

***U.S. DEPARTMENT OF COMMERCE***  
***Office of Inspector General***

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RELEASE**

***INTERNATIONAL TRADE  
ADMINISTRATION***

***US&FCS Belgium Needs to Make  
Organizational Modifications to Maximize  
Export Promotion Efforts***

*Audit Report No. BTD-10595-9-0001 / December 1998*

*Office of Audits, Business and Trade Audits Division*



## TABLE OF CONTENTS

EXECUTIVE SUMMARY .....	i
INTRODUCTION .....	1
PURPOSE AND SCOPE .....	1
BACKGROUND .....	2
BELGIAN MARKET .....	2
US&FCS BELGIUM .....	3
FINDINGS AND RECOMMENDATIONS .....	5
I.    US&FCS SHOULD CONSIDER BENELUX REGIONAL STRATEGY AND STREAMLINE BELGIUM OPERATIONS .....	5
A.    US&FCS Should Explore Benelux-wide Approach .....	5
B.    US&FCS Should Integrate Belgian Operations .....	6
C.    US&FCS Belgium Should Increase Success Stories Beyond Trade Fairs .....	6
D.    US&FCS Should Increase Management Responsibilities of Deputy Senior Commercial Officer .....	7
RECOMMENDATIONS .....	8
US&FCS's Response to Draft Report and OIG Analysis .....	9
II.   INTERNAL CONTROLS ARE SOUND, BUT ACCOUNTING RECORDS SHOULD BE RECONCILED .....	11
A.    Management Has Established Good Internal Control Systems .....	11
B.    Account Balances Differ Significantly .....	12
C.    US&FCS Belgium Has Unfunded FSN Severance Liability .....	14
RECOMMENDATIONS .....	15
US&FCS's Response to Draft Report and OIG Analysis .....	15
APPENDIX I - US&FCS's Complete Response to the Draft Report	
APPENDIX II - Acronyms	

## EXECUTIVE SUMMARY

As one of the leading trading nations in the world, Belgium offers a central location for reaching the major European markets, a first-rate infrastructure, a skilled multilingual workforce, and an open economy. Due to its long reliance on international trade, Belgium's imports/exports represent nearly 70 percent of its Gross Domestic Product. This figure makes Belgium one of the highest per capita exporters in the world.

Belgium and the United States also have strong reciprocal trade relations. Belgium is a major market for American products and imported an estimated \$12.5 billion in 1996, about half of which is re-exported. Belgium maintains an excellent investment climate. U.S. direct investment in Belgium was \$17.8 billion at the end of 1995, and new investments announced since then exceed \$3 billion. Over 1,200 American companies have operations in Belgium.

The U.S. and Foreign Commercial Service (US&FCS) post in Belgium has two American officers and eight local employees to service the 10<sup>th</sup> largest U.S. export market in the world. The operation is divided between offices on the ground and third floors of the U.S. Embassy in Brussels. US&FCS Belgium also has responsibility for commercial affairs at the U.S. Embassy in Luxembourg.

The Office of Inspector General conducted a performance audit of US&FCS operations in Belgium from December 8 to 12, 1997.

### **US&FCS Should Consider Benelux Regional Strategy and Streamline Belgium Operations**

The Benelux region is made up of Belgium, the Netherlands, and Luxembourg. For some time, US&FCS has reportedly considered a Benelux approach for its operations in these countries to complement a Europe-wide commercial strategy. US&FCS has developed several policy papers on a Benelux strategy and already manages Luxembourg from the US&FCS Belgium offices. However, US&FCS did not take decisive action on a Benelux approach during 1997. A single-management approach for the Benelux region, headquartered and managed by US&FCS Belgium, could provide more coordinated services for U.S. companies approaching the region. US&FCS should also better coordinate and streamline some of its two separate and distinct operations in Belgium (see pages 5-6).

Two-thirds of the promotion successes reported by US&FCS Belgium were the result of four trade events held each year that the post either coordinated or supported. However, excluding the successes related to those events, US&FCS Belgium achieved only 16 success stories during the two-year period. Based on the size and experience of the commercial staff, we believe US&FCS Belgium should implement an action plan to increase the number of success stories generated through its non-event-related products and services (see page 6).

Under the current office structure, the Deputy Senior Commercial Officer (D/SCO) directly supervises only two of the six foreign service nationals (FSNs) responsible for industry sector coverage. Some FSNs expressed confusion about the D/SCO's role. The D/SCO is qualified to take on additional management responsibilities. Assigning increased responsibilities to the D/SCO would enable the commercial staff to more readily benefit from his substantive expertise and would likely improve final work products (see page 7).

### **Internal Controls Are Sound, But Accounting Records Should Be Reconciled**

US&FCS has established generally good internal control systems to meet the requirements of the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. §3512(b)). Under the act, management is to establish internal control systems to ensure that (1) obligations and costs comply with applicable law; (2) all assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and (3) revenues and expenditures applicable to agency operations are recorded and accounted for properly. We found that internal control systems are in place to document and record transactions and events and to ensure that assets are safeguarded. In addition, the post has established proper physical asset management procedures over inventory (see pages 11-12).

Some weaknesses in accounting controls need to be addressed. We found significant differences between account balances recorded by the State Department and the International Trade Administration. We also disclosed differences in trade account balances between the ITA's Trade Event Management System (TEMS) and the State Department records. Furthermore, we determined that, as of the end of FY 1997, the total unfunded severance liability for US&FCS Belgium was \$1,030,285 (see pages 12-14).

Our most important recommendations call for the Assistant Secretary and Director General of US&FCS to:

1. Explore implementing a Belgium-based Benelux management approach for Belgium, Luxembourg, and the Netherlands, and streamline and integrate the two separate and distinct US&FCS operations in Brussels. (See page 7).
2. Implement an action plan to increase success stories through non-event-related products and services. (See page 7).
3. Determine the discrepancies between account balances reported by ITA and the State Department, including trade event obligations data reported by TEMS. (See page 11).

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In its response to our draft report, US&FCS generally agreed with our recommendations and described a number of measures it has taken to implement the recommendations. These include: (1) exploring where US&FCS Belgium and US&FCS EU could consolidate administrative operations for efficiencies in time and cost; (2) calling Gold Key prospects to harvest more success stories beyond trade events and providing headquarters with the results; (3) restructuring the post so the Deputy SCO supervises all FSNs; and (4) reconciling trade event obligation reports and preventing discrepancies between reports.

We have reiterated our recommendations without change in the final report. Summaries of US&FCS's response for each set of findings and recommendations are on pages 9 and 15, and we have attached US&FCS's complete response to the report.

## 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 and the Export Enhancement Act of 1992, the Office of Inspector General conducted a performance audit of U.S. & Foreign Commercial Service (US&FCS) operations in Belgium from December 8 to 12, 1997.

Performance audits are objective and systematic examinations of evidence for the purpose of providing an independent assessment of an organization, program, activity, or function in order to provide information to improve accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action. By identifying systemic strengths and weaknesses, the OIG will help the Department's managers, in this case those in ITA and US&FCS, implement more efficient and effective operations to better serve the Department's customers.

We discussed our observations with the U.S. Ambassador to Belgium and held an exit conference with the US&FCS Senior Commercial Officer (SCO) and the Regional Director for Europe on December 12, 1997. The SCO generally agreed with our findings and recommendations.

## PURPOSE AND SCOPE

The OIG is committed to the pursuit of operational effectiveness throughout the Department, challenging management to achieve excellence with respect to programmatic, administrative, and financial operations. The purpose of this performance audit was to evaluate the effectiveness of the Department's operations in Belgium.<sup>1</sup>

In accordance with the General Accounting Office's (GAO) *Standards for Internal Controls in the Federal Government*, we reviewed US&FCS internal control environment relating to administrative and financial management. We conducted testing to achieve our objective of determining the effectiveness of administrative and financial management controls. Computer-generated data was used, but was not tested for reliability.

We tested the US&FCS Belgium's operations for compliance with GAO's *Policy and Procedures Manual for Guidance of Federal Agencies* and the Federal Managers' Financial Integrity Act of 1982 requirements. The report findings and recommendations draw upon significant tests of records; physical evidence; documentary evidence, including accounting records and memorandums; and analytical evidence based on data obtained. We also gathered

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<sup>1</sup>The OIG discloses that some of the audit team members formerly worked for ITA; however, they had no material involvement with US&FCS Belgium operations.

testimonial evidence from interviews conducted with US&FCS personnel, business organizations, and clients. The performance audit covered an extensive review of programmatic, management, administrative, and financial issues.

We reviewed the policies, procedures, and practices being implemented by US&FCS to determine if it is successfully and efficiently meeting its mission: to assist U.S. companies, particularly small and medium-sized enterprises, with export assistance. We also determined if US&FCS Belgium's goals and objectives are being achieved, and whether these goals are in line with Department objectives. The audit evaluated the effectiveness and efficiency of operations, and assessed the operation's compliance with applicable laws, regulations, and procedures. The audit also considered other departmental and ITA headquarters and domestic office activities that are coordinated with US&FCS Belgium.

The audit was conducted in accordance with generally accepted government auditing standards and was performed under the authority of the Inspector General Act of 1978, as amended, and Department of Commerce Organization Order 10-13, dated May 22, 1980, as amended.

## **BACKGROUND**

### **BELGIAN MARKET**

As one of the leading trading nations in the world, Belgium offers a central location for reaching the major European markets, a first-rate infrastructure, a skilled multilingual workforce, and an open economy. Due to its long reliance on international trade, Belgium's imports/exports represent nearly 70 percent of its Gross Domestic Product. This figure makes Belgium one of the highest per capita exporters in the world.

Belgium imports many basic or intermediate goods, adds value, and then exports both finished and semifinished products. Over 50 percent of Belgium's industrial output is exported, with this figure reaching 80 percent for some industries, such as textiles and glass. In addition to its own exports, many countries view Belgium as an excellent transit and distribution center for reaching the rest of the European market. As a result, almost 75 percent of Belgium's foreign trade is with other European Union (EU) countries, which highlights the country's importance as a commercial axis in Western Europe. Belgium and the United States also have strong reciprocal trade relations. Belgium is a major market for American products and imported an estimated \$12.5 billion in 1996, about half of which is re-exported.

Belgium maintains an excellent investment climate. U.S. direct investment in Belgium was \$17.8 billion at the end of 1995, and new investments announced since then exceed \$3 billion. The more than 1,200 American companies with operations in Belgium play an active and important role in the Belgian economy and are treated the same as Belgian enterprises. There are

no restrictions on the repatriation of capital and profits, and there is no requirement that a Belgian national own part of the firm's equity.

## **US&FCS BELGIUM**

US&FCS Belgium has two American officers and eight local employees to service the 10<sup>th</sup> largest U.S. export market in the world. The operation is divided between offices on the ground and third floors of the U.S. Embassy in Brussels. US&FCS Belgium also has responsibility for commercial affairs at the U.S. Embassy in Luxembourg; the SCO is accredited to the Grand Duchy of Luxembourg.

US&FCS Belgium promotes its program as having two major components: (1) trade promotion, including business counseling and market research, and (2) supporting U.S. interests in Belgium. The US&FCS Belgium commercial program is based on the FY 1998 Strategic Mission Plan, which promotes seven basic objectives:

- Maintaining Belgian support for open trade and investment policies compatible with U.S. trade and investment interests.
- Expanding U.S. trade and investment opportunities in Belgium and Luxembourg.
- Continuing the pursuit of administrative or legal means to promote favorable tax regimes for call centers and other potential investment projects.
- Promoting Brussels as a platform for U.S. businesses expanding into Central and Eastern Europe, the Newly Independent States, and Russia.
- Supporting Showcase Europe<sup>2</sup> programs for the eight major product sectors.
- Developing and coordinating the information and communication technology sector for Showcase Europe.
- Developing a market plan for promoting U.S. trade and investment in Luxembourg.

We were unable to compare the resource allocation of US&FCS Belgium to those of other US&FCS operations, because the resources of the US&FCS European Union Mission (US&FCS EU), also headquartered in Brussels, are included with US&FCS Belgium resources on the Overseas Resource Allocation Model. US&FCS ranks US&FCS Belgium and US&FCS EU together, resulting in a ranking of 34<sup>th</sup> out of 69 countries on the model.

US&FCS is the Department's only program being administered at the embassy in Brussels. In FY 1996, total operating expenses amounted to \$1,348,007, and in FY 1997, expenses equaled \$1,368,389--a modest increase of 1.51 percent. Total operating expenses include operating and administrative (O&A) expenses authorized by Washington, salaries and benefits for American

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<sup>2</sup> The Showcase Europe strategy coordinates US&FCS efforts to approach Europe on a regional basis and to move U.S. firms exporting to one or more European markets into additional markets.



officers, and expenses for International Cooperative Administrative Support Service (ICASS), which are costs incurred by the post for administrative services provided by the State Department.

Despite the modest increase in total operating expenses between FY 1996 and FY 1997, our analysis of itemized expenses show large increases in costs for ICASS, direct program support, and representation. These increases were offset by a decrease in embassy personnel expenses. The increase in ICAAS was due to the changeover from the old Foreign Affairs Administrative Services.

## FINDINGS AND RECOMMENDATIONS

### **I. US&FCS SHOULD CONSIDER BENELUX REGIONAL STRATEGY AND STREAMLINE BELGIUM OPERATIONS**

#### **A. US&FCS Should Explore Benelux-wide Approach**

The Benelux region is made up of Belgium, the Netherlands, and Luxembourg. For some time, US&FCS has considered a Benelux approach for its operations in these countries to complement a European-wide commercial strategy. This type of market approach would address these countries as a single market, with a headquarters office in Brussels and regional offices in the Netherlands and Luxembourg. US&FCS has developed several policy papers on a Benelux strategy and already manages Luxembourg from the US&FCS Belgium offices, but has a separate and distinct US&FCS Netherlands operation. To date, US&FCS has not taken decisive action on a Benelux approach.

Several U.S. government agencies, including the Foreign Agricultural Service, have already implemented strategies to approach the Benelux region with a single management and operating strategy. In addition, many state trade offices approach the Benelux region in the same manner.

Reasons supporting a an integrated Benelux strategy versus a three-country philosophy include:

- The Benelux region is the second largest market in Europe and all of the countries have receptive, accessible, and manageable markets for export-ready companies.
- The region is home to many U.S. company European-headquarters operations. US&FCS estimates that 60 to 70 percent of all new U.S. company distributorships for Europe are based in the Benelux region, and according to US&FCS, doing business there is easy, straightforward, and cost-effective.
- Regionalizing the management approach for the Benelux can provide a cost savings and, for US&FCS, assist with the implementation of the Showcase Europe strategy.

A single-management approach for the Benelux region, headquartered and managed by US&FCS Belgium, could provide more coordinated services for U.S. companies exporting to that region. In addition, the experienced and capable staff at US&FCS Belgium could provide the necessary support for management to implement a new Benelux approach.

#### **B. US&FCS Should Integrate Its Belgian Operations**

US&FCS has two separate and distinct operations in Brussels: US&FCS Belgium located at the U.S. Embassy, and US&FCS European Union, located at the United States Mission to the

European Union. US&FCS Belgium and US&FCS EU have separate program functions and administrative operations, and report to separate ambassadors, the U.S. ambassador to Belgium and the U.S. ambassador to the EU. However, administrative functions for all U.S. government agencies are provided by the Joint Administrative Service (JAS), and the same official at JAS handles all US&FCS functions.<sup>3</sup> Because the two US&FCS operations are so closely located to one another, maintain redundant administrative functions, and rely upon JAS for administrative services, US&FCS should consolidate its Belgian administrative functions with those of US&FCS EU to realize administrative efficiencies.

US&FCS should also explore ways to more closely coordinate program and management functions of its two distinct operations in Brussels. Currently, these two offices conduct their programmatic activities independently; better coordination could improve program integration and provide better service to the U.S. business community. In addition, whether or not US&FCS adopts a Benelux-wide approach (as mentioned above), US&FCS should consider ways to integrate its Belgian management and programmatic functions.

### **C. US&FCS Belgium Should Increase Success Stories Beyond Trade Fairs**

US&FCS Belgium achieved a total of 47 “success stories” (a record of export actions achieved by U.S. companies in which US&FCS played a role) in FY 1996 (25) and FY 1997 (22). Two-thirds (31) of those success stories were the result of four trade events held each year that the Commercial Section either coordinated or supported.

<b>Event</b>	<b>Industry</b>	<b>Success Stories</b>
TMAB Brussels	Telecom	6
European Seafood Expo	Seafood	9
Decosit	Fabric	12
High Point	Furniture	4

We commend US&FCS Belgium for the positive results that these four trade events have generated for U.S. companies, the vast majority of which represent small businesses, the target market of US&FCS. However, excluding the success stories related to these events, US&FCS Belgium achieved only 16 success stories during the two-year period. Based on the size and experience of the commercial staff, we believe US&FCS Belgium is capable of implementing an

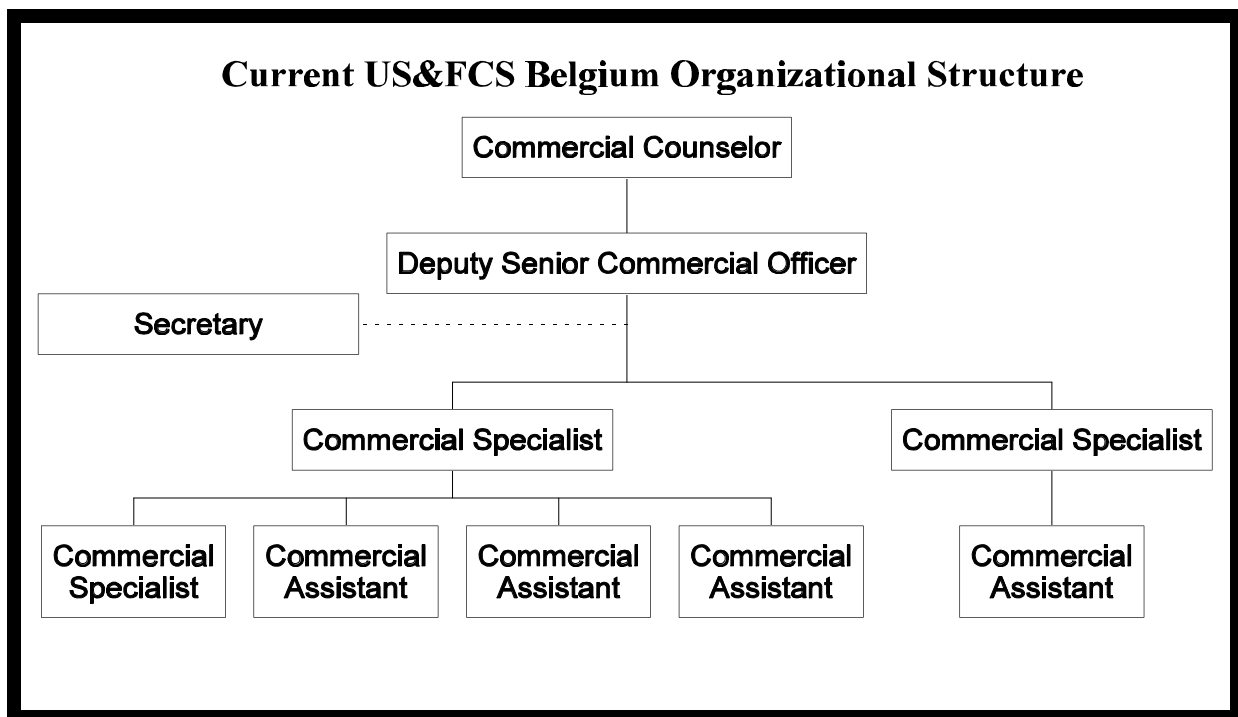
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<sup>3</sup> Joint Administrative Services is the State Department’s administrative operation in Belgium. It provides administrative services to the USEU, the U.S. Embassy in Belgium, and the U.S. representatives to the North Atlantic Treaty Organization.

action plan to increase the number of success stories generated through its non-event-related products and services (i.e. market research, contact information and the Gold Key Service).

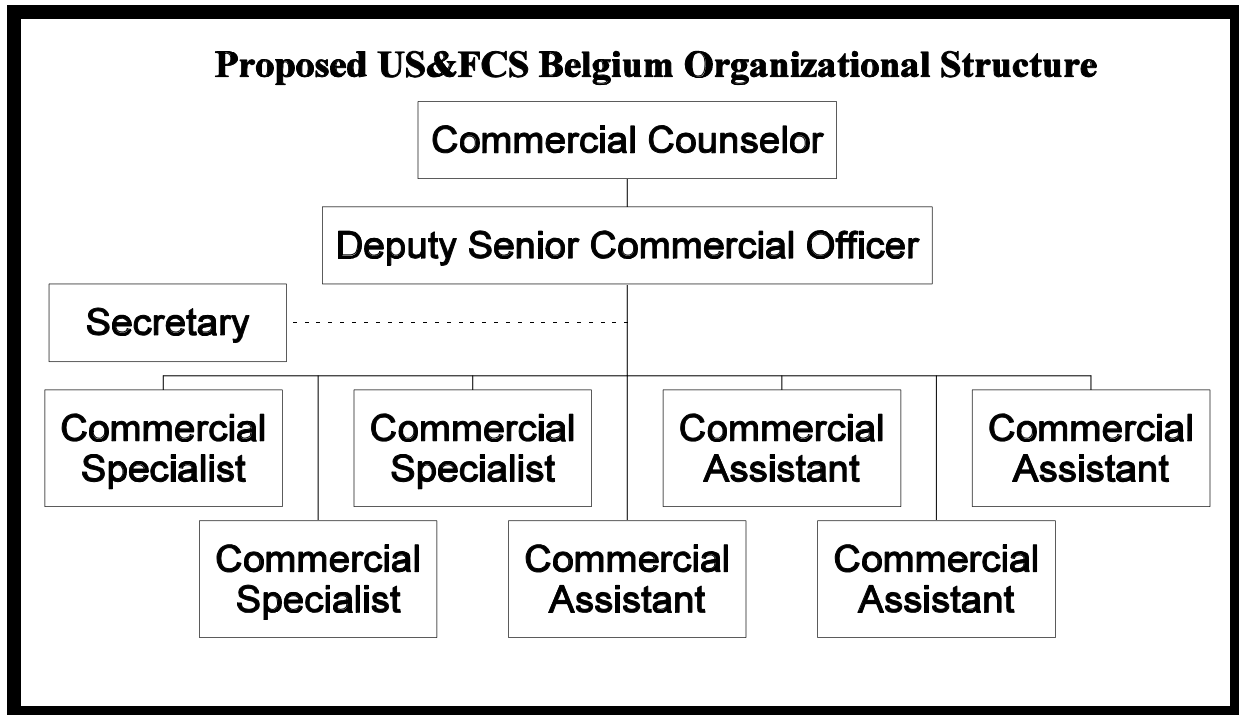
**D. US&FCS Should Increase Management Responsibilities of Deputy Senior Commercial Officer**

Under the current office structure, the Deputy Senior Commercial Officer (D/SCO) directly supervises only two of the six foreign service nationals (FSNs) responsible for industry sector coverage. The other FSNs report to a senior supervisory FSN. To enhance the work products of the office staff, as well as the D/SCO's career development, the D/SCO should assume increased management responsibilities.



Without exception, our interviews with the commercial staff revealed a high level of confidence in the D/SCO's commercial knowledge and expertise. However, several of the FSNs handling substantive assignments do not report to the D/SCO, and therefore have less opportunity to draw on that knowledge. A negative by-product of this arrangement is that the SCO does not serve as second-line supervisor for these individuals. In addition, by not directly supervising more of the staff, the D/SCO has less management responsibility. As a result, many of the FSNs expressed confusion about the D/SCO's role. The D/SCO is qualified to take on additional management responsibilities. Providing greater responsibility to the D/SCO would enable the commercial

staff to more readily benefit from his substantive expertise and would likely improve final work products. Increased responsibility would also provide experience valuable to the career growth of the D/SCO.



### RECOMMENDATIONS

We recommend that the Assistant Secretary and Director General of US&FCS:

1. Explore implementing a Belgium-based Benelux management approach for Belgium, Luxembourg, and the Netherlands.
2. Streamline and integrate the two US&FCS operations in Brussels.
3. Implement an action plan to increase success stories through non-event-related products and services.
4. Increase the management and supervisory responsibilities of the Deputy Senior Commercial Officer.

### **US&FCS's Response to Draft Report and OIG Analysis**

In its reply to our draft report, US&FCS agreed to, or has taken action consistent with, all of our recommendations. We are encouraged by US&FCS's commitment to determining and implementing the most efficient means of conducting its Belgium operations. A summary of US&FCS's position on each recommendation, as stated in the draft report, is presented with OIG comments on the US&FCS response.

#### **Recommendation #1:**

*Explore implementing a Belgium-based Benelux management approach for Belgium, Luxembourg, and the Netherlands.*

**US&FCS Response:** US&FCS considered implementing this approach at a time when there was no Senior Commercial Officer in The Hague. The need for further consideration was abrogated when an SCO acceptable to the then-Ambassador was assigned in February 1998. There would have been considerable opposition to the idea from the Ambassador, as well as from the business community, so the proposal is not in the best interests of US&FCS and US businesses. US&FCS operations in Belgium work together on a variety of events, and the new SCO in Luxembourg is involving his office with the US&FCS Brussels portfolio.

**OIG Comments:** We concur with US&FCS's response to our recommendation.

#### **Recommendation #2:**

*Streamline and integrate the two US&FCS operations in Brussels.*

#### **US&FCS Response:**

US&FCS has charged the two operations in Brussels to explore, with the Joint Administrative Services, areas where the two operations could consolidate administrative functions if they result in efficiencies in time and cost.

**OIG Comments:** We concur with US&FCS's response to our recommendation. We look forward to receiving US&FCS's timetable for a timetable for the review of administrative operations and implementation of the review's recommendations.

#### **Recommendation #3:**

*Implement an action plan to increase success stories through non-event-related products and services.*

US&FCS Response: The post has undertaken a concerted effort to harvest more success stories by calling Gold Key prospects and following up with participants in trade events. The post will provide headquarters with an accounting of its results.

OIG Comments: We concur with US&FCS's response to our recommendation.

Recommendation #4:

*Increase the management and supervisory responsibilities of the Deputy Senior Commercial Officer.*

US&FCS Response: The SCO restructured the post's reporting system so the Deputy SCO now supervises all FSNs.

OIG Comments: We concur with US&FCS's response to our recommendation.

## **II. INTERNAL CONTROLS ARE SOUND, BUT ACCOUNTING RECORDS SHOULD BE RECONCILED**

US&FCS has established generally good internal control systems to meet the requirements of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) (31 U.S.C. §3512(b)). Internal control systems are in place to document and record transactions and events and to ensure that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. We found that the post has established proper physical asset management procedures over inventory.

Some weaknesses in accounting controls need to be addressed. We found significant differences between account balances recorded by the State Department and the International Trade Administration. We also identified differences in trade account balances between the Trade Event Management System (TEMS) and the State Department records. Furthermore, we determined that as of the end of FY 1997, the total unfunded severance liability for US&FCS Belgium was \$1,030,285.

### **A. Management Has Established Good Internal Control Systems**

US&FCS Brussels has established good internal control systems to comply with FMFIA. Systems are in place to document and record transactions and events and to ensure that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. With minor exceptions, management has separated key duties and responsibilities in authorizing, processing, recording, and reviewing transactions among key individuals. The organizational structure over financial and administrative functions at post is efficient and effective.

In addition to US&FCS's internal controls over transactions, additional State Department embassy personnel are also monitoring transactions. According to the State Department's General Services Officer (GSO), procurements are closely monitored. In instances of questionable procurements, the GSO has actively participated in the process. For example, the SCO's residence was recently updated with new furnishings. The GSO and the housing coordinator met at the residence and agreed on the necessary procurements. The GSO also closely participated in the approval process and sought proper justification of a recently purchased vehicle. The GSO ensures that purchase orders are properly approved.

#### Post has established proper physical asset management procedures

The post has established proper physical asset management procedures to ensure that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. Logs are in place to track inventory, cellular phones, and the use of vehicles. Unlike other posts, US&FCS Belgium has the inventory log updated by the State Department each time procurements are received. Use of cellular phones is monitored by senior management, and logs are in place. Use of vehicles is also closely monitored and tracked by management.



US&FCS Brussels is actively engaged in ICASS

US&FCS Brussels is actively engaged in ICASS to ensure that expenditures are accounted for properly in accordance with FMFIA. Through interviews conducted during our fieldwork, we noted that management actively participates in ICAAS meetings and is aware of the itemized charges billed to US&FCS. When management is not aware of the charges or how the charges are calculated, it meets with the service provider to understand the charges to ensure the agency is being billed appropriately.

**B. Account Balances Differ Significantly**

Our review of official records disclosed significant differences in account balances reported by State, ITA, and US&FCS Washington. During our review of account balances, we identified a net difference of \$28,668 between State and ITA accounting data for expenditures. The following table shows a breakdown of the account balance differences.

**FY 1997 Reconciliation of State and ITA Belgium Accounting Data**

Expenditure	State Balance	ITA Balance	Difference
O&A	\$ 858,221	\$ 790,851	\$ 67,370
Reimbursables	0	130,235	(130,235)
Trust Funds	188,413	96,880	91,533
<b>Total</b>			<b>\$ 28,668</b>

For O&A, the ITA account balance includes American officer salaries and benefits, while State's does not. However, adjusting for the \$234,523 in American officer salaries and benefits for FY 1997 increases the net difference to \$263,191. We were unable to determine the reason for the discrepancy in this balance. Likewise, we could not determine the reason for the difference in the Reimbursables account balances. However, since post records indicated no reimbursable activity in FY 1997, the discrepancy may be the result of ITA accounting errors. ITA and US&FCS need to reconcile their account balances and determine the reasons for the significant discrepancies.

Account balances in the Trade Event Management System differ significantly with State Department records

Our review of official records disclosed large differences in account balances reported by State and US&FCS headquarter's TEMS. During our review of account balances, we identified net differences of around \$95,000 and \$85,000 between State and TEMS data for FY 1996 and FY

1997 trade event overseas obligations. The following tables show a breakdown of the account balance differences.

**FY 1996 Reconciliation of State and TEMS Belgium Data**

Event	Obligations per State	Obligations per TEMS	Difference
Business Facilitation Service	\$ 16,832	\$ 0	\$ 16,832
Ambassador's Tour	22,294	18,938	3,356
European Seafood	520	1,132	(612)
Decosit	75,448	0	75,448
<b>Total</b>	<b>\$ 115,094</b>	<b>\$ 20,070</b>	<b>\$ 95,024</b>

**FY 1997 Reconciliation of State and TEMS Belgium Data**

Event	Obligations per State	Obligations per TEMS	Difference
Business Facilitation Service	\$ 15,953	\$ 0	\$ 15,953
Gold Key	6,000	0	6,000
Study USA	38,151	40,000	(1,849)
ABC Conference	12,419	13,150	(731)
Standards Seminar	7,846	7,850	(4)
European Seafood	1,026	1,100	(74)
Matchmaker	15,653	15,950	(297)
Decosit	65,924	0	65,924
<b>Total</b>	<b>\$ 162,972</b>	<b>\$ 78,050</b>	<b>\$84,922</b>

For events with minor account balance differences, the discrepancy could be the result of timing differences or rounding. However, most of the total discrepancy is the result of a few events for which TEMS shows zero obligations.

We also found discrepancies between State Department and TEMS data for trade event cash collections. While we found no discrepancies between the post's and State's collection records, we found net differences of around \$18,500 and \$3,400 between State and TEMS records for trade event cash collections for FY 1996 and FY 1997. The following tables show a breakdown of the discrepancies.

**FY 1996 Reconciliation of State and TEMS Data  
Belgium Trade Event Cash Collections**

Event	Collections per State	Collections per TEMS	Difference
Business Facilitation Service	\$ 20,700	\$ 19,965	\$ 735
Ambassador's Tour	18,701	37,976	(19,275)
<b>Total</b>	<b>\$ 39,401</b>	<b>\$ 57,941</b>	<b>\$(18,540)</b>

**FY 1997 Reconciliation of State and TEMS Data  
Belgium Trade Event Cash Collections**

Event	Collections per State	Collections per TEMS	Difference
Business Facilitation Service	\$ 13,873	\$ 11,652	\$ 2,221
Gold Key	6,250	5,000	1,250
Standards Seminar	8,979	8,979	0
ABC Conference	14,105	14,105	0
Study USA	43,402	43,479	(77)
<b>Total</b>	<b>\$ 86,609</b>	<b>\$ 83,215</b>	<b>\$ 3,394</b>

While the minor discrepancies between State and TEMS records are most likely the result of rounding or timing differences, we could not find an explanation for those events showing large collection discrepancies. As a result of these discrepancies in account balances, US&FCS may be relying on inaccurate data to oversee trade events at its foreign posts. US&FCS needs to reconcile its trade event account balances with State Department records and determine the reason for the significant discrepancies.

**C. US&FCS Belgium Has Unfunded FSN Severance Liability**

FMFIA, the GAO *Policy and Procedures Manual for Guidance of Federal Agencies*, and the Chief Financial Officers Act of 1990 require that US&FCS Washington account for its FSN severance liability. The severance liability consists of payments due to eligible FSNs in the event of voluntary or involuntary separation. The State Department's personnel division determined that as of the end of FY 1997, the total unfunded severance liability for US&FCS Belgium was \$1,030,285. This amount should be reported to US&FCS Washington and updated yearly.

## RECOMMENDATIONS

We recommend that the Assistant Secretary and Director General of US&FCS:

1. Determine the reasons for discrepancies between account balances reported by ITA and State Department and take corrective action to prevent such discrepancies.
2. Determine the reasons for discrepancies between trade event obligations reported by TEMS and State Department and take corrective action to prevent such discrepancies.
3. Accurately account for the total unfunded personnel liability to ITA and budget for expected FY 1998 separations.

### **US&FCS's Response to Draft Report and OIG Analysis**

In its reply to our draft report, US&FCS agreed to, or has taken action consistent with, all of our recommendations.

#### **Recommendation #1:**

*Determine the reasons for discrepancies between account balances reported by ITA and State Department and take corrective action to prevent such discrepancies.*

**US&FCS Response:** The Office of International Operations has instructed the post to request and review records provided by the FMC and cross-check these with post records.

**OIG Comments:** We concur with US&FCS's response to our recommendation.

#### **Recommendation #2:**

*Determine the reasons for discrepancies between trade event obligations reported by TEMS and State Department and take corrective action to prevent such discrepancies.*

#### **US&FCS Response:**

The Office of International Operations has instructed the post to ensure that event reports sent to OIO and the Office of Trade Events Management are reconciled with reports that FMC generates for obligations. OIO will also issue guidance to the post on closing out trade events to ensure that the TEMS can be updated with accurate information.

**OIG Comments:** We concur with US&FCS's response to our recommendation.

Recommendation #3:

*Accurately account for the total unfunded personnel liability to ITA and budget for expected FY 1998 separations.*

US&FCS Response:

Shortly after the OIG visit, the post reported its unfunded liabilities to headquarters. ITA Administration is now reviewing the issue of US&FCS's unfunded liabilities and is determining options on how to remedy the situation.

OIG Comments: We concur with US&FCS's response to our recommendation.



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

DEC 11 1996

MEMORANDUM FOR: George E. Ross  
Assistant Inspector General for Auditing

FROM: Awilda R. Marquez *ARM*

SUBJECT: US&FCS Response to Draft Audit Reports  
US&FCS/USEU - BTD-10588-8-XXXX  
US&FCS/Brussels - BTD-10595-8-XXXX

I am pleased to provide you with US&FCS' response to your draft audit reports of our two operations in Belgium-US&FCS Brussels and US&FCS USEU. In our responses to each of the reports, you will see that we have answered the recommendations posed in both documents. In many instances, you will note that our posts have either taken action on the recommendations or indicate steps that will be taken to address or remedy the issues raised by the IG reports.

We look forward to the issuance of the final reports. Please notify me if we can be of further assistance.



## **US&FCS/BRUSSELS**

### **I. US&FCS Should Consider Benelux Regional Strategy and Streamline Belgium Operations**

#### **1. Explore implementing a Belgium-based Benelux management approach for Belgium, Luxembourg, and the Netherlands.**

This tentative proposal was under consideration at the time when there was no Senior Commercial Officer in The Hague for a period of one and a half years. An SCO acceptable to the then-Ambassador was assigned in February 1998, abrogating the need for further consideration of establishing a US&FCS Brussels-led regional operation in the Netherlands. Also, in floating this idea with the Ambassador, it became extremely clear that there would have been considerable opposition from the Ambassador, as well as with the American and Dutch business communities. For example, we encountered outspoken opposition from various business quarters in the Netherlands when we closed our small office in Rotterdam. To have ceded control over US&FCS operations in the Netherlands to Brussels would surely have engendered substantial opposition on several fronts. Therefore, the proposal to merge Benelux operations into one is not in the best interests of US&FCS and, most importantly, for U.S. businesses. However, US&FCS operations in Brussels and in The Hague continue to work together on a variety of trade events and missions consistent with a Benelux "cooperation" strategy. We also are pleased to report that since Brussels SCO George Knowles has been accredited to Luxembourg, he has undertaken a dynamic program of involving Luxembourg with US&FCS Brussels' portfolio of trade events and missions.

#### **2. Streamline and integrate the two US&FCS operations in Brussels.**

Although the two US&FCS offices are separate and distinct operations, we are charging our two operations in Brussels to explore, with the Joint Administrative Service (JAS), areas where the two operations could consolidate administrative functions if they result in efficiencies in time and cost.

#### **3. Implement an action plan to increase success stories through non-event related products and services.**

Since OIG's visit last December, SCO George Knowles has tasked the Commercial Librarian to undertake a concerted effort to harvest more success stories by calling post's Gold Key contacts in Belgium. She also is directly following up with past U.S. participants in Brussels' trade events. Post will provide us with an accounting of the results of its stepped-up program to capture more success stories.

**4. Increase the management and supervisory responsibilities of the Deputy Senior Commercial Officer.**

We agree with this recommendation. Following the Inspection Team's visit, SCO Knowles restructured post's reporting system where the Deputy Senior Commercial Officer now supervises all FSNs.

**II. Internal Controls are sound, but accounting records should be reconciled.**

**1. Determine the reasons for discrepancies between account balances reported by ITA and State Department and take corrective action to prevent such discrepancies.**

OIO has instructed post to request and review records regularly provided by the Financial Management Center (FMC), and cross-check these records with their own financial spreadsheets for Operations and Administration (O&A) and trade events.

**2. Determine the reasons for discrepancies between trade event obligations reported by TEMS and State Department and take corrective action to prevent such discrepancies.**

OIO has instructed post to ensure that end-of-event reports sent to OIO and to the Office of Trade Events Management (TEMS) are reconciled with reports that FMC generates for obligations. OIO also will issue guidance to post on closing out trade events with examples of appropriate cables and reports to send in order to make sure that EPS can update the TEMS with accurate information.

**3. Accurately account for the total unfunded personnel liability to ITA and budget for expected FY 1998 separations.**

OIO notes that shortly after the IG inspection team visit, post reported its unfunded liabilities to headquarters. ITA Administration now is reviewing the issue of US&FCS unfunded liabilities on a global basis and is determining options on how to remedy the situation.



## APPENDIX II

### Acronyms

D/SCO	Deputy Senior Commercial Officer
EU	European Union
FIA	Federal Managers' Financial Integrity Act of 1982
FSN	foreign service national
GAO	General Accounting Office
GSO	general services officer
ICASS	International Cooperative Administrative Support Service
JAS	Joint Administrative Service
ITA	International Trade Administration
O&A	Operating and Administrative
OIG	Office of Inspector General
SCO	senior commercial officer
TEMS	Trade Event Management System
US&FCS	U.S. and Foreign Commercial Service