSNs, creating more discrete "units of effort." However, at smaller posts, everyone must be a Jack-of-all-Trades -- to provide seamless staff coverage -- and it is sometimes hard to measure what each person does when.

This recommendation seems to focus on the merits of program activities in light of scarce resources, apparently with an eye toward making program trade-offs based on cost/benefit considerations. For example, the supporting text for the recommendation states "... (the) Poland post has a well-maintained library, but the post's management does not track who uses the facility, how often, or for what purpose."

A focus on unit cost per se may not yield information to make decisions about relative resource investments -- commercial libraries, ADS, ICPs, and Gold Keys all will have different unit costs because they serve different purposes, meet different needs and entail different levels of effort. If we determine that the unit cost of an ICP is lower than the unit cost of a Gold Key, we would not infer we should move resources from ICPs to Gold Keys. The services themselves are based on distinct targets of opportunity to promote exports, and these are not fungible.

Further, many post programs are demand-driven, as we mentioned earlier. Such programs originate because of requests from U.S. companies for certain types of assistance -- not because they carry this or that unit cost. Simply to compare the costs would not be as fruitful as focussing on the effectiveness of services provided.

We suggest merging this section of the report with the section appearing next in the report, concerning the need to assess the effectiveness of programs. We certainly agree with the intent of this recommendation -- to manage resources wisely, decide which programs are beneficial, and manage resources based on results achieved. We do not think the unit cost estimates suggested by this recommendation as a means to these ends will actually prove as useful as might appear to be the case.

On a pilot basis, we are already working on a unit cost analysis system, in Brazil. The challenge, of course, will be to assess the benefits -- or the return on investment -- from delivering those services.

U.S. and Foreign Commercial Service

Response to OIG Report IPE-9178

Recommendation 4: Assist overseas posts in determining (1) the relative importance of their products and services; (2) the need to modify, add, or delete products and services based on that determination; and (3) the appropriate amount of resources to devote to different products and services based on estimates of product costs and follow-up with clients.

The US&FCS maintains a mechanism in EPS for measuring and reporting on the results generated by many of the products and services provided at post. In 1995, following reinvention recommendations, EPS established a new client survey program to capture the results of market research and trade contact products, such as the Customized Market Analysis and the Agent Distributor Service, and to supplement posts' on-site evaluation of events such as Matchmaker Trade Delegations and Multi-State Catalog Exhibitions. EPS also designed a Gold Key Service customer survey to be implemented by posts performing this service.

EPS has used preliminary survey results, as well as other types of feedback, to identify problems, recommend improvements, and publicize results pointing to the relative importance of products and services. The task force created to improve the Agent Distributor Service and the current initiative to develop a product certification referral service are cases in point. Analysis of cumulative survey data gathered over time, as well as input from posts, is expected to provide a reliable indicator for determining cost-effective resource allocation and identifying other products and services to be modified, added, or deleted.

Further, trade events, trade missions, Gold Keys, and ADS' traditionally have been monitored very closely. All trade events and trade missions require end-of-show reports that include survey feedback from the participants, show statistics, and general evaluations.

Furthermore, posts have not had the option of "withdrawing from" or "reducing" participating in specific US&FCS services -- many of which are sold to clients via the domestic office network. Is the OIG suggesting that posts be permitted to offer *selected* items from the US&FCS menu of export assistance programs?

U.S. and Foreign Commercial Service

Response to OIG Report IPE-9178

III. Regional Directors Failed to Provide Adequate Oversight of Posts (Pp 8-10)

As in other sections, the specific comments regarding particular Regional Managers were addressed in our replies to the individual country reports. We would also like to note that the weaknesses of one particular Regional Director may not apply to all Regional Directors.

We endorse the idea of including a section in the Operations Manual defining the functions of the OIO Regional Directors and the Deputy Assistant Secretary for International Operations. The Office of Planning is updating the Manual now, and this new section will be added.

We will strive to ensure that the post oversight and management work of Regional Directors will not be taken off-track by the requirement to carry out high-profile projects assigned by senior political leadership, but we underscore the complexity of the Regional Directors' jobs in responding to senior management priorities *and* managing their posts to meet those priorities as well as carry out their normal day-to-day responsibilities. Therefore, we highly recommend that the wording in this section of the draft OIG report be altered to more accurately reflect the need to integrate senior management priorities into overall post management. Otherwise, the OIO Regional Directors and the overseas posts will be vulnerable to OIG's criticism while trying, at the same time, to satisfy senior Departmental management demands.

Recommendation 5: Improve the stature, responsibility and accountability of the headquarters regional director positions, including considering the possibility of increasing the rank and experience requirements of officers assigned to the position.

We value this recommendation, and agree with the likely effect. We had independently come to the same conclusion, and have taken the first steps toward reclassifying all the Regional Director positions at the OC level. We will review the possibility of reclassifying the Deputy Assistant Secretary position (currently at the MC level) to the CM level.

U.S. and Foreign Commercial Service

Response to OIG Report IPE-9178

Recommendation 6: Ensure that the work plans of all International Operations office regional directors clearly indicate that, as managers of SCOs, they are accountable for rewarding worthy performance, correcting poor performance, and achieving improvements through the effective use of the performance appraisal system and the application of appropriate awards or corrective actions. In addition, revise the Deputy Assistant Secretary's work plan, as necessary, to reflect a similar accountability for management of the performance of the regional directors.

The intent of critical elements 3 and 4 of the Foreign Service performance work plan is to address the issues identified above. Presently, the Regional Directors and the Deputy Assistant Secretary for International Operations are responsible for holding the SCOs accountable for their actions and for recognizing worthy performance. They have the additional responsibility of providing feedback and recommending corrective performance actions as necessary. The mechanisms are in place; managers just need to enforce them. Beginning in FY-98, OFSP will provide training to rating and reviewing officials on how to give appropriate feedback (both negative or positive) to rated employees. In addition, the DAS/OIO recommends that US&FCS develop a "new SCO" course which would include sessions on managing staff, preparing performance evaluations, documenting non-performance, responding to grievances, and handling other performance-related matters.

US&FCS recognized a few years ago that the performance evaluation format for Foreign Service officers required extensive revisions. We are pleased to note that the new, completely revised Work Plan and Performance Appraisal for Foreign Service Officers was adopted for the FY 1996 performance cycle.

Recommendation 7: Ensure that the work plans of senior commercial officers (and of their deputies, as appropriate) clearly indicate that as managers of post programs, they are accountable for rewarding worthy performance, correcting poor performance, and achieving improvements through the effective use of the performance appraisal system and the application of appropriate awards or corrective actions.

Under the present generic performance plan, rating and reviewing officials are held accountable for the actions of their subordinates. Many managers, however, are unsure of how to give negative as well as positive feedback, particularly in writing.

The OIG points out that one of the major responsibilities of the Regional Directors is to conduct periodic on-site post management reviews of each post. While we agree, in principle, with this goal, the Regional Directors' ability to carry out this mandate must be balanced, taking into account available resources and agency priorities.

IV. Potential Savings Justify Aggressive US&FCS Involvement in ICASS Development and Cost Studies
(Pp 11-12)

In preparation for the full implementation of the International Cooperative Administrative Support Services (ICASS) system in FY 1998, US&FCS headquarters personnel have been working closely with the interagency ICASS Council and the US&FCS overseas offices to carefully examine the types of services that historically were covered under FAAS, and the potential list of services we would "purchase" under ICASS. We fully concur with the IG's comment that "US&FCS officers in the field, in consultation with headquarters, are in a much better position to evaluate quickly the cost-effectiveness of options available to them" (page 11, para 3). To facilitate the exchange of information, US&FCS formed a network of ICASS representatives, with each post designating at least one Foreign Service officer/administrative assistant and at least one Foreign Service National (FSN) to serve on the post's interagency ICASS Council and to participate in regular worldwide ICASS conference calls organized by the US&FCS' Office of Planning (the lead office on ICASS matters). The three main responsibilities of the post ICASS councils are: to review the ICASS budget; establish mutually agreed upon service standards with service providers; and approve modification of workload counts.

Minutes of ICASS Inter-Agency Working Group meetings are distributed to posts via State Department cables, and supplemented by an agenda and notes for the US&FCS-organized regional ICASS conference calls. In a further step to keep all posts apprised of ICASS developments, the Office of Planning established an e-mail box for ICASS inquiries and suggestions, and developed an ICASS homepage. Thus, we are at a loss to understand the OIG's comment that, "We question ITA headquarters' ability to determine the most cost-effective alternative plan for acquiring services overseas" since, as outlined above, headquarters is including post analysis and input each step of the way.

During FY 1997, posts are participating in "virtual ICASS" -- an exercise designed to offer a clearer picture of what our expected ICASS charges will be in the coming years. Each US&FCS post was responsible for developing its proposed budget for ICASS, and submitting that budget to the Office of Planning.

U.S. and Foreign Commercial Service

Response to OIG Report IPE-9178

Recommendation 8: *If ITA undertakes any cost comparisons of alternative sources of overseas support services, ensure that justifiable comparisons are made and that all viable options, including private sector services and continued participation in some or all ICASS services, are considered fully.*

To date, several studies have been undertaken to review ICASS and alternative service providers. Arthur Anderson issued its final report on ICASS "Evaluation of Cost Distribution Concepts" in October 1996, which stated in part that "overall, the plan of implementing a cost distribution system based on a cost pool concept, and utilizing defined distribution factors that can be modified as the services or cost drivers change, is consistent with current government-wide efforts to achieve a more transparent distribution of costs for financial management. . ." A Price Waterhouse report issued in 1996 further recommended that ITA and the US&FCS consider exploring options to improve financial management control processes, including options of a US&FCS administrative cone or having a USG bureau or private sector organization (e.g., NOAA, private sector bank) handle all financial management and overseas disbursements for the Commercial Service.

Recognizing the need for independent analysis, ITA initiated, in FY 1997, a management review. We have completed a preliminary analysis of administrative support and will consider a further assessment after ICASS has been in place for a year.

Recommendation 9: *Consider providing resources to selected ICASS councils through their US&FCS post to contract out for independent local or regional evaluations of support service alternatives.*

The DAS/OIO has sought input from all US&FCS posts on their "state of readiness" to transfer to the ICASS system in FY 1998. As was noted in the IG report itself, the posts usually know better than headquarters the range of services available and costs of these services. We expect to analyze these comments and recommend appropriate follow up. If the post recommends out-sourcing such cost analyses, we will discuss budget implications with that post, and provide supplements if warranted.

Recommendation 10: *Ensure aggressive/active post participation on ICASS Councils and working groups and provide ICASS and administrative training for U.S. and non-American administrative staff.*

As noted above in our general comments on this section, US&FCS overseas personnel have been actively involved in ICASS councils and working groups. We agree with the OIG report that the transfer from FAAS to ICASS provides an ideal opportunity for headquarters and posts to review

U.S. and Foreign Commercial Service

Response to OIG Report IPE-9178

the options available to the US&FCS in “contracting” with the State Department for services at the overseas posts. We note that any additions to or withdrawals from ICASS services require six months’ notice. We also note the recent Administration announcement of the reinvention of State, ACDA, USIA and AID, wherein “The United States Information Agency and the State Department will be integrated over a two-year period. . .” This integration may affect ICASS cost allocation overseas, as formerly “independent” agencies are now part of the State Department component. The DAS for International Operations requested the Office of Planning representatives ask the interagency ICASS council how the integration of USIA and State might affect the US&FCS’ ICASS costs in places where we currently are collocated with USIS.

To better prepare headquarters to negotiate on behalf of the posts, post ICASS representatives have focused on several key areas, which are outlined below.

Essential State Department-Provided Services

Some services are best provided by State, which has overall authority for the establishment and maintenance of chanceries worldwide. Such services include:

- Embassy guard services
- personnel support for local hires
- NSDD-38 procedures for establishment/withdrawal of positions
- building maintenance (if US&FCS offices are located in the chancery)

Services Which Could be Provided Outside of State

- procurement of materials and supplies
- hire of chauffeurs (on Personal Services Contracts)
- maintenance and repair of US&FCS owned vehicles

Ways to Reduce ICASS Costs

- maintain accurate personnel counts and list positions as “not to be filled” if a vacancy is expected to last at least six months
- collocate with other USG agencies, outside of chanceries
- encourage posts to increase usage of \$2,500 bank cards for small purchases
- monitor usage of \$25,000 bank cards at pilot posts
- explore the use of Personal Services Agreements (PSAs)

The OIG report provides excellent examples of the benefits of participation in ICASS-related activities and the importance of training. Since August 1996, more than 90 US&FCS staff have received specialized ICASS training, and we continue to enroll officers in the State Department-

U.S. and Foreign Commercial Service

Response to OIG Report IPE-9178

organized ICASS training as their home leave/vacation rotations through Washington permit. In addition, the Office of Planning has organized administrative/management training sessions, conducted briefings and “tutorials” on ICASS at OIO regional conferences, and participated in OFSP-conducted training throughout the year.

The ICASS working group is looking now at training options for the coming year, and we will determine the best course of action once we have reviewed post responses regarding their readiness to transfer to ICASS (see response to Recommendation #8, above). We believe the administrative/management training programs we operated have been highly effective and plan to continue them subject to budget availability.

U.S. and Foreign Commercial Service

Response to OIG Report IPE-9178

V. Posts Do Not Properly Follow Bureau of Export Administration's Export Licensing Regulations
(Pp. 13-14)

US&FCS management concurs with the OIG's recommendations which focus on improving US&FCS/BXA cooperation in conducting pre-license checks (PLCs) and post-shipment verifications (PSVs). To ensure complete compliance with guidelines governing such checks, the DAS/OIO has been working with BXA's Director of the Office of Enforcement Support to address these issues, as appropriate.

We note that, at some of our posts, the number of PLC and PSV requests flowing into post far outnumber the ability of our few officers to handle them. The possible use of PSCs to conduct some of the checks would greatly facilitate posts' handling of these requests. Clearly, some other modus operandi must be developed.

Recommendation 11: *Ensure that all posts have access to the current BXA procedures. Obtain from BXA, and provide to the field, an explicit clarification of the circumstances that may warrant waivers from required procedures on who can conduct pre-license checks and post-shipment verifications.*

BXA's Director of Export Services briefed the DAS/OIO and the OIO Regional Directors at a May 1997 staff meeting on BXA's major rewrite of the Export Administration Regulations and changes in the Commerce Control List. In addition, the DAS/OIO is working closely with the Director of the Office of Enforcement Support, who manages the PLC/PSV program, to ensure that all posts have received the latest information on BXA procedures for conducting checks and verifications. BXA has provided clarification to US&FCS regarding when posts must specifically request an exception for the use of an FSN to complete a PLC or PSV; thus confirming that, in some cases, FSNs are able to conduct these checks.

US&FCS is working with BXA to draft a worldwide collective cable, encouraging posts to raise questions or seek waivers, highlighting systemic weakness and recommending appropriate action. In addition, as a result of the overwhelming response to programs recently held overseas, BXA has offered to conduct seminars/training programs in 1998 to importers of U.S. commodities on U.S. export control laws and regulations.

U.S. and Foreign Commercial Service

Response to OIG Report IPE-9178

Recommendation 12: *Hold senior officers in the field accountable for any violations of procedures.*

At the end of each performance cycle, OIO Regional Directors seek input from counterparts in other divisions of Commerce regarding the performance of the Senior Commercial Officers. We will ensure that BXA has an opportunity to comment on the performance of SCOs and other staff members at our overseas posts, highlighting exceptional service and adherence to BXA guidelines, as well as noting any areas for improvement.

Recommendation 13: *Engage in discussions with appropriate BXA officials about the possibility of US&FCS relying, at least in part, on appropriately qualified PSCs to conduct checks for BXA.*

The DAS/OIO has raised this possibility with BXA's Director of the Office of Enforcement Support, who is amenable to the possibility of using American PSCs to conduct checks for BXA. Since such PSCs would require security clearances, we will explore this possibility in conjunction with our overall review of PSCs, as noted in Recommendations #15-17 regarding Personal Service Contractors.

Recommendation 14: *Have each US&FCS post review the Embassy's blue lantern implementation plan to expand the scope of information-gathering within the Embassy for completing pre-licence checks and post-shipment verifications.*

At the time that OIO and BXA send a reminder cable to posts (see response to Recommendation #11), posts will be urged to expand information-gathering within the Embassy and to consult the "blue lantern" plan to ascertain further means of obtaining relevant data.

VI. US&FCS Needs to Improve Its Use of Personal Service Contractors
(Pp. 15-17)

We addressed the country-specific PSC concerns, reiterated in this report, in our replies to the individual country inspection reports. Since then, we note that Thailand conducted an offsite conference this month, run by a professional facilitator, which addressed, among other issues, the perceived inequities between PSCs and FSNs. In the future, we will invite a DOC/OGC official who has the appropriate knowledge and expertise to interpret OMB policy on PSCs, inherently governmental functions, standards of conduct, and limitations that apply to non-U.S. citizens employed by the government, to address such conferences.

As a general statement, we are cognizant of the constraints on PSCs, and understand that relying on PSCs is not always an ideal solution to filling the need for a local workforce. Since the beginning of FY 1997, we have received senior US&FCS management approval to hire 17 FSNs. The primary reasons cited in the request for 75 percent of these positions are directly linked to the work restrictions associated with PSCs: i.e., administrative and cash handling responsibilities; or increased responsibility to handle supervisory duties and USG representation. (In some cases, however -- where the need is for a specific deliverable produced in a short period of time -- contractors are preferable to FSNs, who generate high benefit and separation costs.)

We agree that until a new position allocation matrix is in place, we cannot fully deploy FTE and other resources to maximum advantage. (Please see Section VII).

Recommendation 15: Ensure that the use of PSCs at every post is in full compliance with OMB regulations and US&FCS policies, holding SCOs and other managers accountable for violations, as appropriate.

To ensure supervisors understand current PSC limitations, we will develop a Standards of Conduct policy which explicitly outlines appropriate functions that may be performed by PSCs and FSNs and non-U.S. citizens employed by the Government. The policy will be incorporated into the FCS Administrative and Financial Management Training program, distributed to posts worldwide, and incorporated into the FCS Operations Manual. We will work with OGC and State to ensure OMB policy is accurately interpreted and applied to formulate our policy. We will also take into account SCO supervision of PSCs as we complete the officer performance evaluations this fall.

We are also exploring how, like the State Department, we may be granted the authority to use Personal Services Agreements (PSAs) to meet our non-FSN local labor needs. Like PSCs, PSAs do not encumber FTE; however, unlike PSCs, PSAs *may* represent the U.S. Government and *may*

U.S. and Foreign Commercial Service

Response to OIG Report IPE-9178

supervise direct-hire employees. Personal Services Agreements are valid for ten years. We would appreciate it if the final report could take note of this effort.

Recommendation 16: Meet with appropriate representatives of OMB to review US&FCS' interpretation of OMB regulations and to explore the possibilities of temporary waivers or exemptions.

Once senior management (in consultation with the Office of the General Counsel) determines which avenues of employment are appropriate (and available) for staffing local positions overseas, we agree that a meeting among OMB, OGC and the US&FCS management should take place if there is still a need to obtain temporary waivers or exceptions to the final policy.

Recommendation 17: Provide practical policy guidance to the field, perhaps in the form of "best practices," addressing acceptable and unacceptable professional relationships between FSNs and PSCs and assignments of responsibilities.

We agree with this suggestion and propose two immediate steps. The first step will be to issue the "new" Standards of Conduct policy. Secondly, the Office of Planning will compile an inventory of best practices formulated as a result of the numerous Management Performance Reviews conducted in recent years. A long-term approach will be to develop a Standards of Conduct training module for the FCS Administrative and Financial Management training sessions scheduled in FY 98.

VII. US&FCS Needs to Address Other Issues Limiting Its Effectiveness
(Pp. 18-24)

A. Overseas resource allocation model requires management attention

A working group will be convened to re-evaluate assumptions and outcomes of the existing Overseas Resource Allocation Matrix, which, we agree, is in need of an intensive overhaul. We invite a representative of the Office of the Inspector General to be present for these discussions. We hope to have the model in place by the beginning of the new fiscal year, so that we may allocate staff and budget appropriately.

Recommendation 18: Harden the line between the two steps of the allocation decision-making process -- the model and management judgments -- by removing or limiting the role subjective variables play within the model.

This recommendation is sound on its face, but does not take into account how *anticipated* changes to markets influence resource placement. When we re-engineer the current model, we still will have to take into account *prospective* factors of change, so that management will not be limited by relying on statistical data that reflect changes *that have already happened*. Since the assignment of personnel and resources happens two to three years out, the most useful allocation matrix will be one that takes into appropriate account trade phenomena and likely variables (e.g., implications of trade policy decisions coming into force, growing or shrinking ability of the private sector to provide our services, etc.) that *will occur* over the next several years. Otherwise, management will be making future resource decisions based on a statistical snapshot of the past.

We are also concerned with the report's implied definition of "subjective" as "arbitrary" or somehow "inappropriate." We do not see Administration policy as a "subjective variable." A statement on Administration policy (e.g., on trade with Croatia, Haiti, Azerbaijan, Vietnam) is in fact an objective statement which needs to guide our resource issues. This issue may just be one of semantics, but we should not dismiss the importance of "variables" or "subjectives" either in constructing a new matrix or adjusting resources. Perhaps the term "non-quantifiable" is more appropriate.

U.S. and Foreign Commercial Service

Response to OIG Report IPE-9178

Recommendation 19: Make necessary management judgments, after the allocation model provides information about relative export potential, and document them sufficiently so that the final resource allocation decisions have clear, defensible justifications.

The degree to which we will be able to implement this recommendation will depend on the final form of the matrix. It is our hope that the various categories used to rank-order the countries will take policy judgments and other "variables" into account, for the reasons listed in our response to Recommendation #18.

B. Performance evaluation practices undermine evaluation system credibility.

We agree that performance evaluation practices could be improved. We will explore the informal recommendations listed on page 21 of the report. We will invite OIG representation as we address this issue.

For further discussion of this issue, please see our comments in Section III.

C. Interagency coordination overseas needs improvement.

As in other areas, the country-specific issues raised in this report were addressed in our country-specific replies. To them, we add that on December 6, 1996, we transmitted updated advocacy guidelines to all posts via a joint Commerce/State cable, to ensure that various parts of the Embassy coordinate their advocacy efforts, and not work at cross purposes. As regards TDA, we noted in our response to the OIG report on Poland (response dated April 10, 1997) that we tried to negotiate an MOU between US&FCS and TDA to define services to be provided overseas, but TDA declined.

Recommendation 20: Reward and hold accountable SCOs for specific overseas improvements in interagency coordination and include appropriate elements in their performance plans.

The new performance evaluation format should help address this issue, since "Agency Goals" in general, and TPCC activities in particular, are to be singled out for comment by the appraisers. Further, officers are evaluated on their interpersonal skills, which directly bear on how well they interact with other agency representatives at post.

U.S. and Foreign Commercial Service

Response to OIG Report IPE-9178

Recommendation 21: Encourage the development of methods (such as the required adoption of "best practices") to "institutionalize" TPCC goals, so that interactions become less dependent on personal relationships between commercial officers and representatives of other agencies who rotate.

This suggestion requires the "buy-in" of all the TPCC agencies involved, not just the US&FCS, and is perhaps best addressed to the TPCC Secretariat. In any event, the TPCC has already taken some steps toward this goal. Six TPCC working groups were recently established to identify major barriers to U.S. trade within certain geographic regions. Once identified, all TPCC member agencies are to coordinate their programs and policies to pursue solutions in an organized and targeted fashion. Such a concerted approach, directed from above, will do much to reduce interagency frictions at post.

Recommendation 22: Communicate to the TPCC the need to focus coordination on the embassy operations level, including the possibility that the TPCC might highlight embassy coordination in its annual report.

Again, this suggestion is a good one, but needs to be addressed to the multi-agency TPCC Secretariat. For our part, we will continue to foster interagency cooperation in any way we can. The Director General of the US&FCS participates in TPCC meetings and encourages TPCC-post coordination in both directions. In addition, the OIO Regional Directors are involved in TPCC working groups and interface between the TPCC Secretariat and the overseas posts to carry out TPCC objectives.

D. Posts inadequately use information technology

Recognizing the need for an Information Technology strategy, the Director General has convened an IT Team, which currently is formulating both interim and long-term strategies for dealing with a number of IT issues. The IT Team's goals include: developing a blueprint for upgrading our telecommunications system and information technology tools and applications worldwide in the next two years; and determining how this technology will be procured, on what timetable, at what cost, and most importantly, how it will fit within the ITA/IT strategic plan.

To support US&FCS IT members in formulating these strategies, the DAS/OIO sought input from all overseas posts, and provided those comments to the DAS/EPF and Acting Director OIS for the team's review.

Posts have been advised on how they should contract for Internet access, and given information in linking home pages to other ITA home pages. As part of the ongoing effort to increase the US&FCS client base through information technology, we will continue to pursue new equipment, new programs, and training for the overseas posts.

U.S. and Foreign Commercial Service

Response to OIG Report IPE-9178

In all locations overseas, US&FCS Posts are required to use the Department of State's Telecommunications Service Program Office (DTS-PO). Use of this system is a major problem for the US&FCS because of the slow responsive nature of DTS-PO to our telecommunications needs and requirements, and our lack of control over the level of service they provide to us, even when the US&FCS has offered to provide the funds. In addition, security regulations in the DTS-PO system are prohibitive and prevent us from contracting with outside vendors to enhance our communications and enable the US&FCS to provide basic service to our user community. This limits our ability to upgrade systems and meet the needs of the U.S. business community in the provisioning of trade leads and market analysis.

We will continue to review DTS-PO issues and seek solutions to the limitations it places on our Posts' abilities to utilize private sector like information technologies and systems.

U.S. and Foreign Commercial Service

Response to OIG Report IPE-9178

Addendum

page 2, para 4: refers to "foreign posts in 75 countries" -- this should be 69 (direct hire posts, which includes Taiwan but does not include Iraq, where we have established positions that have been unfilled since 1992).

Page 3, para 1: "The 140 foreign commercial offices" -- should be 138.

Page 3, para 2: "officers. . .who rotate among posts on about three-year assignments" -- many of our assignments are four years.

Page 8, para 1: counts only four OIO units, with only four Regional Directors. The footnote includes the Asian Development Bank in the EAP region. Please note that the Office of International Operations has a "fifth" region -- the office of Multilateral Development Banks Operations -- which supervises US&FCS staff at the Asian Development Bank (Manila), the African Development Bank (Abidjan), the European Bank for Reconstruction and Development (London), the World Bank (Washington, DC) and the InterAmerican Development Bank (Washington, DC).

US&FCS 7/21/97