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INTERNATIONAL TRADE ADMINISTRATION

Final Inspection Report
US&FCS Post in Malaysia

Inspection Report No. IPE-9284 / April 1997

Office of Inspections and Program Evaluations
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>EXECUTIVE SUMMARY</td>
<td>i</td>
</tr>
<tr>
<td>INTRODUCTION</td>
<td>1</td>
</tr>
<tr>
<td>PURPOSE AND SCOPE</td>
<td>1</td>
</tr>
<tr>
<td>BACKGROUND</td>
<td>2</td>
</tr>
<tr>
<td>OBSERVATIONS AND CONCLUSIONS</td>
<td>5</td>
</tr>
<tr>
<td>I. INEFFECTIVE POST MANAGEMENT ADVERSELY AFFECTS</td>
<td>5</td>
</tr>
<tr>
<td>A. Post Does Not Prioritize Its Activities or Effectively Manage Staff Resources</td>
<td>5</td>
</tr>
<tr>
<td>B. The SCO Has Not Adequately Addressed Staff Morale Problems</td>
<td>8</td>
</tr>
<tr>
<td>C. Clients and Colleagues Have Mixed Impression of the Post</td>
<td>10</td>
</tr>
<tr>
<td>II. HEADQUARTERS MANAGEMENT FAILED TO ADEQUATELY ADDRESS THE POST’S PROBLEMS</td>
<td>12</td>
</tr>
<tr>
<td>A. Regional Director Provided Inadequate Oversight of the Post</td>
<td>13</td>
</tr>
<tr>
<td>B. Performance Evaluation System Failed to Properly Deal With a Poor Performer</td>
<td>15</td>
</tr>
<tr>
<td>III. LOCATION WITHIN EMBASSY HAMPERS POST’S ACCESSIBILITY AND EFFECTIVENESS</td>
<td>15</td>
</tr>
<tr>
<td>IV. US-AEP PROGRAM OPERATES INDEPENDENTLY FROM US&amp;FCS</td>
<td>18</td>
</tr>
<tr>
<td>A. US-AEP Is Not Sufficiently Integrated into US&amp;FCS Program</td>
<td>18</td>
</tr>
<tr>
<td>B. US&amp;FCS Resources Dedicated to US-AEP Are Not Clearly Justified</td>
<td>19</td>
</tr>
<tr>
<td>V. EXPORT LICENSING CHECKS WERE PROPERLY CONDUCTED, BUT CAN BE IMPROVED</td>
<td>20</td>
</tr>
<tr>
<td>VI. ADMINISTRATIVE OPERATIONS VARY</td>
<td>22</td>
</tr>
<tr>
<td>RECOMMENDATIONS</td>
<td>24</td>
</tr>
<tr>
<td>APPENDIX I: LIST OF ACRONYMS</td>
<td>26</td>
</tr>
<tr>
<td>APPENDIX II: LIST OF US&amp;FCS SERVICES</td>
<td>27</td>
</tr>
<tr>
<td>ATTACHMENT: Agency Response</td>
<td></td>
</tr>
</tbody>
</table>
EXECUTIVE SUMMARY

With few barriers to trade, Malaysia is a favorable export market and foreign investment destination for U.S. firms. The Malaysian economy has enjoyed an annual growth rate of over 8 percent for the past eight years, reaching a real gross domestic product of $48 billion in 1995. The United States exported $8.8 billion to Malaysia in 1995, up from $6.9 billion in 1994 and $6.0 billion in 1993. The United States was also Malaysia’s largest foreign investor from 1991 to 1993 and second largest investor in 1995 (behind Japan), with a cumulative investment value of $8.0 billion. Despite Malaysia’s rank as the United States’ 17th largest trading partner and designation as a Big Emerging Market for U.S. exports, the U.S. and Foreign Commercial Service (US&FCS) efforts to promote trade with Malaysia have not been effectively managed at the post or from headquarters. Although the US&FCS post in Kuala Lumpur, Malaysia, conducts a standard export promotion program with some successes, even those successes could have been expanded. Without necessary changes in post management, tensions within the office will increase and productivity likely will decrease further.

We conducted an inspection of the US&FCS operations at its post in Kuala Lumpur, Malaysia, during the week of September 16-20, 1996. We interviewed the entire US&FCS staff, officials from many other federal agencies within the embassy, appropriate Malaysian government officials, and representatives of various U.S. and foreign businesses conducting business in Kuala Lumpur. We also conducted additional work at US&FCS headquarters.

Based on our inspection, the post’s problems are significant. Most of them can be attributed directly to the senior commercial officer (SCO). His lack of attention and ineffective management style have exacerbated already low staff morale and have resulted in the inefficient use of resources. The following are our specific observations.

Ineffective post management adversely affects client service. Clients’ and colleagues’ assessments of the post’s effectiveness varied. While some praised the SCO and his staff, others expressed frustration with the post’s lack of adequate business outreach and contacts and the SCO’s complacent attitude. (See page 10.) Beyond basic, required planning documents, there is little planning and analysis of the post’s work to ensure that key activities take priority when the workload is heavy. Too often important services or activities, such as gold key services or computer upgrades, are postponed or canceled due to this lack of strategic planning and management. (See page 5.)

The SCO also failed to address several personnel management issues. In particular, he has not adequately tasked one officer, while other staff members appear overburdened. Although this officer properly conducts pre-license checks and post-shipment verifications for the Bureau of Export Administration, his time should be spent on additional US&FCS
activities. (See pages 6 and 20.) The SCO has also failed to take full advantage of a temporary duty exchange program for domestic trade specialists and overseas foreign service nationals (FSN). (See page 6.) Finally, the SCO has not adequately attempted to resolve severe morale problems among the FSNs that threaten staff productivity and initiative. In fact, the SCO’s “hands-off” approach has contributed to the staff problems at post. (See page 8.)

The post’s relationships with other embassy sections varies. The Ambassador stated that US&FCS communicated regularly with the other embassy sections in the weekly country team and economic meetings that he convenes. However, we found that the post could more proactively involve other agencies in the embassy to better serve its clients. For instance, the post should improve coordination with the foreign agriculture service when agriculture-related U.S. business representatives visit Malaysia and with other sections of the embassy, such as the defense attaché and the security assistance office, to gather information on the export licensing checks it conducts. The post should also seek to resolve outstanding issues with the U.S. Information Service, relating to management of their collocated information centers. (See page 10.)

US&FCS headquarters management, through its regional director, failed to adequately address the post’s problems. The former regional director, who is responsible for overseeing post activities, did little to address the ineffective management by Malaysia’s senior commercial officer. The US&FCS regional director’s position description clearly 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. According to the former regional director, tasking by other US&FCS and International Trade Administration personnel often diverted his attention from the post. The former regional director told us that he was unable to act on the specific problems we raised because he had not received formal feedback on the SCO’s disengagement from management and operation of the post. We found the former regional director’s explanations troubling and are concerned that they raise some basic questions about the effectiveness of US&FCS’s performance evaluation system. (See page 12.)

The post’s location within the embassy inhibits export promotion effectiveness. Other country-specific factors have affected the post’s export promotion program. US&FCS’s location within the embassy grounds affects its promotion activities by inhibiting access to its offices. Some visitors are deterred by the extensive security screening process required before entering the embassy, resulting in either lost opportunities for face-to-face meetings or increased staff time spent traveling to other meeting sites. (See page 15.)
U.S.-Asia Environmental Partnership program operates independently from the US&FCS. Lack of leadership from the senior commercial officer has allowed communication among the staff to deteriorate. The Partnership staff, who should report to the senior commercial officer, function almost independently from US&FCS. (See page 18.)

The concerns raised in this report should be addressed by US&FCS management as soon as possible for they outline problems that clearly inhibit the post’s potential. On page 24, we offer a series of recommendations to the Assistant Secretary and Director General to address our concerns.

In its April 10, 1997, written response to our draft report, the Assistant Secretary and Director General of the US&FCS generally agreed with our observations and recommendations. The actions taken, and those planned—when implemented—will satisfy the intent of our recommendations. We have provided additional information in certain areas to address comments provided in their response. A copy of the agency’s response to the draft report is attached in its entirety.
INTRODUCTION

Pursuant to the authority of the Inspector General Act of 1978 and the requirements of the Omnibus Trade and Competitiveness Act of 1988, the Office of Inspector General conducted an inspection of the U.S. and Foreign Commercial Service (US&FCS) operations in Kuala Lumpur, Malaysia, during the period September 16-20, 1996. The visit was part of a larger inspection trip, during which we also visited US&FCS posts in Thailand and Indonesia. These posts will be covered in separate reports. We discussed some of our preliminary observations with the Ambassador and the senior commercial officer (SCO). In addition, we briefed the Director General and regional managers in headquarters on October 15, 1996. Because several of the issues and concerns we observed in Malaysia involved other members of the US&FCS network and International Trade Administration (ITA) headquarters, we conducted additional work in ITA headquarters and discussed pertinent matters with other US&FCS field personnel. This inspection was conducted in accordance with the Quality Standards for Inspections issued by the President’s Council on Integrity and Efficiency.

Inspections are special reviews that the OIG undertakes to provide agency managers with timely information about operations, including current and foreseeable problems. Inspections are also done to detect and prevent fraud, waste, and abuse and to encourage effective, efficient, and economical operations. By highlighting problems, the OIG hopes to help managers move quickly to address those identified during the inspection and avoid their recurrence in the future. By the same token, inspections may also highlight effective programs or operations, particularly if they may be useful or adaptable for agency managers or program operations elsewhere.

PURPOSE AND SCOPE

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

In conducting the inspection, we (1) reviewed the organizational structure and operating approaches used in administering activities at the post; (2) interviewed appropriate Commerce Department, State Department, other U.S. government, private sector, and Malaysian government officials; and (3) examined pertinent files and records relating to the post’s operations. The inspection also included a review of headquarters and district office activities that support the post’s operations.
BACKGROUND

ITA 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 93 domestic offices, including 15 export assistance centers, located throughout the country. 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 134 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 prospect” 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 about three-year assignments and who are intended to provide the primary professional contact with U.S. businesses, the U.S. government, and senior foreign business and government officials as necessary; (2) career foreign service nationals, who provide critical local continuity through the maintenance of foreign business and government contacts, as well as most of the specialized and general market research and business consulting; and (3) a variety of personal service contractors, who provide the balance of support through specialized services beyond what current career staffing permits.

Malaysia is a member of the Association of Southeast Asian Nations (ASEAN), along with Brunei, Indonesia, the Philippines, Singapore, Thailand, and Vietnam. The Secretariat of ASEAN is located in Indonesia’s capital city, Jakarta. By establishing ASEAN in 1967, the countries allied to strengthen regional security, cohesion, and self-reliance, while emphasizing economic, social, and cultural cooperation and development. More recently, ASEAN has focused on economic development and trade promotion among the members. The countries are developing the ASEAN Free Trade Area, which aims to reduce tariffs among members to 0-5 percent by 2003.
Acknowledging the potential opportunities from this regional coordination, the Clinton Administration designated Malaysia and the other ASEAN countries as "Big Emerging Markets" (BEMs) for U.S. exports. Other BEMs include the Chinese Economic Area (China, Hong Kong, and Taiwan), South Korea, India, South Africa, Poland, Turkey, Mexico, Brazil, and Argentina. ASEAN and the nine other economies are expected to account for 40 percent of total world imports and growth over the next 15 years. To overcome the fierce international competition and significant barriers to trade in most of these economies, the BEMs strategy is designed to assist U.S. firms by securing market access, providing financing, supporting U.S. companies seeking to win major projects, and supplying market information. ITA’s major effort to implement the BEMs strategy has been to increase staffing and budget, when available, in these key economies. Since October 1993, 118 additional US&FCS personnel have been allocated to BEMs countries.

Malaysia is a favorable export market and foreign investment destination for U.S. firms. The Malaysian economy has enjoyed an annual growth rate of over 8 percent for the past eight years,
reaching a real gross domestic product of $48 billion in 1995. Malaysia was the 17th largest market for U.S. exports in 1995. The United States exported $8.8 billion to Malaysia in 1995, up from $6.9 billion in 1994 and $6.0 billion in 1993. The United States was also Malaysia’s largest foreign investor from 1991 to 1993 and second largest investor in 1995 (behind Japan), with a cumulative investment value of $8.0 billion.

To many U.S. exporters, the most significant barrier to trade with Malaysia is its time and geographic distance from the United States. Local business practices and regulations are generally well-known and not particularly limiting, although a local agent is required for sales to the government and suggested for private sales. U.S. technology also benefits from a relatively strong regime for protecting intellectual property rights. Although software and video piracy is still prevalent in Malaysia, recently passed copyright and patent laws have strengthened protection and enforcement.

Local ownership requirements for foreign direct investment continues to be the most significant barrier for U.S. firms looking to invest. Despite these investment restrictions, opportunities for U.S. firms abound. Malaysia plans to spend $14 billion to upgrade its infrastructure through the year 2000, including major power, water management, transportation, and telecommunications projects. The Malaysian government is also privatizing several industries, including telecommunications, electricity production, air transportation, automobile manufacturing, hospitals, and pharmaceutical supply centers.

The US&FCS has two offices in the capital city of Kuala Lumpur. Its standard US&FCS activities are conducted within the embassy. The U.S.-Asia Environmental Partnership (US-AEP) program, dedicated to promoting exports of U.S. environmental technologies, is located in commercial office space across the street from the embassy. The US&FCS staff includes three American officers (2.5 full-time equivalent positions), seven foreign service nationals, and four personal service contractors. Three of these contractors are dedicated to the US-AEP program, which is funded by the U.S. Agency for International Development (USAID). The post’s budget was $314,000 for fiscal year 1996. US&FCS’s annual overseas resource allocation model, which is used to support budget and personnel decisions, ranked Malaysia 14th out of 69 countries in 1996, up from 16th in 1995 and 22nd in 1994.
OBSERVATIONS AND CONCLUSIONS

I. INEFFECTIVE POST MANAGEMENT ADVERSELY AFFECTS CLIENT SERVICE

The SCO in Malaysia has not effectively managed the post’s operations. We found that the management at post (1) lacked effective strategic planning, (2) did not adequately manage its human resources, and (3) satisfied some clients and colleagues while disappointing many others. The post’s failure to assess its products and services to determine which are the most effective in assisting U.S. firms and its attempts to do everything for everyone often resulted in chaos and high demands on a staff already experiencing poor morale.

A. Post Does Not Prioritize Its Activities or Effectively Manage Staff Resources

The senior commercial officer’s work plan requires him to (1) initiate, plan, and manage U.S. trade promotion and commercial information programs and (2) manage and administer the post’s personnel and resources to carry out that program. Although the post is actively promoting U.S. exports, it lacks effective strategic planning to clarify the post’s objectives and align its resources with priorities. Several opportunities to improve the morale, staff communication, output, and effectiveness of the US&FCS mission in Malaysia have been either ignored, overlooked, or simply not made a priority by the SCO. The examples of mismanagement, ineffective leadership, and misuse of resources are many:

Valuable gold key service is too often postponed or canceled

The gold key service is, by most accounts, the most valuable service the US&FCS post in Malaysia offers to its clients. The service provides visiting U.S. business representatives an audience with Malaysian business representatives interested in potential trade or investment opportunities. Unfortunately, because of poor prioritizing and workload distribution, several U.S. businesses’ requests for the service were either postponed or rejected. Several of those U.S. clients involved have expressed their dissatisfaction.

This inability to respond to client requests can be attributed, in part, to the post’s lack of strategic planning. Currently, the post contributes to the embassy’s country commercial guide, which reports annually on the Malaysian commercial climate. The exercise of determining the industries with the “best prospects” for U.S. firms is one type of planning tool. However, the post does not regularly analyze which products and services are most valuable for the Malaysian market and how much time is spent on each activity. Without this information, the SCO cannot—and does not—prioritize activities. When the post is deluged with requests for products
or services, reportedly effective and valuable services, such as gold keys, are not provided, while other possibly lower priority activities, such as the library, continue to be supported.

Available staff resources are not appropriately or equitably used

During fiscal year 1996, the post had 2.5 full-time equivalent officer positions, but the workload burden was not appropriately distributed among them. The SCO was frequently absent from post, and, while there on our inspection, we often found him relaxing in his office with idle time on his hands, while others in the office were apparently overburdened with work. Furthermore, the SCO charged one officer with limited commercial work, leaving a third officer to carry the majority of the officer responsibilities at post. Considering the deficiencies highlighted throughout this report, failure to fully and properly utilize available staff resources—particularly an American officer—cannot be justified.

The SCO has not tasked one officer with sufficient substantive responsibilities to occupy his time, although the officer himself was willing to take on more commercial work. Currently, the officer is responsible for conducting pre-license checks and post-shipment verifications for BXA and for tracking the automotive and machine tool industries in Malaysia. Without encouragement or direction from the SCO, the officer has initiated some trade promotion activities in these areas (such as a mission to the United States for Malaysian companies interested in U.S. after-market automotive parts), but is not providing as much support as could be expected.

Because the SCO has not appropriately managed his staff resources, a disproportionate share of the responsibilities has fallen to one junior officer. Currently serving his first overseas assignment, the junior officer handles most work assignments, formal reporting requirements, administrative oversight, headquarters requests, and special projects for the Ambassador and Deputy Chief of Mission. Some US&FCS and other ITA personnel were aware that the junior officer is effectively functioning as the SCO; indeed, they have almost unanimous praise for this officer’s efforts. However, US&FCS headquarters should have taken action to stop such an unfair burden being placed on a junior officer, and not permitted this situation to continue. A large portion of these responsibilities are the SCO’s, not the junior officer’s. (See page 12 for more information on US&FCS headquarters responsibilities.)
Professional development needs greater attention

Another problem that has adversely affected operations, as well as staff morale, is the SCO’s failure to appropriately use a temporary duty exchange program for domestic trade specialists and overseas foreign service nationals (FSNs).

US&FCS’s Office of International Operations requested nominations for a 30-day temporary duty assignment to a domestic field office. The Malaysia SCO submitted a list including all of his FSNs except the only commercial specialist, who would probably be best served by the program. His personal assistant was listed first and was selected by headquarters to participate in the program. Although his personal assistant is the most senior FSN in terms of length of service and has extensive contacts in the Malaysian government, she primarily functions as the office manager and has no direct responsibilities for market research, promotion services, or business counseling. By sending the officer manager on the temporary duty assignment, the SCO missed an opportunity to use the exchange program to serve programmatic needs by developing the key skills and experience of the one professional commercial specialist.

The ability of the SCO to submit the office manager’s name for this program was made easier by the wide use of “commercial assistant” to describe the FSN positions in Kuala Lumpur. All FSNs use the commercial assistant title, except for the one commercial specialist, the librarian (“commercial clerk”), and the driver. In the case of the SCO’s nomination for the above temporary duty program, even the librarian was listed as a commercial assistant. Some documents at post even refer to the driver as a commercial assistant, and he was introduced to the OIG team as “a part-time commercial assistant.” Flexibility in the assignment of job titles can serve many useful purposes. But in Kuala Lumpur, it unnecessarily confuses career paths, blurs lines of responsibility, and can lead to the misuse of resources like the exchange program above.

Computer training is lagging

The post had on several occasions postponed converting its computer operating system to Windows, even though the former regional automation coordinator works in Kuala Lumpur. The delay has been costly. First, had the Kuala Lumpur staff been upgraded earlier than other posts in the region, by virtue of the former regional automation coordinator’s presence in Kuala Lumpur, the staff would have had a unique opportunity to expedite their learning of the new operating environment. Second, the experience gained by the regional automation coordinator from teaching the Kuala Lumpur staff after their switch to Windows could have been shared with the other posts during their conversion to Windows.

US&FCS officials explained that the SCO has the authority to schedule, in consultation with US&FCS’s Office of Information Systems, when each post in the region is upgraded. The SCO reported that Kuala Lumpur will be upgraded last because his post “has been too busy” to justify
the necessary computer downtime and staff training time required for the upgrade. It was not until November 1996 that the operating system was finally converted—after all but one other post and a constituent post in the region were completed.

It is difficult to reconcile the SCO’s reason for delaying his staff’s migration to the Windows computer operating system with his decision to nominate his office manager for a 30-day temporary duty assignment and his failure to adequately task staff. If the staff’s time is so constrained by the high level of demand for export promotion services, the loss of an FSN for one month and the continued inactivity of an officer only exacerbate the stress on other employees.

The lack of an effective plan that clarifies the post’s objectives and aligns resources with priorities severely weakens the SCO’s ability to support his decisions. In the absence of strong leadership by the SCO, the post is largely reactive and its resources are not managed efficiently toward achieving the post’s objectives. The SCO should be managing the post’s current resources in accordance with post strategies and priorities developed from analysis of the post’s budget, current and potential services and activities, Malaysia’s best prospects, and the local commercial environment. Such analysis might in part be the product of other work the post already has to do to satisfy other US&FCS reporting requirements (e.g. preparation of the country commercial guide, strategic plans, etc.), but it should be based on input from staff, other embassy officials, local businesses, the American Chamber of Commerce, headquarters, district offices, customers, and others as appropriate.

In response to our recommendations on this finding, the Director General agreed that our “recommendations articulated sound management practices for post[s] to follow” and that US&FCS “will seek to have [the] post manage operations in a more systematic and consultative manner.” The response also noted that the current regional director will visit the post this year for an on-site review.

B. The SCO Has Not Adequately Addressed Staff Morale Problems

The SCO has not adequately attempted to resolve severe morale and racial problems among the FSNs that threaten staff productivity and initiative. In fact, the SCO’s hands-off approach has contributed to the staff problems at post.

As part of our review, we met with each staff member, including FSNs and personal service contractors. It quickly became evident that there were problems at the post that were affecting staff morale. Due in part to personality conflicts, resentment over assignment decisions (or the
lack thereof), and ineffective post management, low office morale has had a negative impact on the Kuala Lumpur office. Interaction among some staff is limited, generally unproductive, and at times counter-productive. There also is little communication between the staff and the SCO on personnel issues. No formal vehicle exists for the staff to communicate issues and concerns to the SCO. Many of the staff could not even recall their last staff meeting.

Other factors that contribute to the post’s low morale are the competition and hostility among the local staff. With the SCO providing little leadership, the perceived “power vacuum” in the office provides the opportunity and incentive for staff to openly and sometimes hostilely compete for work, responsibilities, and awards.

Racial tension is a problem, though it is not unique to the staff in the US&FCS office. According to U.S. business and U.S. and Malaysian government interviews, such tension is a challenge that many offices deal with in Kuala Lumpur. It can be difficult to change individual staff biases when the biases are widely held by the local culture. But American organizations abroad have a tool at their disposal that is used effectively by U.S. businesses in places such as Kuala Lumpur. American laws prohibit racial discrimination and harassment, and American business representatives cite those to create a tolerant working environment for their offices—effectively telling employees to check their prejudices at the door when they enter. The SCO’s failure to wield authority and effectively deal with office bickering has compounded racial and personal conflicts.

The SCO has made little or no effort to encourage employees to participate in or develop new initiatives and interact with other professionals. Hence, employees (1) are not effectively used in a planning process for current and future products and services, (2) lose the opportunity to gain additional experience and learn from others, and (3) fail to support colleagues during periods of heavy workload. The SCO was aware of these problems, but his inactivity served only to increase the tensions in the office. Suitable actions have not been taken to resolve the problems or ease some of the tension.

The SCO in Malaysia is scheduled to retire in April 1997. Several US&FCS officials cite the pending retirement as a possible explanation for the SCO’s apparent lack of concern or his inactivity at post and any potential consequences on his career. On page 15, we state our concerns with US&FCS’s performance evaluation system.

We are pleased with most actions planned by US&FCS on this issue. In their response, US&FCS officials stated that OIO will immediately begin to work with the outgoing SCO to encourage him to implement measures which could begin to resolve these issues (e.g., regular staff meetings, one-on-one consultations with FSN’s). The Director General also stated that she “will direct
[the] Office of Foreign Service Personnel to work with OIO and with [the] post to revise position descriptions as appropriate."

We are concerned, however, with US&FCS’s contention that “intra-office cooperation and communication will be greatly enhanced by the Commercial Service’s move to a single, central location, the Business Information and Counseling Center, which is on the ground floor of the embassy.” Our review clearly indicates that poor management was a strong contributing factor in the staff conflicts and morale problems, not the staff’s location. In fact, most of the problems we found related to staff located in the same space as the SCO.

C. Clients and Colleagues Have Mixed Impression of the Post

While in Malaysia, as well as in Thailand and Indonesia, we met with several U.S. business representatives, the American Chamber of Commerce, and other clients and colleagues who had some form of interaction with the US&FCS post in Malaysia. We also obtained input from the staff there. Their impressions of the effectiveness of the post varied widely. Some praised the work of the SCO and his staff for their efforts to promote U.S. trade and investment in Malaysia. For example, recently the post became involved in embassy efforts to improve information technology and to prepare a “Doing Business in Malaysia” piece for the American Chamber of Commerce. Others expressed notable frustration with (1) their perception of the post’s lack of adequate business outreach and contacts, (2) the visibly complacent attitude of the SCO, and (3) the post’s postponement or failure to provide vital services (see page 5).

According to our interviews with officials throughout the embassy, the post’s relationship with other embassy sections varies. The Ambassador stated that the commercial section communicated regularly with the other sections in the weekly country team and economic meetings that he convenes. We did note some positive examples of the post’s cooperation with other embassy sections; however, there is room for improvement in a few key areas.

**Department of State’s Economic Section.** Because of past coordination problems between the commercial and economic sections, the former Ambassador integrated the two sections to improve efficiency and communication. The integration included sharing responsibilities, dividing industry sectors between the two sections, and collocating their offices. Although the concept of close cooperation was well-intentioned, the actual result was tension. Since the arrival of the new Ambassador, the two sections have returned to their more traditional roles—the economic section focusing on policy and US&FCS on trade promotion services. The State Department’s economic section has responsibility for some industry sectors, such as insurance and telecommunications, and prepares some market research, as needed and requested by the Ambassador. Economic officers also meet with business people when US&FCS staff are not available. This arrangement is providing useful backup to US&FCS.
**U.S. Department of Agriculture’s Foreign Agriculture Service.** Although the U.S. Department of Agriculture’s Foreign Agricultural Service’s agriculture counselor was new to this post at the time of our visit, coordination appeared to be adequate between the two offices. As with other sections, such as the political section, communication occurs most often at the weekly country team meetings with the Ambassador. In one case, however, the post failed to inform the Foreign Agricultural Service in advance of a food processing matchmaker’s visit to Kuala Lumpur. The agriculture counselor was able to make time to answer the U.S. businesses’ questions, but could have devoted more time and effort if there had been time to plan properly. The post should consider more carefully in the future which sections in the embassy could assist its clients, and plan accordingly.

**U.S. Information Service.** US&FCS could also improve its coordination with the U.S. Information Service (USIS). Currently, the US&FCS commercial library, which has information on doing business with U.S. firms, and the USIS Lincoln Resource Center, which has U.S. cultural information, are collocated next to the US&FCS offices inside the embassy. Although visitors often use resources from both information centers, there is some miscommunication between US&FCS and USIS on how the two centers should operate. For example, USIS has a strict policy not to respond to telephone inquiries, but encourages visitors to come in and use the available information themselves. Because the two information centers are collocated, US&FCS often receives telephone inquiries for USIS and simply refers the individuals to USIS, who then tells the caller to come into the center. In addition, visitors to the collocated information centers often do not understand that USIS staff cannot assist them with the other agency’s resources and the US&FCS staff are currently unprepared to help with USIS resources.

To avoid inconveniencing individuals who call US&FCS, but then are told by USIS to come in and do their own research, USIS has offered to supply US&FCS library staff with standard responses that its own staff uses. USIS also offered to train US&FCS to use its resources. However, according to USIS, there has been little improvement or change since these suggestions were made because of the SCO’s lack of attention to the issues. In general, better communication on how to assist clients is needed to ensure that benefits from collocation are realized, with the least amount of inconvenience to the users. If US&FCS continues to support the need for a commercial library in Kuala Lumpur, we believe that its staff should become more familiar with USIS resources so that they can use them to support U.S. export transactions, as appropriate.

In responding to our draft report, agency officials stated that:

“Current plans call for the Commercial Service, along with Agriculture and AEP, to move into a new Business Information and Counseling Center on the ground floor of the Embassy before June of this year. Included in this move will be the
Commercial Library, which will no longer be collocated with the USIS Lincoln Resource Center.”

Even if US&FCS staff are separated from the USIS Lincoln Resource Center, the US&FCS staff in Malaysia should still be familiar with USIS’s resources.

**Coordination on Export Licensing End-use Checks.** As discussed on page 20, the post could also work more closely with other sections of the embassy to gather information on the export licensing checks it conducts. Currently, only the political section, which receives the cables, regularly sees requests from BXA. Political officers have provided information on some checks in the past, but other sections of the post, such as the defense attaché and the security assistance office, could also contribute. Due to the small number of checks performed each year, the staff in Malaysia should consider regularly coordinating end-user checks for BXA. These sections, including US&FCS, already provide input into export licensing checks performed by the Department of State for its munitions licenses.

US&FCS officials stated in their response that US&FCS “pledges to cooperate more fully with other sections of the Embassy.” The response also stated that the Office of International Operations will work with the incoming SCO to stress the importance of such cooperation.

II. **HEADQUARTERS MANAGEMENT FAILED TO ADEQUATELY ADDRESS THE POST’S PROBLEMS**

US&FCS’s overseas operations are managed by the Office of International Operations. The Deputy Assistant Secretary for International Operations oversees four regional directors, who are responsible for monitoring US&FCS operations in their geographic regions and serve as headquarters points of contact for their overseas posts. Malaysia is one of 13 countries in the East Asia and the Pacific region.¹ As a BEM, Malaysia and nine other countries² in this region have been identified as priorities for ITA export promotion activities. However, headquarters management has failed to correct obvious management problems in Malaysia that adversely affect that post’s effectiveness.

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¹The region includes: Australia, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Taiwan, Thailand, Vietnam, and the Asian Development Bank.

²The BEMs in US&FCS’s East Asia and the Pacific Region include: the ASEAN countries where US&FCS has operations (Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam), the Chinese Economic Area (China, Hong Kong, and Taiwan), and South Korea.
A. Regional Director Provided Inadequate Oversight of the Post

US&FCS’s problems in Malaysia and their potential adverse effects on the agency’s export promotion efforts have been exacerbated by the failure of the headquarters regional director for East Asia and the Pacific to hold the SCO accountable. Clearly, the former regional director had not carried out many of his own key responsibilities. The following are among the major duties described in the regional director’s position description:

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

The fulfillment of these duties encourages efficiency and accountability and provides a conduit for innovations and lessons learned that could benefit other parts of US&FCS. Unfortunately, we found that these duties have not been carried out consistently in the East Asia and Pacific Region, and in the case of Malaysia, many of the problems described in this report have been allowed to continue for some time.

The former regional director told us that he was unable to act on the specific problems we raised because he had not received formal feedback on the SCO’s disengagement from management and operation of the post. Yet, the former regional director and other senior managers in US&FCS acknowledged that they were aware of the SCO’s ineffectiveness 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.

The former regional director also responded that because the post’s basic requirements were generally maintained, there was no cause for him to take dramatic action against the SCO. The former regional director, in attempting to explain his lack of involvement and oversight, also stated that he could not devote more time to monitoring the Malaysia SCO and his operations, because he, like other regional directors, is often tasked by several different ITA offices on 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. Overseas staff are in daily contact with foreign government and business representatives, U.S. businesses, and other U.S. government agencies. Competition in overseas markets is fierce. Often, there can be small differences between the steps taken to make a potential business transaction successful and the steps resulting in failure. While a high level of successful U.S. business activity can mask failures, every missed overseas transaction translates into less economic activity back in the United States and can make it more difficult for the next potential transaction with that contact to succeed.

Few, if any, of the regional director’s other functions and responsibilities, are as important 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. High profile issues and events beyond the Office of International Operations will benefit from regional director input and support, but only regional directors are explicitly responsible for and in a position capable of providing 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.

There should be no excuse for regional directors, and by extension their senior management, not being knowledgeable about the performance of individuals who they are charged with evaluating. The regional director never visited the US&FCS post in Malaysia during his three-year tenure as regional manager. The SCO reportedly had been failing to perform as required for some time, and discussions with the American and Malaysian staff could have provided the former regional director with information to enable him to address the SCO’s behavior and performance.

One step US&FCS should take to increase the perceived importance 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. Such a 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.

In response to our recommendation that the Director General ensure that management oversight of overseas posts is a primary focus of OIO and the regional director, agency officials stated that they “fully support this recommendation, and the present DAS/OIO has already incorporated such responsibilities into work plans for her RD’s as well as her own.” The Director General “will instruct OIO and HRD to draw up revised position descriptions for the DAS/OIO as well as the RD’s to emphasize even more strongly this primary focus.”
The Director General also agreed to “instruct the US&FCS’ Office of Planning to update the US&FCS Operations Manual” and, in conjunction with OIO, draft a new section on the functions of the regional directors.

B. Performance Evaluation System Failed to Properly Deal With a Poor Performer

We are concerned about US&FCS management’s failure to take action against the SCO—a suspected if not known non-performer—in a BEM country. This also raises serious questions about the efficacy and integrity of the US&FCS performance evaluation and management processes.

Rationalizing that, in the absence of dramatic failures, any field performance is “fully satisfactory” and that other issues and requirements often have higher priority, potentially undermines an effective US&FCS operation. Organizationally, the regional director is the focal point for commercial officer performance data. When any evaluator of officer performance is either complacent about the significance of performance ratings or hesitant 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—all the way up the organizational chart through regional director, Deputy Assistant Secretary for International Operations, and the Director General—to maintain management oversight as a primary priority.

III. LOCATION WITHIN EMBASSY HAMPERS POST’S ACCESSIBILITY AND EFFECTIVENESS

The US&FCS office space in Kuala Lumpur is located on the second floor of the U.S. embassy. The embassy is located outside the primary business districts of Kuala Lumpur, but not prohibitively distant, according to staff and U.S. businesses. Visitor parking available immediately in front of the embassy is at times too limited. The US-AEP program is located in leased office space in a commercial building across the street from the embassy, and has access to short-term parking for visitors.

According to embassy staff, construction work on the Kuala Lumpur commuter train line will begin soon in front of the embassy, and will effectively eliminate all visitor parking for at least the duration of the construction, which is expected to last one year. Embassy staff reported that the construction of a permanent pedestrian walkway across the street, but no additional parking, had been negotiated as part of the rail construction project.
US&FCS’s location within the embassy has some advantages: physical security, screening of visitors, collocation with the USIS library, and ready access to the Ambassador and other sections of the embassy. Yet the limited visitor parking space, tightly controlled access, and security screening delays at the embassy discourage commercial and government representatives from visiting the US&FCS office. For example, when the OIG inspection team first arrived at the embassy, it (1) stood in a line at the gate, (2) had its bags searched, (3) signed in, (4) walked across the interior driveway, (5) had its bags searched again before passing through a metal detector, (6) signed in again at another security window, and (7) waited for an escort. Security requires that cameras, cellular phones, laptop computers, and any other battery-operated device be left at the front gate of the embassy to be picked up on the way out.

In a culture where cellular telephones or pagers accompany nearly every private Malaysian business person, the embassy’s prohibition of electronic devices insults some senior visitors. Staff at the post reported that some Malaysians have walked away from scheduled appointments at the embassy when confronted with the embassy’s security measures. As a result, many meetings are scheduled off-site, resulting in additional staff time spent in transportation to and from the meetings than would otherwise be necessary.

The Ambassador shared two comments in response to the inspection team’s suggestion that US&FCS might be better off if it moved outside the embassy. He said that security would be a concern and that he had never heard that US&FCS’s location inside the embassy was of concern to U.S. and Malaysian business and government officials. The inspection team consulted with the regional security officer at the embassy and was told that there were no special security concerns in Kuala Lumpur that would prohibit US&FCS from moving outside the embassy. The regional security officer expressed satisfaction with, for example, the camera-monitored entrance to the commercial office space leased by the US-AEP staff. Only the Ambassador, the SCO, and US&FCS’s management performance review team advocated having the whole US&FCS program inside the embassy. Nearly every US&FCS staff member, U.S. business person, and Malaysian government representative interviewed in Malaysia by the OIG inspection team thought that U.S. business interests could be better served if the US&FCS office was located outside the embassy compound.

The SCO reported that in his experience, it had never made a difference whether the staff was located inside or outside the embassy grounds. However, he did not agree that the security checks were overly burdensome. He was not aware of the problems noted by most of the staff,

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3 Management performance reviews evaluate US&FCS’s overseas and domestic operations. Officials from US&FCS’s Office of Planning and other organizational units visit sites, review programmatic activities and administrative functions, and prepare reports for US&FCS management. In a report issued in January 1997, the Office of Planning recommended that US&FCS move the US-AEP staff to the embassy with the rest of US&FCS, apparently to improve communication with and supervision of the program.
U.S. business, and Malaysian government representatives. He suggested to the OIG inspection team that the US-AEP office should be brought inside the embassy so that it could be managed better. His view that US&FCS was better off “inside the embassy because it’s free” revealed a lack of knowledge about the fundamental principle of the State Department’s new administrative support cost tracking system, International Cooperative Administrative Support Services (ICASS). Under this new system, agencies will have to pay their share of embassy overhead. His remaining concern about moving outside the embassy was over the need for someone with a security clearance to travel to the embassy to handle classified correspondence.

The Congress has taken a step toward increasing US&FCS’s accessibility in certain countries by authorizing commercial centers outside the embassy. US&FCS headquarters recognizes that its mission is easier to fulfill when staff are located outside embassy grounds. In addition, USAID has recognized the benefits of locating all of its US-AEP technical representatives outside embassy grounds. We believe that the whole US&FCS program in Malaysia would benefit from a location outside the embassy. Collocating the US&FCS staff with the US-AEP staff either in the commercial space near the embassy or within the primary commercial districts would enhance US&FCS’s visibility, accessibility, and ability to promote U.S. exports.

In responding to our draft report, agency officials cited cost and the greater convenience of coordinating with other U.S. government agencies as reasons for keeping US&FCS offices in the Embassy. Using the US-AEP office space as an example, the post estimated that it would be approximately $4.25/sq. ft. per year more expensive to move out of the embassy into the commercial space. They also stated that they would “continue to consider the issue of location” and the Office of International Operations “will work with the incoming SCO to determine what works best from a budget as well as a post mission perspective.”

Although the agency’s actions appear to comply with our recommendations, we urge US&FCS management to look beyond the space occupied by US-AEP. It was not our intent that the post simply explore moving across the street with US-AEP. The agency should also consider other locations for the post that might be more accessible or less expensive.

IV. US-AEP PROGRAM OPERATES INDEPENDENTLY FROM US&FCS

The U.S.-Asia Environmental Partnership (US-AEP) is a cooperative effort, led by USAID, to promote sustained development while improving the environment in Asia. Twenty-five federal, state, and private sector programs contribute to the project in a variety of ways, including collecting and disseminating information on U.S. environmental companies or opportunities in Asia, providing grants to facilitate technology transfer, and sponsoring training opportunities for
Asian private and public sector officials. US&FCS supports the environmental technology representatives located in nine Asian countries, the Asian Development Bank, and the World Bank. These representatives function much like commercial specialists, but they also promote longer term environmentally sound development, consistent with USAID’s objectives, by sponsoring visits by host country officials and training in the United States and advocating for more effective environmental regulations throughout Asia.

US&FCS’s support of the technology representatives is determined by an interagency agreement between USAID and the Department of Commerce. According to the agreement, the designated countries will have at least one technology representative, a deputy representative, and an administrative assistant. The two representatives should have technical and business competence in environmental technologies. All three positions report to the SCO, but are dedicated only to promoting exports of U.S. environmental technologies. Over the next two fiscal years, US&FCS will assume a greater portion of funding for the program (from 37 percent to approximately 75 percent). Of the total fiscal year 1997 budget for the technology representative program ($2,310,839), Malaysia’s budget is $149,506. US&FCS will contribute $109,506 for the Malaysia operations.

A. US-AEP Is Not Sufficiently Integrated into US&FCS Program

In Malaysia, the US-AEP program is a positive addition to the embassy’s U.S. export promotion efforts. The US-AEP staff performs many basic US&FCS services, such as gold key services, industry subsector analyses, international market insights, and counseling. However, unlike at other posts we visited, there is little communication between US-AEP and the SCO, despite the interagency agreement that technology representatives report to and be supervised by him. Interaction between the technology representative and the SCO usually occurs at the Ambassador’s weekly economics or country team meetings. The US-AEP and US&FCS staff regularly refer clients to each other when there is an overlap. U.S. business representatives and embassy staff lauded the effectiveness of the US-AEP program in Malaysia, yet the US-AEP objectives and responsibilities did not seem to be well understood by the SCO.

Although management problems may be exacerbated by US-AEP being located in commercial space separate from US&FCS, we do not believe it is a significant factor. In fact, US-AEP’s location was noted on several occasions as contributing to its success. As discussed earlier in this report, there is confusion and uncertainty about the post’s mission. US-AEP is no exception. Despite the fact that clients are referred between the post and the US-AEP, the SCO and

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4 These countries include Hong Kong, India, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, and Thailand. There is also a US-AEP technology representative in Sri Lanka, who is supported only by USAID because US&FCS does not have operations in that country.
US&FCS staff still lack a basic understanding of the role of US-AEP and how it should fit within the broader mission of the US&FCS. With improved understanding of US-AEP’s mission, the US&FCS post in Malaysia can take greater advantage of this resource. Any effort to improve intra-office communication must involve the US-AEP staff, as well as the SCO, regardless of their physical location.

B. US&FCS Resources Dedicated to US-AEP Are Not Clearly Justified

Opportunities for environmental technology exports to Malaysia certainly exist, as evidenced by the post’s designation of pollution control equipment as a best prospect industry. In addition, environmental technologies affect almost every industry sector. However, these export opportunities depend on the effectiveness of the host country’s environmental regulatory program and its willingness and ability to use environmental technologies. Therefore, on a country-by-country basis, US&FCS should determine whether its export promotion efforts sufficiently benefit from its 75 percent of funding for the US-AEP program. If the post is not using this resource effectively compared to promotion of other industry sectors, US&FCS should consider reducing proportionately either the US&FCS share of funding or the size of the US-AEP staff to better match the U.S. environmental export opportunities in each country. Because US&FCS’s involvement in US-AEP is determined by the interagency agreement with USAID, US&FCS should consult with USAID before any major changes are made.

In addition, US&FCS needs to look at the workload of the US-AEP and US&FCS support staff and determine if adjustments should be made. Currently, one US-AEP administrative assistant supports two US-AEP professionals, compared to two US&FCS administrative support positions (administrative assistant and secretary/receptionist) supporting eight US&FCS professionals and one driver.

In responding to our recommendations, US&FCS officials stated that upon moving the US-AEP section within the embassy, they would be better positioned to evaluate and monitor US-AEP’s activities. They went on to state the importance of the environmental sector to the current administration and US&FCS’s long-term goals. Rather than cutting resources to US-AEP, US&FCS said it proposed to expand the US-AEP’s staff’s responsibilities to include delivery of the full range of US&FCS services in industrial sectors where clean technologies are a priority, such as paper and pulp.

We have several comments about US&FCS’s response and position on this issue. First, as stated previously, we have serious concerns about the impact that moving inside the embassy will have on the US-AEP program, in addition to our programmatic concerns about leaving the commercial
section inside the embassy. The US-AEP location outside the embassy has not detrimentally affected its interaction with other embassy sections. In fact, an economic officer, located within the embassy, stated that he maintains more productive relations with the US-AEP office than the interaction with the commercial section, located down the hall.

Secondly, we understand and concur with the importance of the environmental sector to our Nation, both economically and ecologically. We are not suggesting that U.S. public commitments to improving the global environment be decreased. We simply question whether US&FCS resources, as used to partially fund the US-AEP program, are being used most efficiently or congruently with the US&FCS’s mission, especially considering other “best prospects” identified by the post in the country commercial guide. US&FCS should be funding programs that align themselves with the agency’s strategic goals, and let other agencies support other goals as appropriate.

Lastly, in its response, the agency erroneously quoted the last line of our recommendation. We did not recommend in Malaysia that US&FCS determine whether the post can better utilize its total square footage by reallocating space between US&FCS and US-AEP staff.

V. **EXPORT LICENSING CHECKS WERE PROPERLY CONDUCTED, BUT CAN BE IMPROVED**

Pre-license checks and post-shipment verifications (collectively known as “BXA checks”) required by the Department of Commerce’s Bureau of Export Administration are conducted by an American officer in accordance with BXA regulations. FSNs assist the American officer in scheduling and performing on-site interviews with the subject company or organization, but the analysis and response to BXA is prepared by the American officer. We were generally impressed with the thoroughness of the cases we reviewed, but some improvements could be made. The post should consider involving other sections and agencies in the embassy to improve information gathering, and should log or centrally file completed checks to better track companies or organizations that have been reviewed and the recommended action.

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 within BXA’s export licensing jurisdiction. BXA licensing officers and export enforcement special agents or analysts, 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.
From October 1995 through August 1996, the post performed six pre-license checks and no post-shipment verifications. One pre-license check was canceled by BXA before action was required from the post. In all six checks performed, the post concluded that the foreign company or organization was a favorable recipient of U.S. technology.

Our review of the BXA check files at post found an adequate amount of information gathering. The files often included correspondence with the subject company or organization, copies of documentation of the transaction at issue, and other background information. In addition, the post’s response cables to BXA indicated that an on-site visit was conducted or waived by BXA in every case we reviewed. However, there may be additional opportunities for gathering potentially useful information within the embassy. Other sections or agencies, such as the defense attaché office or the security assistance office, could provide valuable insight into how a controlled item may be inappropriately used or diverted. They might also have information on the specific companies or organizations involved in the transaction.

Currently, the political section receives the incoming request cables from BXA, providing an opportunity for their review of the requests. Other sections are not regularly consulted. The post should consult the embassy’s blue lantern implementation plan, which defines how checks of Department of State controlled items are conducted and which sections of the embassy participate.

In addition to increasing the participation of other parts of the embassy, the post should implement a better system for tracking all BXA checks conducted at post. Currently, the American officer personally maintains files on each check performed, but only miscellaneous documents are filed centrally. Without a log or central filing system, current and future staff may not be aware of which companies or organizations were the subject of BXA checks or the recommended status of those checks. Although there were no apparent negative consequences of the officer’s filing system, one could imagine a scenario where another employee contacts a company or organization but was unaware of an adverse finding during a previous BXA check. A centrally held log would help provide the necessary background information and continuity to make the BXA checks process more complete.

Despite compliance with BXA’s policy on who should conduct BXA checks, three of the seven responses cables sent by the post did not clearly state who conducted the check. The BXA handbook states that BXA will not normally consider checks conducted solely by FSNs complete. BXA relies on the response cable to identify whether an FSN or an American officer conducted the check. Without a clear statement, BXA cannot determine whether the check should be considered complete. Therefore, the post should state in the body of the response cable the name,
US&FCS officials stated that the officer who was responsible for conducting BXA checks will be transferred to the economic section. Because this officer properly conducted BXA checks, we want to emphasize that one of the other two full-time US&FCS American officers should assume these duties. According to BXA guidance, only U.S. citizens who are U.S. government employees are authorized to conduct BXA checks. The post may seek a waiver from BXA to allow its foreign service nationals to conduct BXA checks. However, as of the date of this report, BXA has granted few waivers.

VI. ADMINISTRATIVE OPERATIONS VARY

We found that due to problems in its own operations and at US&FCS headquarters, the post in Malaysia was deficient in a few administrative areas. As discussed earlier, the post, despite being the official duty station for the regional automation coordinator, was one of the last posts in the region to obtain the upgrade to Windows (late November 1996). The office was also one of the last to receive training on the upgrade.

The operations manual maintained and updated by headquarters contained outdated information, mostly in the area of information technology. US&FCS maintains an operations manual that contains background and guidance on the agency’s products, services, and administrative activities, and the responsibilities of organizations within ITA. Some staff expressed a mix of frustration and confusion between instructions provided in the manual and those provided by their superiors. The US&FCS has not determined what services, activities, procedures, and programs contained in the manual are still applicable and what is missing from the manual. For example, US&FCS’s commercial information management system (CIMS) was developed to facilitate the exchange of information between overseas posts, domestic offices, and headquarters. Through CIMS, US&FCS staff were given the ability to perform a number of services, including submitting trade opportunities electronically. A belief held by many, if not most, of the US&FCS staff at this post, as well as others we have visited recently, is that current technology has far exceeded CIMS and its usefulness. Consequently, CIMS is not widely used. Staff in Malaysia expressed confusion about whether they should comply with the manual and use CIMS to submit trade opportunities or follow the lead of other posts and use what they believe to be more effective and efficient.

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5 According to BXA officials, personal service contractors, regardless of their citizenship or security clearance, should not perform BXA checks.
systems. The manual should be periodically updated to ensure that staff in the field have available
a reliable source of information.

Finally, in reviewing the office’s policies and procedures for collecting and depositing funds from
the sale of products and services, we found it to be in general conformance with the ITA
collection and deposit procedures.

US&FCS agreed to update the US&FCS Operations Manual, including the section on information
technology. As stated earlier, US&FCS officials also agreed to include a new section in the
manual covering the functions of regional directors within the Office of International Operations.
RECOMMENDATIONS

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

1. Manage the current resources of the post in accordance with post strategies and priorities developed from analysis of the post’s budget, current and potential services and activities, Malaysia’s best prospects, and the local commercial environment. Such analysis should be based on input from staff, other embassy officials, local businesses, the American Chamber of Commerce, US&FCS headquarters and district offices, customers, and others, as appropriate.

2. Provide guidance as needed on appropriate position descriptions and job titles for each US&FCS staff member in Malaysia. Revise position descriptions and job titles to correspond with each employee’s actual and planned responsibilities, thereby minimizing confusion over career paths, blurred lines of responsibility, and misuse of resources.

3. Take the necessary steps so that the work plans of the Office of International Operations’ 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.

4. Take the necessary steps so 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.

5. Update all appropriate sections of the *US&FCS Operations Manual*, especially those covering information technology. Additionally, include a new section covering the functions of regional directors within the Office of International Operations.

6. Determine whether it would be cost-effective to be located outside the embassy. Relocate the US&FCS staff, if appropriate, after consulting with the State Department.
7. Better coordinate and cooperate with USIS concerning the most efficient and productive operation of the US&FCS commercial library and USIS Lincoln Resource Center.

8. Encourage staff to cooperate with other sections of the embassy on projects of mutual interest, such as involving the Foreign Agricultural Service early in the planning process when agriculture-related firms visit Malaysia or seeking input from other sections on Bureau of Export Administration checks.

9. Professionally and authoritatively seek to resolve internal staff conflict and morale problems by identifying any outstanding concerns and determine an appropriate and culturally sensitive solution. Possible solutions could include:
   — facilitating intra-office communication through regular staff meetings,
   — providing a constructive atmosphere for staff to relay concerns to the American officers, and
   — emphasizing that an American embassy expects tolerant, fair, and professional interaction among all embassy staff.

10. Determine, on a post-by-post basis if necessary, whether US&FCS resources are better spent on a partially USAID-funded US-AEP staff, which is constrained to work solely on environmental technologies; a fully US&FCS-funded staff able to cover multiple business sectors as warranted; or some combination of the two. Based on this determination, consider proportionately reducing either the US&FCS share of funding or the size of the US-AEP staff to better to match the U.S. environmental export opportunities.

11. Rationalize the use of space and other resources between US&FCS and U.S.-Asia Environmental Partnership activities.

12. Consult the embassy’s blue lantern implementation plan to expand the scope of information gathering within the embassy for completing pre-license checks or post-shipment verifications.

13. Clearly state in all response cables to BXA the name, title, and employment status (either American officer or foreign service national) of the official who conducted any pre-license checks or post-shipment verifications.
### LIST OF ACRONYMS

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<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ASEAN</td>
<td>Association of South East Asian Nations</td>
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<td>BEM</td>
<td>Big Emerging Market</td>
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<td>BXA</td>
<td>Bureau of Export Administration</td>
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<td>CIMS</td>
<td>Commercial Information Management System</td>
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<td>FSN</td>
<td>Foreign Service National</td>
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<td>ICASS</td>
<td>International Cooperative Administrative Support Services</td>
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<td>ITA</td>
<td>International Trade Administration</td>
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<td>OIG</td>
<td>Office of Inspector General</td>
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<td>SCO</td>
<td>Senior Commercial Officer</td>
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<td>US-AEP</td>
<td>United States-Asia Environmental Partnership</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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<td>US&amp;FCS</td>
<td>United States and Foreign Commercial Service</td>
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<td>USIS</td>
<td>United States Information Service</td>
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LIST OF US&FCS SERVICES

Industry Sector Analysis (ISA)—market research reports produced on location in leading overseas markets. Reports cover market size and outlook, characteristics, and competitive and end-user analysis for a selected industry sector in a particular country. ISAs are available on the National Trade Data Bank and the Economic Bulletin Board.

International Market Insights (IMI)—short profiles of specific foreign market conditions or opportunities prepared in overseas markets and at multilateral development banks. These non-formatted reports include information on dynamic sectors of a particular country. IMIs are available on the National Trade Data Bank and the Economic Bulletin Board.

Customized Market Analysis (CMA)—market research made to order. A CMA report assesses the market for a specific product or service in a foreign market. The research provides information on sales potential, competitors, distribution channels, pricing of comparable products, potential buyers, marketing venues, quotas, duties and regulations, and licensing or joint venture interest.

Trade Opportunity Program (TOP)—sales leads from international firms seeking to buy or represent U.S. products or services. TOP leads are printed daily in leading commercial newspapers and distributed electronically via the Department of Commerce Economic Bulletin Board.

Agent/Distributor Service (ADS)—customized overseas search for qualified agents, distributors, and representatives for U.S. firms. Commercial officers abroad identify up to six foreign prospects that have examined the U.S. firms' product literature and expressed interest in representing the U.S. firm's products.

Gold Key Service—custom-tailored service that combines orientation briefings, market research, appointments with potential partners, interpreter service for meetings, and assistance in developing follow-up strategies. Gold Key Service is offered by US&FCS in export markets around the world.

Matchmaker Trade Delegations—"match" U.S. firms with prospective agents, distributors, and joint venture or licensing partners abroad. The US&FCS staff evaluates U.S. firms' products and services for marketing potential, finds and screens contacts, and handles all event logistics. U.S. firms visit the designated countries with the delegation and, in each country, receive a schedule of business meetings and in-depth market and finance briefings.
International Buyer Program (IBP)—supports selected leading U.S. trade shows in industries with high export potential. Department of Commerce offices abroad recruit foreign buyers and distributors to attend the U.S. shows while program staff helps exhibiting firms make contact with international visitors at the show. The IBP achieves direct export sales and international representation for interested U.S. exhibitors.
MEMORANDUM FOR: Frank DeGeorge
Inspector General

FROM: Lauri Fitz-Pegado

SUBJECT: Draft Inspection Report
USFCS Post in Malaysia
International Trade Administration
(IPE-9284)

This responds to your March 10, 1997 request that I notify your office of the actions we have
taken or propose to take in response to your recommendations regarding USFCS operations in
Malaysia. I agree that CS/Kuala Lumpur conducts a standard export promotion program with
some success, and am pleased that the team did hear some praise of our operations there.
However, I am concerned about the problems you identify and agree that they inhibit post's
potential. We believe that your recommendations are sound -- and, as you will see below, we
have already taken steps to implement many of them.

**Recommendation 1:** Manage the current resources of the post in accordance with post strategies
and priorities developed from analysis of the post's budget, current and potential services and
activities, Malaysia's best prospects, and the local commercial environment.

The Commercial Service agrees that this recommendation articulates sound management
practices for post to follow and will seek to have post manage operations in a more systematic
and consultative manner. OIO/EAP will work closely with both outgoing and incoming SCO's
to ensure that this recommendation is implemented. In addition, current plans call for the present
RD to visit post this year for an on-site review.

**Recommendation 2:** Provide guidance on and revise as needed appropriate position
descriptions and job titles for each USFCS staff member in Malaysia. Revise position
descriptions and job titles to correspond with each employee's actual and planned
responsibilities, thereby minimizing confusion over career paths, blurred lines of responsibility,
and misuse of resources.

I will direct my Office of Foreign Service Personnel (OFSP) to work with OIO and with post to
revise position descriptions as appropriate. If appropriate, I will send a representative from
OFSP to CS/Kuala Lumpur on TDY to conduct on-site interviews in order to provide guidance
on position descriptions and job titles.

cc: Stuart Eizenstat
Recommendation 3: Take the necessary steps so that the work plans of the Office of International Operations' regional directors clearly indicate that, as managers of SCO's, 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.

We fully support this recommendation, and the present DAS/OIO has already incorporated such responsibilities into work plans for her RD's as well as her own. I will instruct OIO and HRD to draw up revised position descriptions for DAS/OIO as well as the RD's to emphasize even more strongly this primary focus.

Recommendation 4: Take the necessary steps so that the work plans of senior commercial officers 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.

We fully support this recommendation and will take measures to implement it as above.

Recommendation 5: Update all appropriate sections of the USFCS Operations Manual, especially those covering information technology. Additionally, include a new section covering the functions of regional directors within the Office of International Operations.

I will instruct the USFCS' Office of Planning to update the USFCS Operations Manual, and OIO will work with OP to draft a new section on the functions of the regional directors within the Office of International Operations.

Recommendation 6: Determine whether it would be cost-effective to be located outside the embassy. Relocate the USFCS staff, if appropriate, after consulting with the State Department.

We looked into this question, and learned that Commercial Service ICASS rent charges are US$5.34/sq ft per year within the Embassy. Guard services represent an additional $3.81/sq ft per year charge, giving a grand total of $10.15/sq ft per year charge for Embassy accommodation. By way of contrast, our AEP offices, currently located in a Commercial office building across the street from the Embassy, are charged $14.40/sq ft per year, not including utilities and other services (e.g. janitorial). A location outside the Embassy might offer more access to our clients, but the Embassy location offers greater convenience with respect to coordination with other USG agencies, reviewing classified cable traffic, etc. We will continue to consider the issue of location, however, and OIO will work with the incoming SCO to determine what works best from a budget as well as a post mission perspective.
Recommendation 7: Better coordinate and cooperate with USIS concerning the most efficient and productive operation of the USFCS commercial library and USIS Lincoln Resource Center.

Current plans call for the Commercial Service, along with Agriculture and AEP, to move into a new Business Information and Counseling Center on the ground floor of the Embassy before June of this year. Included in this move will be the Commercial Library, which will no longer be co-located with the USIS Lincoln Resource Center.

Recommendation 8: Encourage staff to cooperate with other sections of the embassy on projects of mutual interest, such as involving the Foreign Agricultural Service early in the planning process when agriculture-related firms visit Malaysia, or seeking input from other sections on Bureau of Export Administration checks.

The Commercial Service agrees with this recommendation and pledges to cooperate more fully with other sections of the Embassy. OIO will work with the incoming SCO to stress the importance of this recommendation.

Recommendation 9: Professionally and authoritatively seek to resolve internal staff conflict and morale problems by identifying any outstanding concerns and determine an appropriate and culturally sensitive solution.

OIO will immediately begin to work with the outgoing SCO to encourage him to implement measures which could begin to resolve these issues (e.g., regular staff meetings, one-on-one consultations with FSN’s). In addition, current plans call for the present RD to visit post this year for an on site review. And, as noted above, we are considering the feasibility of sending an OFSP representative on temporary duty (TDY) to FCS/Kuala Lumpur to provide guidance on appropriate position descriptions and job titles. This should clarify many of the issues which have resulted in internal staff conflicts and morale problems. Also, in the current office space arrangement, officers and FSN staff occupy no fewer than four different locations both inside and outside of the Embassy. Intra-office cooperation and communication will be greatly enhanced by the Commercial Service’s move to a single, central location, the Business Information and Counseling Center, which is on the ground floor of the Embassy.

Recommendation 10: Determine, on a post-by-post basis if necessary, whether USFCS resources are better spent on a partially USAID-funded US-AEP staff, which is constrained to work solely on environmental technologies; a fully funded USFCS staff able to cover multiple business sectors as warranted; or some combination of the two. Based on this determination, consider proportionately reducing either the USFCS share of funding or the size of the US-AEP staff to better match the U.S. environmental export opportunities in each country. In addition, determine whether the post can better utilize its total square footage in Thailand by reallocating space between USFCS and US-AEP staff.

After co-locating AEP and the Commercial Service in the new Business Information and Counseling Center (see # 7), we will be in a much better position to evaluate and monitor AEP’s
activities. The Commercial Service believes that the US-AEP office working under post management represents a significant resource commitment to the environmental sector. This commitment is reflective of the Administration's priorities for fostering long-term sustainable development and for promoting technology transfer. These goals have been repeated by the President, the Vice-President and the Secretary and will result in significant commercial opportunities for US companies. In FY95, Congress appropriated approximately $1.3m to OIO for environmental programs. Indeed, ITA established a separate office in Trade Development just to promote environmental technologies. As a longer term goal, we are very supportive of encapsulating a strong environmental thrust in our program. For this reason, rather than cutting resources to AEP, we propose expanding the responsibilities of AEP personnel to include delivery of the full range of Commercial Service programs in industrial sectors where clean technologies are a priority, such as pulp and paper.

**Recommendation 11: Rationalize the use of space and other resources between USFCS and AEP activities.**

Co-locating the Commercial Service and AEP in the new Business Information and Counseling Center (see # 7) should rationalize the use of space and resources.

**Recommendations 12 & 13: Consult embassy’s blue lantern procedures, and clearly document BXA cable responses.**

Post is immediately implementing above recommendations. However, it should be noted that CS/Kuala Lumpur does not have the lead in Blue Lantern checks at the Embassy. The SAO office, in conjunction with ECON, has this responsibility.