

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

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*INTERNATIONAL TRADE  
ADMINISTRATION*

*US&FCS Italy's Effectiveness Can Be Further  
Enhanced By Focusing on Management  
and Program Improvements*

*Final Inspection Report No. IPE-14243/March 2002*

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*Office of Inspections and Program Evaluations*



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

**MEMORANDUM FOR:** Grant Aldonas  
Under Secretary for International Trade

**MAR 25 2002**

Maria Cino  
Assistant Secretary and Director General of the  
United States and Foreign Commercial Service

**FROM:**

Johnnie Frazier

**SUBJECT:**

*Final Report: International Trade Administration: US&FCS  
Italy's Effectiveness Can be Further Enhanced By Focusing on  
Management and Program Improvements (IPE-14243)*

As a follow-up to our December 7, 2001, draft report, attached is the final report on our inspection of US&FCS Italy. A copy of your response to our draft report is included in its entirety as an attachment to the report.

In general, we found that US&FCS Italy is a well-run, effective overseas operation. We noted that the Senior Commercial Officer (SCO) has focused effectively on outreach to multiplier organizations and has improved the post's relationships with these organizations significantly. Based on a limited review, we found the post's clients to be highly satisfied with US&FCS Italy's products and services. The staff is meeting the post's mission by delivering high-quality products and services to its clients, and by helping increase U.S. exports to Italy. The level of cooperation and teamwork among staff both within US&FCS offices and between them in country is good.

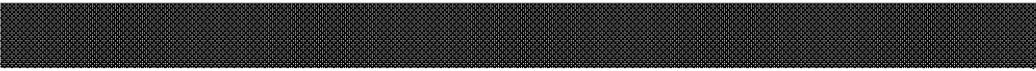
However, we also identified improvements that can be made in the management of the post, its product and service delivery, and a number of administrative and financial operations. We noted that management improvements should be made in the post's strategic planning, quality control over its export success reporting, client follow up, and information technology platform and support. Administrative improvements that should be addressed by the post and headquarters are also highlighted in our report, including those related to internal controls for the post's collections process, use of funds generated from trade events, and compliance with headquarters' long-distance telephone policy.

Your written response identifies actions you have taken, or plan to take, to address all of our recommendations. Please provide your action plan to address the open or unresolved recommendations within 60 calendar days.

We thank the personnel in ITA headquarters and US&FCS Italy for the assistance and courtesies extended to us during our review. If you have any questions or comments about our report, please contact me on (202) 482-4661.

Attachment

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## EXECUTIVE SUMMARY

Pursuant to the legislative requirements of the Omnibus Trade and Competitiveness Act of 1988 and our authority under the Inspector General Act of 1978, we conducted an inspection of United States and Foreign Commercial Service (US&FCS) operations in Italy. Our domestic fieldwork was conducted from April 2 to May 18, 2001, and our overseas fieldwork, from May 21 to June 6, 2001. During the review and at its conclusion, we discussed our findings with the Senior Commercial Officer in Rome, as well as the Regional Director for Europe and the Director of the Office of International Operations at US&FCS headquarters. We briefed the Director General of US&FCS on October 24, 2001.

The purpose of this inspection was to assess the management, programs, and financial and administrative practices of US&FCS Italy. This included assessing the development of goals and objectives, determining whether goals are being achieved and whether programs are effective, evaluating the economy and efficiency of the operation, 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.

The Italian market is mature, highly competitive, and open to U.S. items, particularly innovative products, services, and technologies. The U.S.-Italy bilateral relationship is strong and growing, and the two countries cooperate closely on major economic issues. With a large population and a high per capita income, Italy is one of the United States' most important trade partners. In 2000, the United States exported approximately \$11 billion in goods to Italy, which accounts for a 5.6 percent share of its import market. However, at the same time, the U.S. imported \$25 billion from Italy, resulting in a deficit of about \$14 billion.

Italy is the 11<sup>th</sup> largest US&FCS post in the world, in terms of dollars. The post's resources are primarily focused in two locations—Rome (with two officers, eight FSNs), and Milan (two officers, eight FSNs, and one personal services contractor [PSC]), but it also has a presence in three other cities—Florence (two FSNs), Naples (one FSN), and Genoa (one FSN and one PSC vacancy).

In general, we found that US&FCS Italy is a well-run, effective overseas operation. The staff is meeting the post's mission by delivering high-quality products and services to its clients, and by helping increase U.S. exports to Italy. We noted that the Senior Commercial Officer (SCO) has focused effectively on outreach to multiplier organizations and has improved the post's relationships with these organizations significantly. The post's mission and purpose are clear and understood by all US&FCS staff in the post's five offices. Based on a limited review, we found the post's clients to be highly satisfied with US&FCS Italy's products and services. The post is devoting resources and energy to implement its part of Showcase Europe, and is providing quality, timely support to the Bureau of Export Administration's requests for input on Pre-License Checks and Post-Shipment Verifications. We noted extremely good working relationships with in-country partners (such as the American Chambers of Commerce) and with the U.S. embassy and consulates. The level of cooperation and teamwork among staff both within US&FCS offices and between them in country is good. (See page 5).

With a few exceptions, US&FCS Italy has adequate internal control systems and financial management practices to meet requirements and procedures, support the post's operations, and deter fraud, waste, and abuse of government resources. However, we also identified the following improvements that can be made in the management of the post, its product and service delivery, and a number of administrative and financial operations.

- **US&FCS Italy could improve its strategic direction and resource management.** We believe that by further focusing its attention on key strategic and resource management issues, management could enhance the post's effectiveness and productivity. First, while the post is meeting US&FCS headquarters' requirement for a one-page strategic plan, Italy's plan is not sufficiently detailed to be a useful document for the post's management or staff. We are recommending that US&FCS headquarters reconsider the guidance for preparation of post strategic plans, balancing headquarters' need for brevity with posts' needs for a useful plan that accurately portrays their operations. In addition, US&FCS Italy does not have a countrywide strategy for resource allocation. Resource issues are being developed and considered on a piecemeal basis, in reaction to individual resource and/or staffing changes, rather than on the basis of the mission's overall resource priorities, which should be driven by US&FCS Italy's strategic goals and objectives. Finally, US&FCS Italy has not developed policies or strategies to deal with the explosive growth in the number of e-mail requests for information and assistance from outside entities. Management indicated that core programs and quality control over work products have suffered because of this growth in inquiries and requests. We believe that US&FCS Italy should develop strategies and policies to help its staff better deal with this workload growth. (See page 5.)
- **Quality control over export successes needs improvement.** US&FCS Italy needs to improve its procedures for entering and reviewing its export successes. We noted inconsistent and inaccurate reporting by the post, and found that 19 percent of its reported export success entries did not meet the criteria for export successes contained in the US&FCS internal guidelines. We believe that this has occurred primarily due to weak internal controls or oversight over export success reporting by US&FCS Italy and, in part, US&FCS headquarters. As a consequence, the Client Management System database, which contains each office's reported export successes, may not be a reliable gauge of post performance. (See page 9.)
- **Post needs to conduct systematic client follow-up.** US&FCS Italy is not following up systematically with its clients, as required by US&FCS policy, in order to track its clients' export progress and monitor those requiring further assistance. The staff has indicated that the lack of client follow-up is primarily due to other, higher priorities. However, by failing to conduct systematic client follow-up, US&FCS Italy may be missing out on opportunities to capture valuable customer feedback on the post's products and services, as well as potential missed "export successes," through which the post's performance is largely measured. (See page 16.)
- **US&FCS Rome needs to improve collections management.** US&FCS Rome's collections and deposits to the lockbox are not made weekly, as required by ITA policy and regulations of the U.S. Treasury Department. US&FCS Rome accumulates payments for its trade promotion

services or from the sale of commercial products until the total reaches \$100 before making a deposit, even though it may take longer than a week to reach this amount. Although the practice followed by the post makes sense, it is not consistent with ITA's policy or financial management requirements of the Treasury. If US&FCS Rome wishes to continue this practice, it should request that ITA headquarters seek a waiver from the Treasury Department to enable US&FCS Rome to accumulate collections until they reach \$100 so that the cost of processing the collection is not exorbitant in light of the amount to be deposited. In addition, US&FCS Rome collection procedures violate basic internal control principles and do not comply with ITA policy and procedures. According to ITA guidance, "No single individual may control a collection transaction. Offices must ensure that collection duties are separated and performed by different individuals." While the amount of cash collected at the post is relatively small (less than \$3,500 annually), and some of the duties are currently segregated, the collection responsibilities should be further segregated to safeguard against the potential misuse of receipts and ensure accurate reporting. (See page 24).

- **Post needs to consistently follow ITA guidelines for using trade event funds to purchase capital assets.** Some funds generated from US&FCS Italy trade events were being used by the post to purchase capital assets without proper authorization. ITA policy allows capital assets to be purchased with trade event funds if the asset is used for a trade event. There are specific authorization policies for capital equipment purchases over \$5,000 and for those under \$5,000. Our review of the post's procurement of capital assets with trade event funds disclosed that ITA policy and procedures were not consistently followed under either policy, although all purchases did support the post's trade events program. Without proper management oversight, US&FCS cannot be certain that trade event funds are being used appropriately by US&FCS Italy. (See page 29.)
- **US&FCS Milan needs a cost allocation system as a basis to properly calculate user fees.** US&FCS Milan does not have an effective cost allocation system to identify and allocate direct and indirect costs between fee-for-service expenditures and Operations and Administration (O&A) costs. Without such a system, US&FCS Italy cannot determine the full costs of trade events and, by extension, whether fees collected recover the full cost of those events, as required. Our work on this issue focused on US&FCS Milan as this office manages the vast majority of the post's trade events. (See page 31.)
- **Information technology issues need to be addressed.** US&FCS Italy has a myriad of information technology support and infrastructure problems that could become a major threat to its operations. These include: numerous "malfunctions" and system anomalies with the Client Management System; inadequate local technical support; poorly functioning backup systems in Milan and Rome; and lack of maintenance contracts for most of its printers, copiers, and some IT equipment at all of its sites. In addition, there is a lack of in-house information technology support for the Naples and Florence offices. The Naples office is depending on the Department of State to provide it information technology support without charge. (See page 21.)

On page 36, we offer recommendations to address our concerns.



In response to our draft report, the Director General concurred in principle with our recommendations and cited many instances in which the post and US&FCS headquarters have already taken action.

## INTRODUCTION

The Omnibus Trade and Competitiveness Act of 1988 assigned the Commerce OIG the responsibility to periodically evaluate the operations of the United States and Foreign Commercial Service (US&FCS). We are required to report to the Congress at least every three years on our assessment of the management and effectiveness of US&FCS's operations, including its personnel system and the placement of its domestic and foreign staff. Pursuant to this legislative requirement and our authority under the Inspector General Act of 1978, as amended, we periodically conduct inspections of the US&FCS overseas operations. Under this authority, we conducted an inspection of US&FCS operations in Italy.

Inspections are special reviews that the OIG undertakes to provide agency managers with timely information about operational issues. One of the main goals of an inspection is to eliminate waste in federal government programs by encouraging effective and efficient operations. By asking questions, identifying problems, and suggesting solutions, the OIG hopes to help managers move quickly to address problems identified during the inspection. Inspections may also highlight effective programs or operations, particularly if they may be useful or adaptable for agency managers or program operations elsewhere.

This inspection was conducted in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency. Our domestic fieldwork was conducted from April 2, to May 18, 2001, and our overseas fieldwork, from May 21 to June 6, 2001. During the review and at its conclusion, we discussed our findings with the Senior Commercial Officer (SCO) in Rome, as well as the Regional Director for Europe and the Director of the Office of International Operations (OIO) at US&FCS headquarters. We briefed the Director General of US&FCS on October 24, 2001.

## OBJECTIVES, SCOPE AND METHODOLOGY

The purpose of this inspection was to assess the management, program, and financial and administrative practices of US&FCS Italy. This included assessing the development of goals and objectives, determining whether goals are being achieved, evaluating the economy and efficiency of the operation, 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 the International Trade Administration and the Department. The specific objectives of this review were as follows:

- To determine whether US&FCS Italy is planning, organizing, and controlling its work and resources effectively and efficiently.
- To determine whether US&FCS Italy is operating effectively, meeting the needs of U.S. exporters, and helping to increase exports and market access.
- To determine whether appropriate internal controls and financial management practices are in place.
- To identify "best practices" and innovations that could be useful to other US&FCS posts and operations.

- To assess infrastructure issues at US&FCS Italy, including ones relating to information technology, security and facilities.

## BACKGROUND



Italy, with the world's sixth largest industrial economy, has a population of approximately 58 million and a landmass roughly the size of Arizona. Italy's per capita output is on par with that of France and the United Kingdom. Italy's economy is diversified and divided into a highly industrialized north and a less developed agricultural south. Its primary industries include tourism, machinery, iron and steel, chemicals, food processing, textiles, motor vehicles, clothing, footwear, and ceramics.

The Italian government continues on a path of budget austerity and privatization, reducing its previously more significant role in the economy. The key economic challenges facing Italy are keeping the government deficit under control, continuing to reduce the high level of government debt, reducing unemployment, addressing structural rigidities of the Italian market, and improving public administration.

The Italian market is mature and highly competitive. According to the most recent Country Commercial Guide (CCG) for Italy, the Italian market is very open to U.S. items, particularly innovative products, services, and technologies. European Union (EU) changes to the Common Agricultural Policy and Italy's implementation of EU harmonized sanitary regulations should offer fresh opportunities for U.S. agricultural exports. The realignment of the distribution sector toward larger chains and more competitive pricing should also aid U.S. exports. Italy's participation in the "euro" will simplify trade for companies exporting to several EU countries and create opportunities for U.S. companies with technologies and services that can assist Italian firms to compete in the more integrated European market.

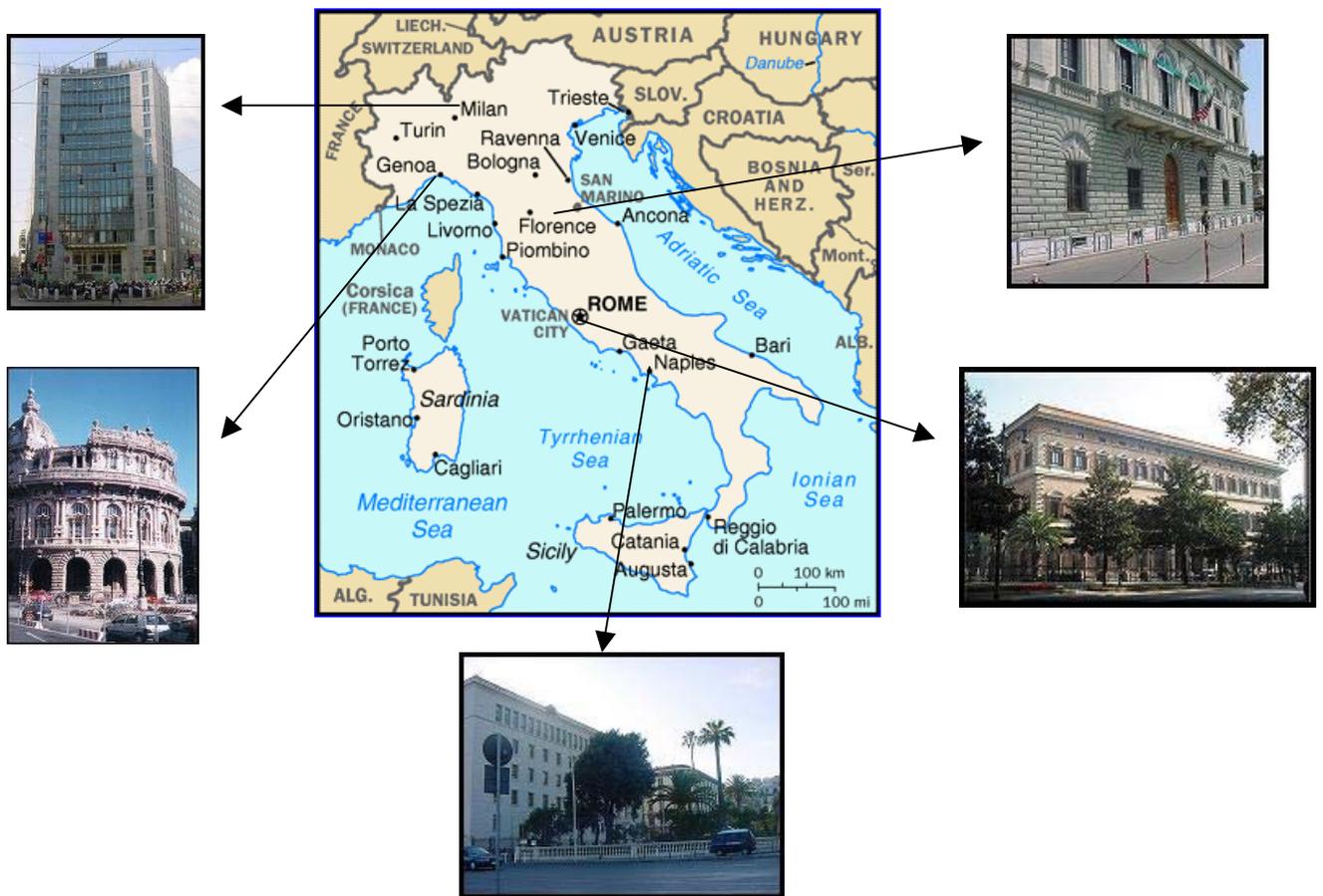
Italy: Key Facts	
Population	58 million
Capital	Rome
Area	116,301 sq. miles
Government	Republic
GDP per capita	\$21,400
GDP	\$1.17 trillion
Exports (1999)	\$229 billion
Imports (1999)	\$215 billion
Unemployment rate	11.5% (est.)
Growth rate	2.8% (2000)

The U.S.-Italian relationship is strong and growing, and the two countries cooperate closely on major economic issues. With a sizable population and a high per capita income, Italy is one of the United States' most important trade partners. While 61 percent of Italy's imports come from EU countries, the Census Bureau reported that, in 2000, the United States exported approximately \$11 billion in goods to Italy, which accounts for a 5.6 percent share of its import market. However, at the same time, the United States imported \$25 billion from Italy, resulting in a deficit of about \$14 billion. However, trade between the two countries is now more difficult to accurately quantify because of the EU open borders, as many U.S. food and agricultural products arrive in Italy via France and Germany. The trend toward consolidating regional distribution is expected to continue.

Italy is US&FCS's 11<sup>th</sup> largest post in the world, in terms of dollars, with a fiscal year 2001 budget of approximately \$1.4 million. This primarily includes foreign service national (FSN) salaries, office and residential leases, and direct program support funds. American officer salaries and State Department International Cooperative Administrative Support Services (ICASS)<sup>1</sup> are not included. The post's resources are primarily focused in two locations—Rome (with two officers, eight foreign service nationals [FSNs]) and Milan (two officers, eight FSNs, and one personal services contractor [PSC]), but it also has a presence in three other cities—Florence (two FSNs), Naples (one FSN), and Genoa (one FSN and one PSC vacancy).

US&FCS Italy provides a range of services to American firms interested in the Italian market as well as Italian firms seeking U.S. products and services. It has an active trade events and business promotion schedule that focuses on assisting small and medium-sized American firms wishing to enter the Italian market and supporting larger firms seeking to take advantage of the privatization and restructuring taking place in the telecommunications, energy, health, and other sectors in Italy.

**Figure 1: US&FCS Italy Locations**



<sup>1</sup> ICASS is the principal means by which the U.S. Government provides and shares the cost of common administrative support at its more than 200 diplomatic posts overseas.

US&FCS Italy also plays an active role in US&FCS’s “Showcase Europe,” an export promotion initiative that recognizes that many American businesses view and approach Europe as a single regional market. Hence, the initiative’s goal is to coordinate the services and activities—which include market research, trade promotion, and advocacy support—of US&FCS offices throughout Europe, as well as the Baltic Rim states, Russia, and the Newly Independent States. Under Showcase Europe, Italy has two lead responsibilities: organizing US&FCS participation in European-based trade shows, and taking the lead in the environmental technologies, products, and services industry sector.

## FINDINGS AND CONCLUSIONS

In general, we found that US&FCS Italy is a well-run, effective overseas operation. The staff is meeting the post's mission by delivering high-quality products and services to its clients, and by helping increase U.S. exports to Italy. We noted that the SCO has focused effectively on outreach to multiplier organizations and has improved the post's relationships with these organizations significantly. The post's mission and purpose are clear and understood by all US&FCS staff in the post's five offices. Based on a limited review, we found the post's clients to be highly satisfied with US&FCS Italy's products and services. The post is devoting resources and energy to implement its part of Showcase Europe, and is providing quality, timely support to the Bureau of Export Administration's requests for input on Pre-License Checks and Post-Shipment Verifications. We noted extremely good working relationships with in-country partners (such as the American Chambers of Commerce) and with the U.S. embassy and consulates. The level of cooperation and teamwork among staff both within US&FCS offices and between them in country is good, and the staff seemed highly motivated.

With a few exceptions, US&FCS Italy has appropriate internal control systems and financial management practices in order to meet requirements and procedures, support the post's operations, and deter fraud, waste and abuse. Our findings primarily concern setting up an improved internal control structure for some functions, as well as increasing attention to the management and expenditure of funds generated by trade events. To address these findings, we have recommended improvements in the management of the post, its product and service delivery, performance reporting, and in a number of its administrative and financial operations.

### **I. US&FCS Italy Could Improve Its Strategic Direction and Resource Management**

We believe that by better focusing attention on key strategic and resource management issues, management could enhance the post's effectiveness and productivity.

#### ***A. Post's strategic planning could be enhanced***

While the post has complied with US&FCS headquarters' requirement for a brief strategic plan, we believe the plan is not sufficiently detailed to be a useful document for the post's management or staff. The SCO has a clear vision for his operation, but the post's strategic plan does not adequately define the organization's long-term goals, quantifiable objectives, or strategies to link goals and objectives.

In its February 2001 strategic planning guidance to all SCOs, US&FCS headquarters specified that strategic plans are to be no longer than one page. As one headquarters official put it, this was done to "force posts to prioritize their critical goals and to try and provide for uniformity...(and) compels them to be realistic, focused." In addition, the guidance included examples of how to state performance targets and strategies to accomplish them.

The strategic plan prepared by US&FCS Italy for FY 2001-02 met the one-page requirement, but lacked the specificity needed to serve as a useful, effective document to guide post operations. Its strategies were vague or unexplained, the goals were too general and no method of

implementation was provided. For example, one of the post's strategies is to "capitalize on strong Italian interest in technologies and services," although the plan does not explain what it will mean to the post to capitalize on this area, or how this will be implemented, or how its impact will be measured. While the current plan does provide numeric targets for various activities, it does not state how attainment of its goals and strategies will be measured, who will measure them, how often they will be measured, and by what process the plan will be revised, if necessary. In addition, the priority of post activities, industrial priorities, and discussion of in-country resource priorities are not mentioned. Staff and management confirmed our analysis of the strategic plan, stating that it was not a document that would be or was used to guide and make adjustments to post operations or activities. It was described as "another annual exercise" imposed by headquarters.

A better-defined strategic plan with realistic strategies could help US&FCS Italy become more efficient and focused on its mission and activities. It could also enable US&FCS headquarters to have a better understanding of the post's plans for increasing its export successes. An enhanced strategic plan would provide detail in terms of establishing goals, identifying priorities, and setting milestones for measuring performance that would prove useful to both US&FCS headquarters and the post. In addition, an improved strategic plan would assist the post in defining a process for measuring progress against the plan's goals and strategies and making appropriate adjustments to post activities. While still meeting headquarters need for brevity, the post should develop a more detailed and useful strategic plan for its operations.



In her response, the Director General indicated that US&FCS Italy had revised its FY 2002 strategic plan in November 2001 to better reflect and accurately capture its performance goals. We believe that US&FCS Italy's revision of its strategic plan, coupled with the preparation of the Performance Targets Worksheet issued by US&FCS Headquarters, will likely provide a more useful plan to guide the post's operations. While we have not reviewed the revised strategic plan, we believe that these steps are responsive to our recommendation. We ask US&FCS to provide a copy of the post's revised FY 2002 strategic plan and the Performance Targets Worksheet with its action plan in response to this final report.

***B. US&FCS Italy and headquarters should develop  
a resource allocation plan to implement the post's strategic plan***

US&FCS Italy is not approaching its countrywide resource needs on a strategic basis. Resource allocation decisions are being made on a piecemeal basis in reaction to individual resource or staffing changes not on the basis of the mission's overall resource priorities, which should be driven by US&FCS Italy's strategic goals and objectives. During our site visit, we were made aware of the following resource issues: an FSN vacancy in Milan, the potential need for additional FSN or PSC staff support in US&FCS Naples and US&FCS Genoa, and the mounting workload in US&FCS Rome. Although we were told by the SCO and the Deputy SCO that recruiting for the Milan vacancy was their top priority, they also told us that they had not considered all of the pending resource issues in the context of the post's strategic goals and objectives.

Strategic planning and effective resource allocation should go hand in hand. Goals can be achieved more effectively if the strategies to achieve them and the resources needed to execute the strategies have been identified. As noted previously, a detailed strategic plan is needed for US&FCS Italy. US&FCS Italy would also benefit from developing a resource allocation plan, based on a detailed, effective strategic plan that enables the post to effectively conduct their export promotion operations under a range of resource scenarios. We urge the US&FS Italy management team to work with US&FCS headquarters to develop a comprehensive resource allocation plan to address its resource requirements in the context of its strategic plan.



In her response, the Director General noted that US&FCS Italy's updated strategic plan, in combination with its cost/benefit model allocation system, will provide the proper matching of resources for the post. In addition, US&FCS indicated that the post will review its authorized spending more regularly to ensure that it is consistent with priorities outlined in its strategic plan. While US&FCS did not directly agree or disagree with our request that the post develop a comprehensive resource allocation plan, we believe that its actions as outlined in its response are responsive to our recommendation and will likely achieve the same outcome we envisioned.

***C. US&FCS Rome should devise strategies to cope with an increasing e-mail workload***

US&FCS Rome management and staff told us that their workload was being significantly and negatively impacted by the explosive growth in e-mail requests from outside entities for information and assistance from the post. Staff told us that all inquiries were treated as "priority," which complicated processing the increasing amount of inquiries. Management indicated that core programs and quality control over work products have suffered because of this growth in e-mail requests. We believe that US&FCS Italy needs to develop a plan to help its staff deal with this workload growth.

An increase in the number of e-mails being received is not a problem limited to this post, or to US&FCS. One study indicated that, by 2002, the average office worker would spend 4 hours per day on e-mail, up 50 percent from just a year ago.<sup>2</sup> Other studies have shown for business and government, even the U.S. Congress, that the tremendous growth of the Internet and of e-mail users has not been matched by strategies to deal with this workload growth. One study indicated that the number of electronic mailboxes in use globally rose 67 percent in just the last year alone.<sup>3</sup>

However, US&FCS Italy needs to deal with its part of this explosive growth. The post would benefit from identifying and categorizing the types of e-mail it is receiving, and developing a strategy to deal with these different types of inquiries more efficiently. For example, the post could determine which requests could be better handled with simple, standardized responses. It could also develop a "frequently asked questions" section on its homepage that would respond to

<sup>2</sup> "Managing the E-Mail Explosion," G. Zhou, PC World, September 4, 2000.

<sup>3</sup> "E-Mail Continues Explosive Growth," J. Fontana, Network World Fusion, March 8, 2001.

common e-mail inquiries, or perhaps develop links to sites on its web page that would address topics frequently referred to in e-mails. These types of strategies, along with others the post may develop, could reduce both the number of inquiries as well as time spent on individual responses, thus providing more time for core products and services.



In her response to our recommendation, the Director General stated that the post would identify and adopt specific ways to manage better the e-mail burden and reduce unnecessary internal reporting.

## **II. US&FCS Italy Delivers a High-Quality, Effective Trade Promotion Program, Although Improvements Can Be Made**

US&FCS Italy is operating an effective export promotion program, providing value-added export assistance to U.S. companies. We noted that US&FCS Italy has received high marks from its clients for its delivery of products and services. US&FCS Italy's primary customers consist of small- to medium-sized companies seeking to enter Italy as a new market destination, and most of their export successes are gained from the post's customized services, particularly Gold Key Services (GKS) and Single Company Promotions, and by participating in trade events in Italy. We also noted that the post is supportive of the regional Showcase Europe initiative (See Section V, page 18). Although US&FCS Italy has established a solid trade promotion program, we identified areas where the post could improve its delivery and reporting of products and services to promote U.S. exports.

### ***A. Post's reporting needs improved quality control***

We noted that the post's procedures and quality control on reporting activities, particularly of export successes, need improvement and that nineteen percent of the post's export successes did not meet US&FCS's criteria for an "export success." We also found that some specialists are not consistently entering the post's export successes into the Client Management System (CMS) database.<sup>4</sup> In addition, US&FCS Italy's reporting of its statistical performance results and activities often differs from the numbers that are reflected in US&FCS's performance and financial tracking databases. As a consequence, management, both at the post and in headquarters, may have an inaccurate picture of post's operations, status, and achievements.

#### **1. Quality control over export successes needs improvement**

US&FCS Italy needs to improve its procedures for entry of and quality control over its export successes. Our review identified inconsistent and inaccurate reporting by the post, and 19 percent of its reported export success entries did not meet the criteria contained in US&FCS internal guidelines. We believe that this situation occurred primarily due to weak internal control or oversight over export success reporting in US&FCS Italy and, in part, US&FCS headquarters. As a consequence, the CMS database may not be a reliable gauge of post performance. We are recommending that both US&FCS Italy and US&FCS headquarters improve the quality control and oversight of export success reporting.

According to US&FCS, an export success is defined as one where US&FCS facilitates one or more of the following:

- An actual, verifiable export sale.
- The legally binding signing of an agreement, including agent/distributor/representative, joint venture, strategic alliance, franchising, or the signing of a contract with expected future sales.
- Resolution of a trade complaint or dispute on behalf of the client.

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<sup>4</sup> The CMS database that enables trade specialists to report and track products and services rendered as well as the results of their work, particularly export successes.

- Removal of a market access barrier.

The guidance further emphasizes the direct link between the post's assistance and the reported "export success." In addition, US&FCS's "Guidance for Export Success Reporting" states that in order to retain credibility, "All posts need to be counting and reporting their results according to the same set of rules," and reported figures need to be both "real and verifiable." Export successes, as with other performance or accomplishment statistics, are entered into the CMS database by all offices and are accessible worldwide. As the director of US&FCS/OIO stated in an e-mail to all US&FCS overseas posts, "I cannot over-stress the importance of collecting accurate statistics and reporting them through this system."

However, we found that US&FCS Italy lacked appropriate quality control over the entry and approval process of export successes into CMS. For example, we noted that:

- Several trade specialists had not entered a single export success entry into CMS during the past two years.
- Some staff stated that they have entered export successes into CMS that do not fully meet US&FCS's criteria because of lack of familiarity with the system.
- Some trade specialists did not enter their export successes because the CMS criteria only allow the reporting of an export success within one year of its occurrence. More timely reporting was needed.

Our review found that of 104 export success entries recorded from October 2000 through July 2001, 20 (or 19.2 percent) did not meet US&FCS's criteria for reporting export successes. Seventeen of the 20 entries concerned projected, rather than actual, sales or reports relating to client satisfaction with US&FCS services. One reported export success was actually an import into the United States. The other two entries involved contacts with clients concerning non-payment for a product or fee collection issues. Although staff believed that these entries met US&FCS's definition of a "trade dispute" under its export success guidelines, US&FCS headquarters officials indicated to us that the results of US&FCS post efforts to assist clients in collection activities cannot be considered as export successes.

We also noted that other reported export successes were based on exaggerated or inaccurate information. For example, some export successes that claimed a signed distribution agreement turned out to be inaccurate. As noted above, one entry was incorrectly entered into CMS as an export success, but should be more accurately described as an import success, because it involved assisting a U.S. businessperson to import an Italian product into the United States. One officer at the post described some of the export successes in the database for US&FCS Italy as being over-hyped and vague in reporting the value-added service provided by commercial specialists.

We believe that many factors contributed to the inconsistency and inaccuracy of export success reporting. Some staff members cited the lack of time, while others indicated that they are not in the habit of entering export successes into an electronic database or were confused as to what constitutes an export success. Although US&FCS Italy's commercial

officers routinely screened the staff's export success entries, we believe that a more thorough screening of the entries could improve the quality of the reporting. We also believe that this situation occurred in part because US&FCS headquarters did not conduct a systematic review to oversee the quality of the post's export success entries.

Inconsistent and inaccurate export success reporting by this or any post could have negative consequences for US&FCS. It could provide an erroneous picture of program accomplishments. Most importantly, unreliable reporting of export successes could lead to an inaccurate allocation of financial resources, especially since the US&FCS's recently updated Resource Allocation Model relies heavily on the number of export successes to determine future resource allocation. The failure by US&FCS to maintain reliable and valid data on its reporting of performance measure could put these allocation decisions into question.

We are recommending that US&FCS Italy managers advise the staff on the export success criteria established by headquarters, monitor the staff to ensure that they are entering all legitimate export successes into CMS on a regular basis, and improve the screening of export successes by strictly applying headquarters' criteria before any data is entered into CMS. Additionally, US&FCS headquarters could improve the quality and the accuracy of posts' reporting by regularly conducting spot checks on export successes at all posts, to help ensure that entries into the system are appropriate.



In response to our recommendation, the Director General stated that post management has taken steps to emphasize to the staff the importance of reporting post performance into the US&FCS database on a timely basis. Additionally, the post has developed a new matrix to improve tracking of commercial achievements.

US&FCS also agrees to act upon our recommendation to improve the quality and accuracy of post reporting and will take the actions necessary to address our concerns. The Director General stated that, as part of OIO's Performance-Based Management System, OIO instituted a three-level quality control process to screen every export success report. In addition, the post, during the second quarter of FY 2002, planned to recirculate the latest export success criteria and discuss with staff the need for strict application of headquarters criteria. The post also agreed to periodically check export successes for quality assurance purposes.

## **2. Inconsistent performance reporting is problematic**

US&FCS Italy's reporting of its data on activities and results differs significantly between its various systems and reports. Staff stated that the problems stem partly from system design inadequacies, and partly from inadequate and untimely reporting and updating of the databases. As a consequence, CMS and E-menu<sup>5</sup> likely contains misleading information for

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<sup>5</sup> E-menu is an electronic database that provides information on US&FCS's offering of products/services, calendar of events and activities, and post financial transactions.

management. We recommend that US&FCS Italy work with headquarters to ensure that the numbers represented in the new E-menu system and CMS coincide with the numbers that are reported from post so that both organizational levels have an accurate and timely picture of the post's activities and productivity.

**Figure 2: US&FCS Italy Reported Performance Statistics, by Source**

US&FCS Italy Performance Areas**	FY 1999			FY 2000		
	CMS	SCO	MRD	CMS	SCO	MRD
Export Successes	175	124	*	95	107	*
Trade Opportunity Program (TOP)	2	11	*	15	20	*
Gold Key Service (GKS)	5	11	*	11	13	*
Agent Distributor Service (ADS)	12	30	*	30	19	*
International Market Insight (IMI)	14	17	17	7	13	17
Industry Sector Analysis (ISA)	13	10	14	11	11	9

\*US&FCS/EP's Market Research Database tracks statistical figures for market research reports only.  
\*\*Appendix I provides a brief description of these products and services.

Before the implementation of E-menu in FY 2001, FY 1999 and FY 2000 statistical performance results for US&FCS Italy varied significantly between the SCO's quarterly report and the numbers retrieved from various performance and financial databases (see Figure 2).

Since the introduction of the E-menu system, the statistical variance between the systems has improved, although the reliability and accuracy of the performance statistics is still an issue. For example, as of August 2001, we found significant discrepancies between the post's reported numbers and the numbers posted in CMS's "Performance Measures" database and E-menu's "product management and fulfillment" database, as shown in Figure 3.

**Figure 3: US&FCS Italy Performance Reporting**

	E-menu	Post Records	CMS	MRD
Gold Key Service (GKS)	3	11	Not listed	N/A
Agent Distributor Service (ADS)	Not listed	2	1	N/A
International Partner Search (IPS)	Not listed	2	Not listed	N/A
Customized Market Analysis (CMA)	Not listed	0	Not listed	1

The reason that the databases do not appear to be up-to-date or have consistent data is two-fold. First, US&FCS Italy staff have not consistently reported or updated the post's performance activities to reflect actual workload in the databases. While a majority of the staff received E-menu and CMS training, some staff indicated that they have not received sufficient training and are not proficient in using the two reporting databases. Second, the staff believes that the current CMS and E-menu databases have design flaws that make it difficult for staff to accurately report their activities. Specifically:

- Neither CMS nor E-menu indicates completion of some US&FCS Italy products and services. For example, in E-menu, the completion of ADS is not tracked for Italy. In CMS, the completion of IPS is only tracked for Germany in the European region.
- CMS's database field for tracking posts' product/service completion has two separate listings for the International Buyer Program.
- Some of Italy's export success entries appear inexplicably in CMS's database field for tracking product/service under the "Not categorized" category.
- We were told that, for example, although one US&FCS Italy office may transfer an incoming IPS request inadvertently sent by a domestic office to another US&FCS Italy office, the E-menu system does not allow the original office within Italy or another overseas post to delete the request from its records.

Currently, US&FCS Italy's reported performance statistics appear to be inaccurate. This raises concerns, since performance statistics serve as a major basis for allocating financial resources. Consequently, we recommend that US&FCS Italy management advise the staff to consistently report and update all performance activities on a timely basis. Post management should coordinate with US&FCS headquarters to ensure that the post's performance numbers are accurately reflected in CMS, E-menu, and MRD. Post management should work with OIO management and the Office of Information Systems to make the necessary changes to the databases as needed. Additionally, US&FCS Italy management will need to ensure that staff members are given proper training on CMS and E-menu.



US&FCS agrees to act upon our recommendation and stated that post will work closely with headquarters to improve the accuracy and the timeliness of field performance data. Since the OIG's visit, the post indicated that US&FCS staff have taken advantage of a number of headquarters-sponsored training courses aimed at upgrading staff knowledge and understanding of database management.

***B. Post needs to evaluate the offering of different types of services to meet U.S. exporter needs in the Italian market***

US&FCS Italy could enhance its customized market services by offering the Platinum Key Service (PKS) and Flexible Market Research (FMR)<sup>6</sup> service. While an increasing number of

<sup>6</sup> PKS, according to the US&FCS Product/Service Standards, provides "customized support from overseas commercial officers and specialists on a range of issues in which the company needs longer-term, sustained assistance." FMR provides U.S. firms with customized, individualized information on overseas markets.

US&FCS posts are offering these services, including Italy's neighboring posts in Germany and France, US&FCS Italy questioned their usefulness to its market and has not offered them. We believe this may stem from the post's lack of comprehensive information about these services. By not offering services such as PKS and FMR, US&FCS Italy may be unnecessarily limiting the venues for U.S. exporters to gain access to the Italian market. Therefore, we are recommending that US&FCS Italy management explore the possibility of offering PKS and FMR services at this post.

Both PKS and FMR appear to have had successful starts and were being offered at a significant number of posts after being offered on a pilot basis at select posts (15 for PKS and 18 for FMR) in 2000. As of August 2001, PKS was offered at 29 US&FCS posts, and FMR was offered at 30 posts.

US&FCS Italy has not yet begun offering these two new services. We were told by management that there is some resistance to doing this partly because of the lack of adequate information about the services. The staff seemed unaware of the specifics of either service, perhaps due to the lack of guidance from headquarters. We were told that during the pilot stage, US&FCS headquarters did not issue guidance and information about PKS to non-pilot posts and is now only providing guidance to such posts upon request.

As a consequence, we are concerned that US&FCS Italy may be missing opportunities to reach new clients or better serve existing clients by not providing these services, especially given that other large, European posts are offering both PKS and FMR. Therefore, we suggest that US&FCS determine whether the new pilot services, PKS and the FMR, are useful services to offer at US&FCS Italy. To facilitate the decision-making process by the post, we are recommending that US&FCS headquarters promptly provide guidance and information about PKS and FMR to all non-pilot posts.

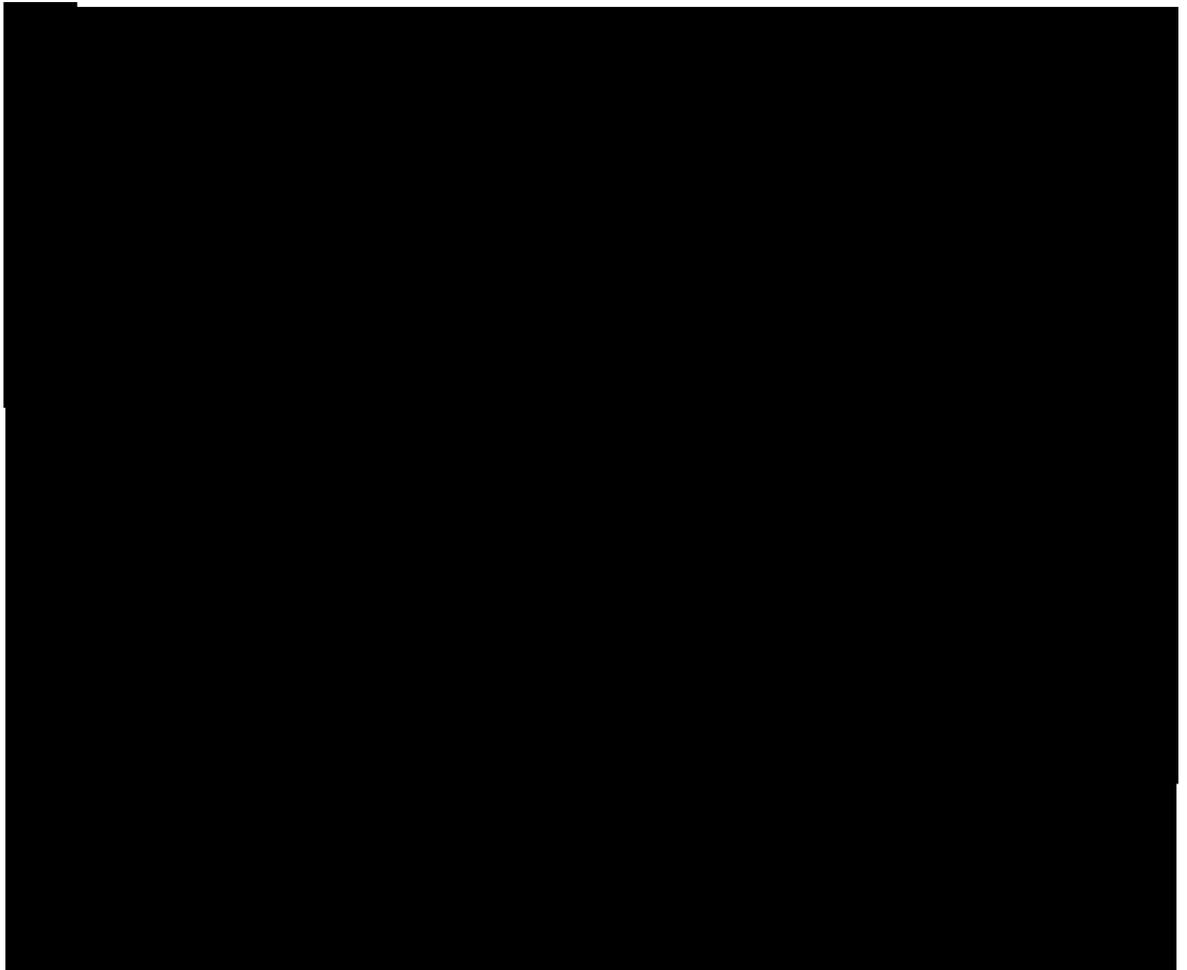
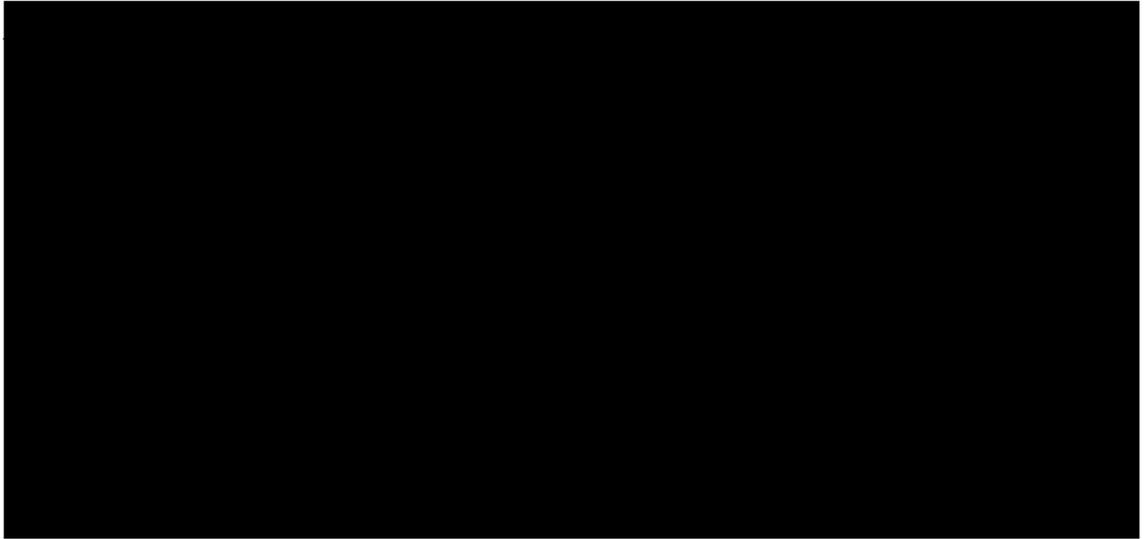


In response to our recommendations, the Director General stated that the post has explored the possibilities of offering PKS and FMR to their clients. The post is still in the process of evaluating offering the two products. The Director General also stated that OIO has scheduled PKS and FMR for worldwide rollout during the current fiscal year, and will provide detailed guidance and instructions on those services to posts.

***C. Dramatic increase planned for market research may impact post's other work***

We noted that although US&FCS Italy's market research products are of high quality, the quantity produced is lower than that of other, large European posts. To address this problem, the Principal Commercial Officer in Milan has developed a plan that dramatically increases the number of market research products produced in Milan and Genoa. While we agree with both the post and US&FCS headquarters that US&FCS Italy's production of this important market research has been too low, we also believe that US&FCS Milan's plan for an immediate, steep increase in these market research products could ultimately have a negative effect on the quality

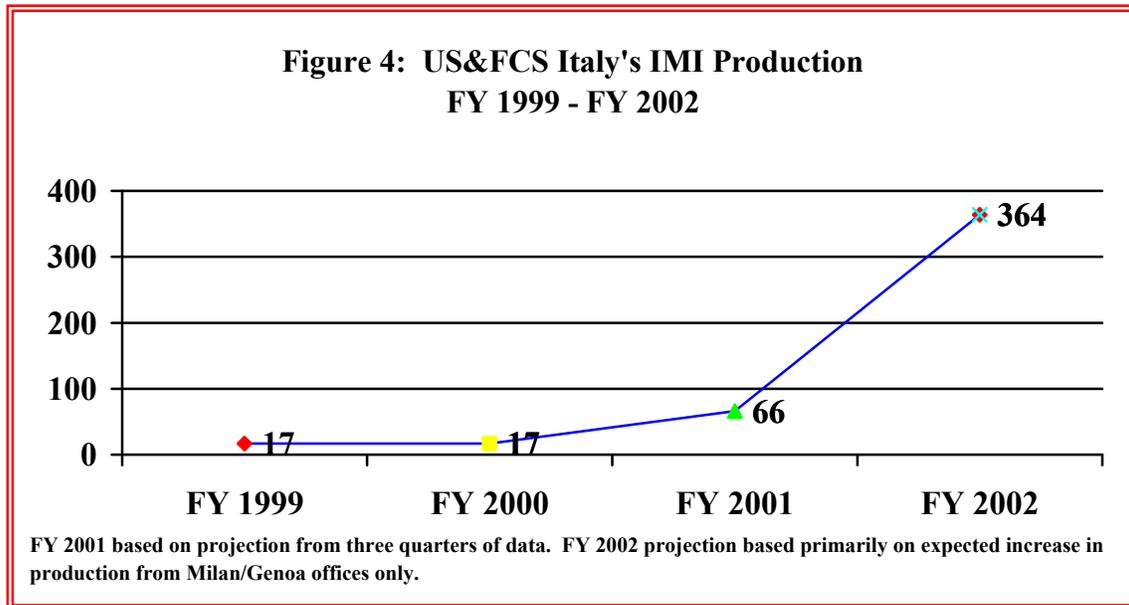
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*Physical Security Handbook*, U.S. Department of State.

ensure a quality product. In addition, such a steep increase in IMIs is likely to limit resources devoted to other priority activities in the office. (See Figure 4 below.)



We believe that it is important for post management to monitor this situation in order to ensure that the level of IMI production is appropriate and sustainable, and that quality is maintained. US&FCS Italy management needs to determine what is an appropriate IMI production for Milan and Genoa as well as for all other posts in Italy.



The Director General stated that US&FCS Italy has implemented a new policy that governs IMI production countrywide. The post's policy now requires that each trade specialist in US&FCS Italy produce two IMIs per month. This action is, we believe, responsive to our concerns and recommendation concerning market research production.

***D. Post needs to conduct systematic client follow-up***

US&FCS Italy is not following up systematically with its clients in order to track their export progress or see if they require further assistance. The staff has indicated that the lack of client follow-up is primarily due to other, higher priorities. However, by failing to conduct systematic client follow-up, US&FCS Italy may be missing out on opportunities to capture valuable customer feedback on the post's products and services, as well as to learn about potential export successes through which post performance is largely measured.

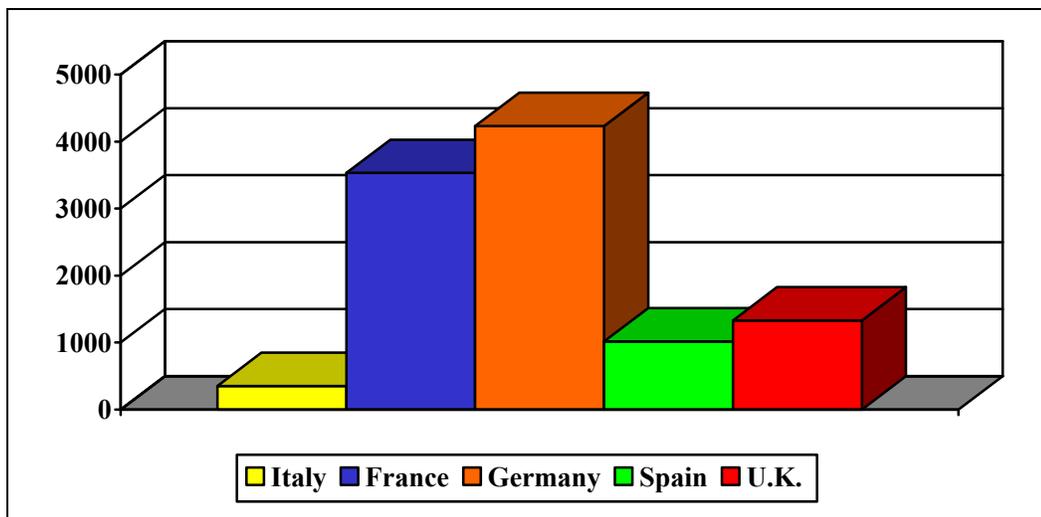
Client follow-up is clearly an important goal for US&FCS, and is an integral part of its product and service delivery. The US&FCS Operations Manual, Section 4.3.1, "Client Care Policy and Implementation Guidelines," states that "within 30 days, the US&FCS service provider will

contact the client to ensure that the product or service was completed to the client’s satisfaction.” Follow-up is also important to post management and headquarters as a way to gauge the post’s effectiveness and customer satisfaction with the products and services that they have received. Client follow-up can also identify additional services that the clients might need. Our review indicated that the staff generally did not follow up with their clients, although some staff did so on an ad-hoc basis, thereby inconsistently capturing customer feedback. One respondent, noticing the lack of follow-up, stated in our survey: “If I had a suggestion, it would be that the (US&FCS Italy) staff make it a policy to follow up with (Gold Key) clients in 30 to 60 days to ensure that things are moving forward and then offering any assistance.”

The lack of feedback appears to have resulted from several factors. Most of the staff admitted that they are not in the habit of systematically entering client information into an automated database system, and they do not routinely follow up with their clients. We noted that some trade specialists maintained a stack of business cards at their desks instead of entering this client information into CMS. The failure to enter all counseling sessions into CMS may also explain why an extremely low number of counseling sessions are reported in CMS database for US&FCS Italy, compared to its neighboring European posts (see Figure 5).

Client follow-up is also critical if the post is to capture the results of its work—such as export successes—which is a large and important part of its performance measurement and contributes to future resource allocation decisions. Therefore, we recommend that US&FCS Italy management emphasize the importance of client follow-up and ensure that it is performed routinely by post staff, as required in the US&FCS Operations Manual.

**Figure 5: Reported Counseling Sessions: Comparison of US&FCS Italy With Other Large US&FCS European Posts (FY 2001)**





In response to our recommendation, the Director General indicated that the post will issue a policy in the second quarter of FY 2002 that will encourage staff to conduct more routine client follow-up. The Director General also stated that OIO's cost-benefit model is already encouraging client follow-up and correcting the under-reporting of export successes.

***E. Timely delivery of the International Partner Search service is unlikely***

US&FCS Italy is unlikely to be able to meet the required 15 business-day response timeframe for the new IPS product. Our analysis indicated that the post may not be able to consistently provide this service within the time frame, and this may result in dissatisfied customers who now have the option to request a product/service fee refund under the new US&FCS Product/Service Refund Policy.<sup>7</sup> Therefore, we are recommending that US&FCS headquarters review the IPS product standards to determine whether the 15 business-day response standard is reasonable for this product.

IPS is designed to assist U.S. exporters by identifying joint venture partners, licensees, agents, distributors, and other strategic partners within a foreign market. According to US&FCS, the product is designed to be delivered within a maximum of 15 workdays from receipt of payment and the requesting U.S. company's information at the US&FCS overseas office.

However, US&FCS Italy may not be able to consistently meet this standard. Management and staff indicated that the new standard is not very feasible for the Italian market, due to the local business environment and culture, which requires time to find suitable partners for U.S. products, and to receive responses to US&FCS inquiries from potential agents and distributors. In addition, US&FCS Italy has not been able, in the past, to deliver agent/distributor search services this quickly. We noted that during the past three years, US&FCS Italy completed only 60 percent of its Agent Distributor Service (ADS) product—the predecessor to the IPS—on time (within 45 calendar days). Moreover, the only IPS completed by US&FCS Italy since the product was introduced took approximately 50 working days, far more than the required turnaround.

Failure to meet the due date as specified in the product standard could potentially lead to a rise in the number of dissatisfied customers asking for fee refunds, cause US&FCS to lose credibility with the U.S. exporters, and result in missed export opportunities for U.S. firms. As a consequence, we are recommending that US&FCS headquarters analyze worldwide statistics for IPS for FY 2001 and determine whether the 15-day due date is reasonable and achievable not only for this market, but also worldwide.

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<sup>7</sup> US&FCS headquarters' refund policy provides for full or partial refunds to clients in instances where fee-based products/services fail to meet specifications.



In response to our recommendation, the Director General stated that US&FCS's Export Promotion Services (EPS), which compiles statistics on the time spent by posts to complete an IPS, reports that "a 15-day timeframe is reasonable and achievable for the vast majority of posts." It was further noted by the Director General that if this amount of time was unreasonable that the post should contact the Export Assistance Center making the request and EPS to work out a mutually satisfactory delivery date beyond 15 days. US&FCS should provide guidance to posts on what they should do if they cannot meet the IPS delivery schedule.

***F. US&FCS Italy's Country Commercial Guide (CCG) and listing of "Best Prospects" need to be reconciled***

US&FCS Italy needs to update and overhaul its CCG in order to make it consistent with other information available about the post's products, services, and "best prospect" industries, in order to make it a more useful tool for counseling U.S. exporters. One official stated that the post has devoted inadequate attention to the CCG and its accuracy, and that its update has been considered too often as merely an "annual exercise."

Before our fieldwork, we noted that the list of best industry prospects cited on US&FCS Italy's Internet web page differed from a similar list found in US&FCS Italy's CCG.<sup>8</sup> We found that not only were the industries listed in different priority order, but also one of the 15 industries identified on one list did not appear on the other. We were told by the staff that the priority order of industries listed on the web page was more accurate, whereas the order listed in the CCG was based more on the number of trade events held for those industries. While at the post, we were told by most staff that the CCG was not a useful counseling tool, because some of the marketing and industry information was dated or incorrect.

The web page and the CCG need to be accurate and useful to U.S. exporters. US&FCS Italy is responsible for updating its own web page information, even those pages maintained on the USA Trade website. It also shares the responsibility with other sections in the embassy for annual updates to CCG. However, with US&FCS Italy's web page and CCG offering inconsistent information, it is possible that a trade specialist could offer misleading advice, while potential U.S. exporters could be confused as to whether their industry was a best prospect for export to the Italian market. US&FCS Italy management had not, at the time of our review, ensured that the CCG was up to date and accurate, but post management assured us that the CCG would be more rigorously reviewed before its next publication.



In response to our recommendation, the Director General stated that post has improved its working relationship with Embassy's State Department elements in the preparation of the CCG. Together with the Economic Section, the post is working to obtain the most accurate data available from American and Italian sources. Furthermore, it was stated that post has reconciled

<sup>8</sup> <http://www.sce.doc.gov/country.html>.

the best prospects in the CCG with those on its web page.

### III. Information Technology Issues Need to Be Addressed

US&FCS Italy has a myriad of information technology (IT) support and infrastructure problems that could become a major threat to its operations. We are recommending that OIO assist the post in obtaining support from the Office of Information Systems (OIS) in order to address these problems expeditiously. We noted the following issues in US&FCS Italy:

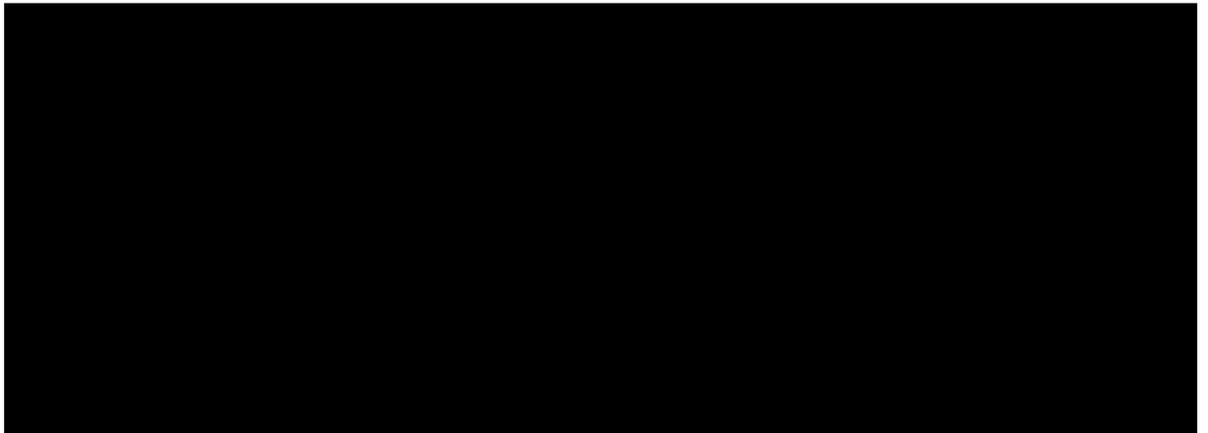
- Numerous malfunctions and system anomalies with the CMS system reduced its usefulness to the post's trade specialists. We were provided with documentation the post sent to OIS that outlined the post's system deficiencies. According to the post, OIS had done little to correct them.
- Inadequate local support. Two trade specialists—one in Rome and one in Milan—attempt to serve as part-time systems administrators for the entire post operation. We were told that these administrators do not have the time and resources to adequately support the Genoa, Florence, and Naples offices. Nor do they have all the tools they need to fully support all the offices' IT infrastructure, such as software and diagnostic tools, and the authorization to make system and user modifications.
- In the Milan and Rome offices, there are data risks due to poorly functioning backup systems and power supplies.
- The post lacks maintenance contracts for most of its printers, copiers, and some IT equipment at all of its sites.
- Major software problems have hampered the video-conferencing function at US&FCS Naples.
- Slow Internet connection speeds at all posts have hampered operations.
- There is no in-house IT support for Naples and Florence, and Naples depends on the State Department to provide IT support without subscribing to this support under ICASS.

It is critical to the post's operations to maintain a fully functional IT infrastructure and support system to ensure maximum productivity of its operations. Support of the systems, either in-house or from headquarters, should be timely and effective. If support is not adequate, a post's productivity and efficiency can be impaired by vulnerable or unreliable systems. Reliance on outside entities could result in long downtimes for equipment and the resulting loss of productivity. We are recommending that US&FCS Italy, with the assistance of OIO, address outstanding software, hardware, and support issues with OIS and determine viable, cost-effective solutions to the multitude of issues.



In response to our recommendation, the Director General stated that the post would work with US&FCS headquarters to strengthen its automated data reporting capabilities. Furthermore, OIO/Europe will alert the Office of the Chief Information Officer (OCIO), formerly OIS, concerning all of US&FCS Italy's outstanding IT issues and work with post to resolve them by the end of the second quarter. OIO will follow up to ensure that OCIO establishes contact and that the post is satisfied with the results.

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*Physical Security Handbook*, U.S. Department of State.

## **V. Showcase Europe Is Considered A Positive Initiative, But Its Benefits Are Difficult to Quantify**

US&FCS Italy is fully participating in the regional Showcase Europe initiative and believes it has some benefits to serving U.S. exporters in the European market. However, management and staff told us that the concept had become stale and “over-controlled” by a central bureaucracy, and that its benefits are either negligible or unknown. At an April 2001 regional SCO conference, changes were proposed to Showcase Europe. Most notable among them was a reduction in best prospect sectors, as well as making participation by US&FCS posts in “Showcase Europe” sectors and activities optional.

Showcase Europe is a regionally devised and managed program, involving all of the US&FCS offices in Europe. Its goal is to coordinate US&FCS activities (market research, trade promotion, and advocacy support) regionally, according to a list of “best prospect” industries, in order to better serve the U.S. exporter. The initiative does not provide additional resources to posts, nor does it require the posts to offer new products and services. Instead, it is a method by which US&FCS offices in Europe can market their normal package of products and services regionally. US&FCS Italy maintains the trade event calendar for all Showcase Europe events, leads two best prospect sectors, and supports other sectors by contributing market research, attending Showcase Europe events, and providing other support.

Interviews with US&FCS Italy staff and management indicated that they are actively participating in Showcase Europe and think it is a good and appropriate concept for approaching the increasingly integrated European market; however, the post’s staff and management indicated that the initiative had become overly centralized among a few posts, had too many annual taskings without focus or consideration of need, and included some questionable best prospect industry sectors. They complained about some wasted effort involved in providing items such as market research that seemed unnecessary and represented few opportunities in the Italian market. The April 2001 changes in the initiative, which had not yet had any impact at the time of our visit, should address most, if not all, of these concerns. In addition, post managers suggested that it would be helpful if the benefits and successes of Showcase Europe were more readily apparent and reportable, as they are not specifically tracked in the agency’s CMS database.

We are recommending that US&FCS consider devising a method of accurately capturing Showcase Europe’s successes and impacts, perhaps by adding a box to be checked on its CMS “Export Success” entry screen.



In response to our recommendation, the Director General stated that OIO/Europe will work with the Chief Information Officer to determine whether a code can be added to the CMS’s Success Story database to allow US&FCS headquarters to sort and view any export successes resulting from Showcase Europe activities.

## **VI. Most Administrative and Financial Operations Are Well-Managed, But Improvements Are Needed in Key Areas**

In general, we found US&FCS Italy's financial management and administrative operations to be sound, effective, and well managed. All assets were accounted for and appropriately used. The post is also managing ICASS effectively. We found no categories of ICASS usage that appeared inappropriate, and any unusual increases in ICASS charges were explained to our satisfaction. The post has reduced both its usage of ICASS and the number of ICASS services it is participating in. In addition, the post does not have any significant unliquidated obligations and is appropriately involved in annually reviewing such obligations. We found no inappropriate or unusual Operations and Administration (O&A) expenditures. Nevertheless, improvements can be made in some key administrative and financial management areas.

### ***A. US&FCS Rome needs to improve collections management***

US&FCS Italy's office in Rome needs to improve its compliance with cash deposit requirements and ensure separation of duties in the handling of collections related to its products and services.

#### **1. Post is not in compliance with deposit requirements**

US&FCS Rome's collections and deposits to the lockbox are not made weekly, as required. We noted that US&FCS Rome accumulates payments for its trade promotion services and from the sale of commercial products until the total reaches \$100 before making a deposit, even though it may take longer than a week to reach this amount. This practice is not in compliance with ITA deposit procedures or the collection and deposit requirements of the U.S. Treasury.<sup>10</sup> According to the policies and procedures established by ITA's Office of Financial Management, "Deposit Procedures for Collections Received At Foreign Posts," overseas posts are required to deposit, by Thursday or the last workday of each week, all money collected, regardless of the amount accumulated.

According to the US&FCS Rome staff, the post follows the current deposit practice because the embassy bank charges a \$10 fee for converting cash to checks with a value of less than \$100. Rather than incur the conversion fee for such a small deposit, the staff holds the cash payments until they collect at least \$100 before making the deposit to the lockbox.

For the staff to hold cash collected from the sale of services and products, however small the amount, beyond the end of the week risks the possibility of loss. Although we believe the practice followed by the post makes sense, as noted above, it is not consistent with ITA and Treasury requirements. Consequently, if US&FCS Rome wishes to continue this practice, it should request that ITA headquarters seek a waiver from the Treasury Department to enable US&FCS Rome to accumulate collections until they reach \$100 so that the cost of processing the collection is not exorbitant in light of the amount to be deposited. In the absence of a waiver, the post should follow ITA and Treasury requirements for deposits.

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<sup>10</sup> Treasury Financial Manual, Vol. 1, Part 6, Chapter 8000, *Cash Management*, Section 8030.20.



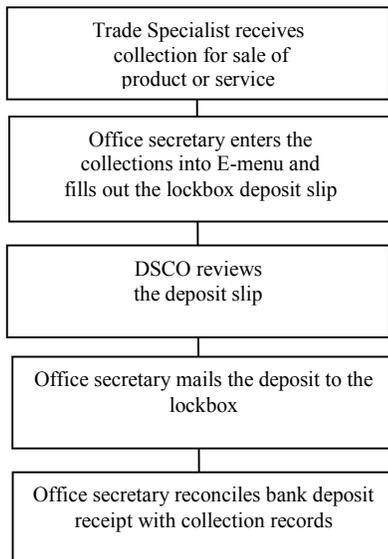
In response to our recommendation, the Director General stated that during the second quarter the post would request US&FSCS headquarters to seek the necessary waiver from the Treasury Department.

**2. Collection procedures have not been adequately segregated**

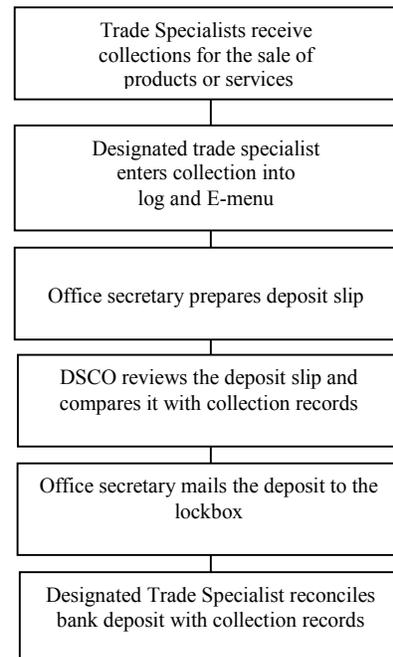
US&FCS Rome collection procedures violate basic internal control principles and also do not comply with ITA policy and procedures. This could allow for the potential misuse of the receipts collected. According to ITA guidance, “No single individual may control a collection transaction. Offices must ensure that collection duties are separated and performed by different individuals.”<sup>11</sup> While the amount of cash collected at the post is relatively small (less than \$3,500 annually), the collection responsibilities should be further segregated to safeguard against the potential misuse of receipts and ensure accurate reporting.

**Figure 6: Current and Proposed Procedures for Collections and Deposits, US&FCS Rome**

**Current Collection/Deposit Process**



**Proposed Procedures**



ITA policy specifically requires that no single individual should control a collection transaction. Responsibilities and duties involving transactions and events should be

<sup>11</sup> ITA Office of Financial Management, “Deposit Procedures for Collections Received At Foreign Posts.”

separated among different employees with respect to authorization, approval, processing and recording, making payments or receiving funds, review and auditing, and the custodial function and handling of related assets. Therefore, an employee who has responsibility for custody or disbursement of cash receipts should not conduct the bank account reconciliation. As shown in Figure 6, the current process in US&FCS Rome for collecting and depositing collections has too many of the key activities vested with one individual and has omitted key supervisory steps that would provide a better internal control environment for this function. In particular, the office's secretary has been given responsibility for too many of the significant steps and functions of this process, including:

- Entering the collection information into the E-menu system,
- Preparing the deposit slip
- Mailing the deposit to the lockbox
- Performing a reconciliation between collections, deposits and the bank receipt.

In addition, the DSCO needs to provide adequate oversight and contribute to a more effective internal control environment in this area. While the DSCO reviews the lockbox deposit slip prepared by the secretary before it is mailed, there is no assurance that all receipts are deposited. Also, the current procedure is inadequate since trade specialists, who receive the collections, do not make entries to an event collection control log, which makes reconciliation of collections to E-menu or the bank deposits problematic.

By not having a proper segregation of duties in the handling of receipt collections, the post risks potential misuse of receipts collected. To guard against this risk, US&FCS Rome needs to better segregate the collection, documentation of collection, deposit, and reconciliation of deposit responsibilities, as well as reconcile the deposits to the log and the E-menu. Additionally, supervisory review of deposit reconciliations should be conducted on a regular basis. We have proposed an improved process for US&FCS Rome, as shown in Figure 6.



The Director General stated that the post would, in consultation with OIO, implement the specific procedures identified in the draft report by segregating the aforementioned financial responsibilities, reconciling deposits to the log and E-menu database, and ensuring regular supervisory review of deposits.

***B. US&FCS Italy should be in compliance with all requirements of the Prompt Payment Act***

US&FCS Italy's practice of not requiring that invoices received be date-stamped on receipt, or otherwise have the date of receipt annotated, is in violation of ITA policy and procedures.<sup>12</sup> Our review of purchase orders processed by US&FCS Rome and Milan showed that none of the invoices reviewed included the date annotation. The Prompt Payment Act<sup>13</sup> states that an

<sup>12</sup> ITA Overseas Financial Policies and Procedures Manual, "Disbursements and Expenses-Regular Disbursements."

<sup>13</sup> 31 United States Code, Section 3901, et. seq.

invoice is deemed received on the date a proper invoice is actually received by the designated agency office if the agency annotates the invoice with date of receipt at the time of receipt. The law provides that, when an invoice is not paid within the time period allowed under the terms of the contract, late payment interest penalties will accrue. If the date of receipt is not noted on the invoice, the law requires that the date of the invoice be used as the basis for payment, thus reducing time for the agency to make timely payment. In the future, US&FCS Italy management should ensure that all invoices are date-stamped upon receipt, and that all requirements of the Prompt Payment Act and ITA policies and procedures are met.



In response to our recommendation, the Director General stated that the post has implemented date-stamping procedures for all invoices upon receipt by all of its commercial offices.

***C. Post needs to address minor documentation issues related to representation funds***

US&FCS Italy is not consistently following required departmental guidelines regarding the use of representation funds. Over the past three years, US&FCS Italy has received approximately \$8,000 annually in representation funds for official entertainment. We reviewed various representation fund documents to assess whether the claims included the required information and were approved by authorized officials. Although the representation claims we reviewed generally included appropriate documentation and signature approval, at least three of the claims did not have a list of attendees attached. Without a guest list, we could not determine whether ITA regulations were followed by the post. Additionally, most of the events using representation funds stated that the purpose of the event was the “promotion of U.S. national interests,” but did not elaborate as to how the event promoted national interests.

Department Administrative Order (DAO) 203-10, *Official Entertainment and Representation Authorizations*, Section 5.02, provides that when entertainment functions are being held at which at least 50 percent of the attendees will be federal employees, the Secretarial officers or heads of primary operating units may approve the function after determining that it is not primarily for the benefit of the employees. Additionally, Section 6 of the DAO provides that for overseas official entertainment, State Department regulations, as outlined in *Foreign Affairs Manual (FAM)* 1434.7, apply to the authorization of expenditures and appropriate documentation. The manual states that vouchers for entertainment should include (1) the type, purpose, and location of the function; (2) the names and titles of American and foreign guests of honor; and (3) a brief description of the official business conducted when all guests are U.S. citizens.

Without a guest list for some of the events, or a description of why the event was held, it is impossible to verify that the official entertainment and use of representation funds were for a permitted purpose. US&FCS Italy officials need to ensure that future expenditures of representation funds for official entertainment meet the requirements of DAO 203-10 and the *Foreign Affairs Manual* by stating how or why the event promotes U.S. interests and including a copy of the list of attendees.



The Director General indicated that US&FCS Italy will ensure that funds used for representational events will be better documented and justified.

***D. Government purchase card approving official needs acquisitions training***

The US&FCS Italy SCO has not received the acquisitions training needed to be in compliance with ITA policy, Treasury Department regulations, and departmental guidelines. ITA's "Overseas Purchase Card Guidelines" require that an officer must be the approving official for officer-held \$25,000 single purchase limit cards, and that the approving official must achieve a passing score on the Simplified Acquisitions Training course. Similarly, the Commerce Acquisition Manual requires that an approving official for cardholders with a single purchase limit over \$2,500 must complete a Simplified Acquisitions Training course.<sup>14</sup> Treasury Directive 76-04, "Government Purchase Card Program," requires training for cardholders and approving officials prior to issuance of a purchase card.

The SCO has not received training and thus is not in compliance with the Treasury Directive, ITA's policy, or the Commerce Acquisition Manual as he is the approving official for purchases made with the post's \$25,000 purchase card. Without the required training, an approving official may not be capable of exercising the oversight necessary to ensure proper use of a purchase card. To correct this deficiency, US&FCS headquarters should ensure that the US&FCS Italy SCO completes the Simplified Acquisitions Training course and receives a passing score. Until the SCO completes the course, the approving official on purchase card purchases should be the US&FCS/OIO/EUR Regional Director.



In response to our recommendation, the Director General stated that OIO/EUR will ensure that the SCO completes the Simplified Acquisitions training session during the SCO's next visit to headquarters. As recommended, OIO/EUR is currently reviewing and approving the post's purchase card invoices until the SCO successfully completes the necessary training session. Furthermore, OIO/Europe will continue to ensure that any additional cardholders and the necessary approving officials complete the Simplified Acquisitions Training.

***E. Use of purchase cards by non-cardholders should be prevented***

Both ITA and departmental guidelines prohibit the use of a purchase card by any person other than the cardholder.<sup>15</sup> Although we found no instance in which the purchase cards were used inappropriately to purchase items for personal use, we noted two occurrences where persons other than the cardholder used the office's purchase card, one in Rome and another in Milan. The prior Deputy SCO in Rome allowed a non-cardholder employee to make purchases with the card and, in one instance, allowed a US&FCS headquarters official to use US&FCS Italy's

<sup>14</sup> *Commerce Acquisition Manual*, 1313.301, Section 2.1, April 5, 2000.

<sup>15</sup> *Commerce Acquisition Manual*, Part 13, Section 301, April 19, 2000.

purchase card to obtain a copier that was ordered for and used by the Office of Multilateral Development Bank Operations (part of ITA in Washington, D.C.). This was done, reportedly, because of the large, available balance on Italy's purchase card at the time. To remedy this situation, we believe that US&FCS headquarters and US&FCS Italy should (1) ensure that, in the future, only authorized employees use the purchase card and (2) consider obtaining additional cards with a \$2,500 limit for the US&FCS Rome secretary and the US&FCS Milan financial assistant, as well as a new \$25,000 card for the DSCO.



In response to our recommendation, the Director General stated that the post would ensure that only authorized employees use purchase cards and will consider issuing cards for the US&FCS Rome secretary and the US&FCS Milan financial assistant. The post also confirmed that the DSCO already has a \$25,000 purchase card.

***F. Post needs to consistently follow ITA guidelines for using trade event funds to purchase capital assets***

Some US&FCS Italy trade event funds are being used to purchase capital assets without proper authorization. ITA policy allows capital assets to be purchased with trade event funds if the asset is used to support trade events. There are specific authorization policies for capital equipment purchases over \$5,000 and for those under \$5,000. Our review of the procurement of capital assets with trade event funds disclosed that the post did not consistently follow ITA policy and procedures for use of these funds, although all purchases did support the post's trade events program. Without proper oversight by its management, US&FCS Italy and US&FCS OIO management cannot be certain that funds generated from trade events are being used appropriately.

ITA policy states that capital assets can be purchased with trade event funds if those assets are used for to support trade events and related activities, provided headquarters approves the purchase. The policy requires that requests for capital equipment of less than \$5,000 per event/product/service be included in the comment section of E-menu (prior to E-menu, in the comments section of the trade event budget plan), and be approved by the US&FCS Regional Director.

ITA policy requires that capital equipment requests of over \$5,000 be approved by the Regional Director and the Trade Events Board in headquarters. Our review found that all items purchased with funds generated from trade events were consistent with supporting the post's trade events program, as required in US&FCS's trust fund policy.

However, we also noted that appropriate procedures for requesting authorization to purchase capital equipment with these funds were not consistently followed by the post. US&FCS Italy officials did not always complete a request for approval by the Regional Director and the Trade Events Board (TEB) to use trade event funds for the purchase of capital assets exceeding \$5,000, as required. For example, US&FCS Italy purchased two pieces of equipment—the "Virtual Towers" (a portable computer and stand) for \$7,000 each—with funds from several trade events.

No requests were made to the TEB for these purchases, nor did comments appear on any of the event fiscal plans where liquidations were charged.

Similarly, based on a sample of trade event capital asset procurements of less than \$5,000, we found numerous procurements that did not meet ITA requirements. For example, the purchase of a computer and monitor during FY 2000 was for \$3,062, and charged to a trade event. In this case, there was no dollar amount noted on the fiscal plan, and no mention in the comments section, as required. Additionally, the purchase of a color scanner for US&FCS Rome and a CD recorder and two monitors for US&FCS Milan's video-conferencing equipment in the amount of \$946 was charged to post-initiated events, and Gold Key Services. However, there was no indication of the dollar amount on the fiscal plan, and no mention in the comments section. The Regional Director's approval was not obtained for any of the above purchases.

To avoid improper use of trade event funds, US&FCS OIO and US&FCS Italy management must ensure that future requests to use these funds for the purchase of capital equipment items are submitted to the Regional Director in US&FCS headquarters or both the Regional Director and the Trade Events Board, as appropriate.



In response to our recommendation, the Director General stated that management at post would immediately reinforce the capital equipment purchases requirement as stipulated. Furthermore, OIO/Europe will also reiterate to post the ITA policy concerning capital equipment acquisitions with trade event funds.

***G. US&FCS Italy needs to carefully monitor its significant unfunded FSN severance pay liability***

US&FCS Italy needs to ensure that, whenever possible, it anticipates, alerts headquarters to and annually budgets for expenditures that are expected to arise from its FSN severance pay liability of approximately \$815,000. As a result of our review, we learned that, in accordance with Italian law and State Department guidance,<sup>16</sup> US&FCS Italy is liable to pay its FSNs severance for termination of service, and cannot deny requests for advance severance payment under certain conditions, such as medical expenses for therapies and surgical operations, purchase of a first time home for an employee or the employee's children, home improvement, and increased financial obligations during periods of additional maternity/paternity leave. According to US&FCS officials, only about three US&FCS posts have such a requirement for advance severance pay.

We noted that funds are not currently set aside by US&FCS headquarters (for Italy or any other country) to cover this potential FSN severance pay liability. US&FCS has had to pay for its FSN severance pay liabilities out of its O&A funds as they have arisen. Unexpected requests for advance severance pay by US&FCS Italy employees occurred during FY 2001 when three employees made requests for advances on their severance pay for a total of \$47,000.

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<sup>16</sup> U.S. Department of State, Administrative Notice 95-121N, "Severance Pay Plan."

Since US&FCS Italy has a large number of employees with more than 30 years of service with the government, in addition to the advance severance pay requirement, if any of those employees resigns, US&FCS Italy runs the risk of having to suddenly make a sizable, unplanned expenditure from its current operating funds or request emergency funds from US&FCS headquarters to fund the severance payment due the employee. This could possibly disrupt its other operations. We are recommending that US&FCS Italy, whenever possible, anticipate, notify headquarters at the earliest possible date, and budget for expected expenditures related to FSN severance pay. In this way, US&FCS headquarters and ITA can set aside funds early in the fiscal year to ensure that FSN severance payments can be met and do not disrupt other operations.



In response to our recommendation, the Director General stated that US&FCS Italy management will advise FSN staff, as well as the Embassy's Office of Human Resources, of the need for advance notice of expected severance pay advances.

***H. A cost allocation system is needed to properly calculate user fees and account for trade event costs***

US&FCS Milan does not have an effective cost allocation system to identify and allocate direct and indirect costs between fee-for-service expenditures and Operations and Administration (O&A) costs. Without such a system, US&FCS Italy cannot determine the full costs of trade events and, by extension, whether fees collected recover the full cost of those events, as required. Our work focused on US&FCS Milan as this office manages the vast majority of the post's trade events.

Appropriated O&A funds can only be used for O&A costs and should not be used to pay for events that should be supported by user fees. US&FCS Milan receives funding authorizations from ITA headquarters for its O&A costs, which are used to pay for personnel, leasing, utilities, and telephone costs. Milan also receives funding authorizations for the direct costs of fee-based events, such as trade events. ITA's policy states that trade event fees must recover all direct costs associated with providing events, products, or services for its customers. OMB policy requires that a user charge be sufficient to recover the full cost of providing the service, resource, or goods. Additionally, OMB Circular A-25 provides that "full cost" includes all direct and indirect costs. These costs include, but are not limited to (1) direct and indirect personnel costs, including salaries and fringe benefits, (2) physical overhead, consulting, and other indirect costs including supplies, utilities, insurance, travel, rents or imputed rents on land, buildings, and equipment, and (3) management, supervisory, and other administrative costs.<sup>17</sup> The Department's DAO 203-5 states that "fees and charges will be set at levels to recover the full cost of rendering a service."

US&FCS Milan cannot effectively allocate costs between those activities associated with trade events and those associated with fundamental post operations. There is no allocation to

<sup>17</sup> OMB Circular A-25, *User Fees*, Section 6.d.1.

determine how much, if any, of the indirect costs (such as office utilities, for example) should be associated with each event. Our review included a comparison of fee collections by event to the costs and/or liquidations associated with the event. We found that Milan has shown an overall revenue surplus for fiscal years 1999 and 2000. However, upon closer inspection, the liquidations do not include all costs that should be allocated under “full cost” recovery to the fee-for-service events. US&FCS Milan is not including the direct and indirect costs required for “full cost” recovery in its computations to determine event fees, or for allocating costs to the fee-for-service event. By not doing so, Milan may be inappropriately subsidizing the cost of trade events with its O&A funds.

US&FCS Italy should develop and implement, in consultation with US&FCS Milan, an effective cost allocation system to rationally identify and assign costs, both direct and indirect, associated with fee-for-service events in accordance with the guidelines established by OMB Circular A-25, and DAO-203.5.



In response to our recommendation, the Director General said that OIO has been taking steps toward developing a formal cost allocation system. The Post Performance Targets Worksheet is a first step toward a formal cost allocation system, and it requires posts to include all of their costs, including previously “hidden” cost categories such as ICASS and American officer salaries, that are paid centrally by headquarters. However, the Director General also noted in her response that the ITA Under Secretary has asked OMB for a waiver on recovering the indirect costs for fee-for-service events. In addition, ITA plans to conduct a study on how to expand cost recovery. OIO is waiting for the outcome of both events before instituting a formal cost accounting system.

***I. Post needs to fully implement US&FCS/OIO’s policy on telephone usage***

US&FCS Italy has not properly implemented US&FCS/OIO’s February 2000 guidance on telephone usage. As a consequence, US&FCS Italy management and US&FCS headquarters do not have assurance that government telephone resources are being restricted to official business and authorized calls. We are recommending that US&FCS Italy managers ensure that the policy is properly implemented throughout their operations.

In order to properly control and account for personal, long-distance telephone calls at overseas posts, OIO’s “Telecommunications Policy” (February 28, 2000), requires all officers and employees who use official telecommunication resources at foreign posts (phone, cellular, and fax) to:

- Maintain a personal monthly log to track long-distance calls and faxes,
- Reconcile their phone/fax log with post’s telephone bill monthly,
- Identify personal calls and costs,
- Repay personal calls and faxes, and

- Certify to the SCO or PCO acknowledgement and payment for all personal long-distance calls and faxes made using government telecommunications channels.

In addition to the above responsibilities, all SCOs and PCOs are required to fill out a form—“Certification Form for Telecommunications Billings”—to certify the accuracy of the billings and ensure that the government is reimbursed for personal telephone calls and faxes. Headquarters is required to conduct spot checks to ensure that the policy is being implemented by US&FCS overseas operations. Our review indicated that US&FCS’s telecommunications policy was not being properly implemented by US&FCS Italy. For example, we found:

- In US&FCS Rome, only the Deputy SCO was filling out the log properly and completely.
- Some Rome employees were not maintaining any telephone/fax log, and other employees had a log, but were only logging long-distance calls outside of Italy.
- A spot check of employees who used telephone/fax logs in Rome found that the logs frequently did not include all long-distance calls on the office’s certified bills.
- US&FCS Milan only began using the required phone logs beginning in May 2001, just before our arrival. As in US&FCS Rome, employees logged only international long-distance calls. Certifications by the officer had yet to be done, although management indicated that a problem with itemizing the post’s telephone bills prevented a certification of official calls. However, this does not explain why the post did not begin using telephone logs until May 2001, more than 14 months after the policy was put into place.
- We found similar problems at the Florence, Naples, and Genoa offices.

There appears to be some confusion or miscommunication as to which calls have to be logged. Staff indicated that they believed that only international calls needed to be logged, and not long-distance calls within Italy. There was also some confusion as to whether calls between US&FCS Italy offices needed to be logged, given that such calls are frequent and all would presumably be for official business.

We believe that this situation occurred also because US&FCS (headquarters or Italy), did not determine whether the policy was being followed, was understood by all staff and officers, and was effective. Nevertheless, the policy has had many positive effects. Employees in Rome have purchased and use their own cellular phones for personal calls, and therefore, the government is less likely to be paying for non-official calls. We believe that the post needs to ensure that US&FCS’s telephone policy is fully and properly implemented by all of its offices. We are recommending that US&FCS headquarters determine whether confusion over this policy exists elsewhere and take steps to make the policy less ambiguous, if necessary.



In response to our recommendation, the Director General stated that at US&FCS Italy’s September 2001 planning conference, post management reiterated the requirement to maintain long-distance telephone logs. It was also stated that periodic checks to ensure compliance are being conducted. In addition, OIO’s Telecommunications Policy states that overseas callers must “track long-distance calls and faxes,” which includes any type of long-distance call (within country or international). Under OIO’s policy, calls within Italy (including those to other

US&FCS offices) must be logged. The March 2000 message from the Deputy Assistant Secretary for International Operations (DAS/OIO) to announce the policy included guidance that each regional office would conduct spot checks of two posts per fiscal year. According to the Director General, OIO/Europe exceeds this requirement and reviews telecommunications bills throughout the year during management reviews of the posts. Finally, the Director General stated that the policy will be retransmitted to US&FCS Italy, and OIO/Europe will relay our recommendations on the telecommunications policy to the Deputy Assistant Secretary for OIO.

***J. Post needs to determine whether its official vehicle is still needed in Rome***

In general, we found adequate controls at the offices that maintain official vehicles. Documentation was properly maintained, and we noted no instances of improper use of any of the three vehicles maintained by the offices that have an official vehicle (one each in Rome, Milan, and Florence).<sup>18</sup>

US&FCS Rome's official vehicle is rarely used and, therefore, the vehicle may be unnecessary to support US&FCS Rome's operations. We believe that the post, in consultation with headquarters, needs to determine whether this vehicle is needed or whether it should be transferred to another office or USG organization, or sold. If the vehicle is no longer considered necessary to support US&FCS Rome's operations, its maintenance and related costs represent an unnecessary expense to the government. We noted that current officers have rarely used the official vehicle (although the previous officer group and some US&FCS Rome staff did use the car in the past). At the time of our visit, we noted that the vehicle had not been used between December 2000 and June 2001, and its battery was dead from non-use when we went to inspect it. US&FCS Rome officials believe that the vehicle is not needed and that it should either be sold or transferred to another office. The officers indicated that, given the city's traffic and difficult parking situation, plus the availability of taxis for use in the city and trains to go between cities, maintaining a vehicle at the post is an unnecessary expense.

At the time of our review, the new management team had been in place in US&FCS Rome for almost a year. In consultation with US&FCS headquarters, a decision should be made expeditiously on whether to transfer or dispose of the vehicle, if it indeed is not necessary to support operations in Rome.



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<sup>18</sup> According to the "Mission Policy on Use of Official Vehicles," American Embassy, Rome, Administrative Instruction 95-014I, agencies are required to own/operate only the minimum number of vehicles necessary to meet authorized transportation needs, and all official vehicles must be used for official business purposes only, except when authorized and reimbursed. All vehicle usage is required to be reported on Department of State Form OF-108, "Daily Vehicle Usage Record."

In response to our recommendation, the Director General stated that US&FCS Rome's car has already been transferred, with OIO approval, to US&FCS Vienna.

***K. US&FCS Milan needs to better oversee US&FCS Genoa's imprest fund***

US&FCS Italy is effectively managing the imprest funds maintained in the Milan and Genoa offices, although minor improvements can be made. At both locations, we reviewed internal control and management procedures, and conducted a cash count. We found both imprest funds were properly balanced, all expenditures were supported with original bills and for appropriate expenses, and replenishment vouchers were submitted as required. Imprest funds were also physically safeguarded in both locations.

However, we noted that a count had not taken place by an officer in US&FCS Genoa since January 1994. US&FCS procedures require that an American officer perform periodic, unannounced verifications at least once each month. Commercial officers from US&FCS Milan—which supervises the Genoa operations—travel occasionally to Genoa in conjunction with post operations and events, although not necessarily monthly. However, even though officers occasionally travel to Genoa, periodic imprest fund checks have not occurred. While we noted no problems with the fund in Genoa or the supporting documentation and procedures, the lack of outside, required verification by an American Officer is an internal control weakness and does not contribute to ensuring the proper usage of the imprest fund and avoidance of fraud or loss.

We also noted that documentation is forwarded every quarter to US&FCS Milan's administrative specialist, which shows balances, authorized expenses, and allows for replenishment. Nevertheless, an unannounced, periodic review of US&FCS Genoa's imprest fund is not only a requirement, but also an invaluable part of an effective internal control environment concerning cash. The post should arrange for such periodic reviews to be conducted in coordination with commercial officer visits to the Genoa office.



In response to our recommendations, the Director General stated that post management will implement this recommendation for the interim period that the US&FCS presence in Genoa is maintained.

## RECOMMENDATIONS

We recommend that the SCO in US&FCS Italy take appropriate steps to:

1. Revise the post's strategic plan, balancing US&FCS headquarters' need for brevity with the post's need for a useful plan that accurately describes its priorities and plans for attaining its performance goals. (See page 5.)
2. Coordinate with US&FCS headquarters to develop a comprehensive resource allocation plan to address the post's resource requirements. (See page 6.)
3. Develop a plan to better manage the post's e-mail workload. (See page 7.)
4. Ensure that post staff consistently report and update all performance activities in US&FCS automated systems on a timely basis. (See page 9.)
5. Ensure that post staff understand the export success criteria established by headquarters; monitor their reporting to ensure that the staff are entering all and only legitimate export successes into CMS on a regular basis; and improve the screening of export successes by strictly applying headquarters' criteria before any data is entered into CMS. (See page 11.)
6. Coordinate with US&FCS headquarters to ensure that the post's performance numbers are accurately reflected in CMS, E-menu, and MRD. Post management needs to work with OIO and OIS to make changes to the databases, as needed. Additionally, ensure that all staff members are given appropriate training on CMS and E-menu. (See page 11.)
7. Determine whether the post should offer the Platinum Key Service (PKS) and Flexible Market Research (FMR) products. (See page 13.)
8. Monitor production of the International Market Insight product in Milan, as well as in the other US&FCS offices, to ensure that the level of production is appropriate, and that sustainable quality is maintained. (See page 14.)
9. Reemphasize the importance of client follow-up by ensuring that post staff performs it routinely. (See page 16.)
10. Ensure that the Country Commercial Guide for Italy is accurate and timely, and that its information is consistent with that posted on the US&FCS web page. (See page 19.)
11. With the assistance of OIO, address outstanding software, hardware, and support issues with OIS and determine viable, cost-effective solutions. (See page 20.)
12. Work with OIO to quickly address the two security improvements needed at the US&FCS Genoa office. (See page 21.)

13. If the post wishes to continue accumulating deposits until they reach \$100, request that ITA headquarters seek a waiver from the Treasury Department to enable US&FCS Rome to accumulate collections until they reach \$100 so that the cost of processing the collection is not exorbitant in light of the amount to be deposited. (See page 23.)
14. Segregate the collection, documentation of collection, deposit and reconciliation of deposit responsibilities, as well as reconcile deposits to the log and the E-menu system. Additionally, ensure that supervisory review of deposits is conducted on a regular basis. (See page 24.)
15. Ensure that all invoices are date-stamped upon receipt, as required by ITA policies and procedures. (See page 25.)
16. Ensure that future uses of funds provided for representation purposes are adequately documented and justified, according to the requirements of DAO 203-10. (See page 26.)
17. In cooperation with US&FCS headquarters, (1) ensure that, in the future, only authorized employees use the purchase card and (2) consider obtaining additional cards with a \$2,500 limit for the US&FCS Rome secretary and the US&FCS Milan financial assistant, as well as a new \$25,000 card for the DSCO. (See page 27.)
18. Ensure that future requests to use trade event funds for the purchase of capital equipment items for trade events are submitted for approval by either (a) the Regional Director in US&FCS (under \$5,000 purchases), or (b) by both the Regional Director and the Trade Events Board (over \$5,000), as appropriate. (See page 28.)
19. Whenever possible, anticipate, notify headquarters at the earliest possible date, and budget for expected expenditures related to FSN severance pay. (See page 29.)
20. Develop and implement, in consultation with US&FCS Milan and headquarters, an effective cost allocation system to rationally identify and assign costs, both direct and indirect, associated with fee-for-service events, in accordance with the guidelines established by OMB Circular A-25 and DAO 203.5. (See page 30.)
21. Ensure that US&FCS headquarters' telephone policy is properly implemented by all of the post's offices. (See page 31.)
22. Determine whether US&FCS Rome's official vehicle is needed, and if not, sell or transfer it in accordance with appropriate procedures. (See page 33.)
23. Ensure that imprest fund procedures are followed for the fund maintained by the US&FCS Genoa office. In particular, US&FCS Milan should ensure that imprest fund cash counts and examinations occur in coordination with commercial officer visits to the Genoa office. (See page 34.)

We recommend that Director, US&FCS Office of International Operations, take appropriate steps to:

1. Reconsider the guidance for preparation of post strategic plans, balancing headquarters' need for brevity with posts' needs for a useful plan that accurately portrays their operations. (See page 5.)
2. Improve the quality and the accuracy of posts' reporting by regularly conducting spot checks of reporting of export successes by all posts to ensure that CMS entries are appropriate. (See page 9.)
3. Promptly provide guidance and information about the Platinum Key Service and Flexible Market Research service to all non-pilot posts. (See page 13.)
4. Review and analyze worldwide statistics for the International Partner Search product for FY 2001 and determine whether the 15-day time frame is reasonable and achievable not only for US&FCS Italy, but worldwide and, if not, make appropriate adjustments or issue new guidance. Guidance should be issued to US&FCS posts on changes to the IPS time-frame, or if the 15-day deadline is kept, the guidance should advise posts of what they should do if they cannot meet the schedule for a specific IPS request. (See page 18.)
5. Assist US&FCS Italy in addressing outstanding software, hardware, and support issues with OIS and determine viable, cost-effective solutions. (See page 20.)
6. Work with US&FCS Italy to quickly address the two security improvements needed at the US&FCS Genoa office. (See page 21.)
7. Consider ways, perhaps through the CMS system, of defining and capturing successes for Showcase Europe. (See page 22.)
8. Ensure that the US&FCS Italy SCO completes the Simplified Acquisitions training program and achieves a passing score. Until then, the US&FCS Regional Director for Europe should be the approving official on the post's credit card purchases. If additional cards are obtained, ensure that the approving officials for these cards also receive the training. (See page 27.)
9. Ensure that expenditures of trade event generated funds by US&FCS Italy comply with US&FCS procedures requiring headquarters approval. (See page 28.)
10. Assist US&FCS Milan in developing an effective cost allocation system to rationally identify and assign costs, both direct and indirect, associated with fee-for-service events, in accordance with the guidelines established by OMB Circular A-25. (See page 30.)
11. Improve compliance with the US&FCS telecommunications usage policy by adjusting it to address the following issues:
  - Whether employees should log all long-distance calls, or only international calls.
  - Whether calls to other US&FCS Italy or in-country offices need to be logged.

- How frequently US&FCS headquarters regional directors should conduct spot checks of post compliance with the policy. (See page 31.)

## Appendix I

### Acronyms for US&FCS Product/Service

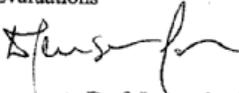
ADS	Agent/Distributor Service was the predecessor to the International Partner Search (IPS) services. ADS delivered detailed company information on up to five prescreened potential agents or distributors that have expressed an interest in marketing a company's products and services.
CMA	A Customized Market Analysis provides U.S. firms with an assessment of how their product or service will sell in a given market.
FMR	The Flexible Market Research service provides customized answers to inquiries about a particular market and its receptivity to targeted products and services.
GKS	The Gold Key Service provides clients with one-on-one appointments with potential business partners identified and selected by US&FCS in a targeted export market.
IMI	International Market Insights are brief reports on specific foreign market conditions and upcoming opportunities for U.S. businesses.
IPS	The International Partner Search service succeeded the previous ADS service. Like the ADS, the IPS provides the requestor with potential partners to market their product or service in a given area, although with a faster response time of a maximum of 15 working days.
ISA	The Industry Sector Analysis product provides information on specific industries such as market potential, demand trends, market size, competition, market access information, regulations, distribution practices, and key contacts.
PKS	The Platinum Key Service provides a firm with ongoing, customized support for a specified time frame, scope and fee. The service is tailored to a client's needs, providing counseling and information such as identifying markets, launching products, developing project opportunities, finding partners, helping to reduce market access barriers, and assisting on regulatory or technical standards matters.
TOPS	The Trade Opportunity Program provides U.S. suppliers with trade leads gathered from reputable firms and government agencies.



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

FEB 21 2002

MEMORANDUM FOR: Jill Gross  
Assistant Inspector General for Inspections and  
Program Evaluations

FROM: Maria Cino 

SUBJECT: US&FCS Response to Draft Inspection Report  
US&FCS Italy – Draft Inspection Report: IPE-14243

I am pleased to provide you with our response to the draft inspection report of US&FCS' operations in Italy. Attached are our responses to the 34 recommendations contained in the December 2001 report. You will note that in all instances our post and headquarters operations either have taken action on the recommendations, or have indicated how they will address them. Our answers to each of the IG recommendations reflect a unified US&FCS response that provides you with a comprehensive Commercial Service approach to all the issues raised in the IG report.

We look forward to the issuance of the final report. Please let us know if we can be of further assistance.

cc: Tim Hauser



## US&FCS RESPONSES TO OIG RECOMMENDATIONS

- 1. Revise the post's strategic plan, balancing US&FCS headquarters' need for brevity with the post's need for a useful plan that accurately describes its priorities and plans for attaining its performance goals.**

In FY 2000, OIO reinstated Post Strategic Plans (SP) in response to prior IG recommendations that each post should articulate its purpose for being in a given market. Posts submitted SPs that basically replicated large parts of other planning documents, CCGs, MPPs and annual workplans. Prior IG recommendations asked for a business environment analysis specific to each country. We believe the CCGs accomplish this task. Most read as exhaustive lists of post activities, which posts already provide in post quarterly reports. These Strategic Plans were largely another "HQ paper exercise."

In FY 2001, OIO issued new guidance to refocus the SPs to raise our accountability, effectiveness and efficiency. The purpose of the refocused SPs is to have post outline its strategy for improving its bottom line. The most effective strategies will be based on posts' analyses of client needs; market conditions and opportunities; optimal use of resources to maximize results for clients; use of performance targets and benchmarks to track progress; and preparation for different budget scenarios. This cost identification exercise encourages posts to cut overhead, reconfigure staffing, cross-train people, apply funding standards to new outlays, reduce use-or-lose spending, and report performance measures more systematically.

OIO set a one-page limit recognizing that our mission is the same at all posts; to increase U.S. exports, particularly by small and medium U.S. companies by providing customized business solutions to our clients, and to protect U.S. business interests abroad. The business strategy and mix of CS programs will vary by country, because these should be based on local conditions and opportunities. The SP is the vehicle to obtain this valuable information in a concise written plan. The clearer the strategy, the shorter the description. However, nothing precludes a post from amplifying its performance goals stated in the SP through other local planning documents, such as business or marketing plans.

CS Italy has revised its FY 2002 Strategic Plan (SP), dated November 2001, to reflect and accurately capture its performance goals, mirroring the extensive and productive trade promotion program that it is undertaking. HQ issued a simplified Performance Targets Worksheet to help posts develop an optimal mix of activities (outputs) and set realistic performance targets for export successes (outcomes). The Worksheet is the quantifiable part of the Post Strategic Plan. It links post planning with post resources and is the mechanism OIO uses to encourage all managers to take planning seriously. Post Strategic Plans and Fiscal Plans are two sides of the same coin.

The one-page SPs submitted by posts worldwide has been a productive exercise that enables posts to “zero-in” and focus on key performance targets and methods to achieve their export success goals. In that context, the SCO reviewed and discussed its initial 2001-2002 SP with its entire staff in March 2001, prior to OIG’s visit, and subsequently at the CS Italy-wide meeting in Naples last September. Copies were distributed to all staff members. Likewise, in that the SP is a living document, post’s latest iteration of its SP will be discussed and disseminated to all CS Italy staff. In addition, the basic goals and objectives of the plan are reviewed by the SCO at each staff meeting, as well as in the SCO’s conversations and correspondence with staff.

**2. Coordinate with US&FCS headquarters to develop a comprehensive resource allocation plan to address the post’s resource requirements.**

US&FCS operates under a rigorous resource allocation framework to review and adjust resource levels. OIO’s resource allocation strategy operates at three levels: worldwide, regional and country.

US&FCS maintains an overseas presence in the most promising markets where it can provide the greatest value-added in facilitating exports through trade promotion and trade compliance work, which aims to level the playing field for US companies. There are several countries in which US&FCS maintains a presence to fulfill broad foreign policy objectives as defined by Congress and the Administration. In all other countries, where our presence is not mandated by Congress or the Administration, US&FCS uses a combination of models to allocate overseas budgets at a regional level based on market potential, mission factors, and “bang for buck.” All three perspectives provide a starting point.

The next step requires the regional headquarters’ staff to decide country allocations based on posts’ strategic plans and their knowledge and experience concerning country-specific factors not captured in our models. Such considerations include management priorities, local staffing plans, trade infrastructure, geographic dispersion, policy priorities, diminishing returns, etc. These considerations are a part of the strategic planning process, which is an important part of the resource allocation process. Within this framework, post will continue to work with the region to address post resource requirements.

Per the above response, post has submitted its revised Strategic Plan to headquarters, which in concert with the cost/benefit model allocation system, best determines the matching of resources to the planned mix of activities. Post will continue to work with OIO during the course of the fiscal year to ensure that it is maximizing efficient use of its resources. Post will also review authorized spending more regularly to ensure that it is consistent with priorities outlined in its Strategic Plan. The SCO, DSCO, PCO, and budget specialists from Rome and Milan met at the end of FY 2001 to assess current and future objectives in relation to available resources. Together with other US&FCS Italy offices, they will seek to apportion operational funds as productively and equitably as possible. OIO/EUR continues to work with all posts in

refining and reviewing their budget needs during the course of the year and makes adjustments during the 3<sup>rd</sup> quarter based on posts' success in meeting its SP goals to date.

**3. Develop a plan to better manage the post's e-mail workload.**

In the second quarter, post will identify and adopt specific ways to manage better the e-mail burden and reduce unnecessary internal reporting.

**4. Ensure that post staff consistently report and update all performance activities in US&FCS automated systems on a timely basis.**

At the September 20, 2001, US&FCS Italy annual planning conference, in response to OIG team recommendations, post management emphasized to all staff the importance of registering commercial accomplishments in the prescribed automated systems. CS Rome's commercial clerk has developed a matrix to improve tracking of commercial achievements and now regularly provides the SCO with reports entered into US&FCS automated systems.

**5. Ensure that post staff understand the export success criteria established by headquarters; monitor their reporting to ensure that the staff are entering all and only legitimate export successes into CMS on a regular basis; and improve the screening of export successes by strictly applying headquarters' criteria before any data is entered into CMS.**

In the second quarter, post management will recirculate the latest export success criteria and discuss with staff the need for strict application of headquarters criteria. Export success actions entered will be periodically checked for quality assurance. OIO/HQ also has a system in place to monitor the quality of all EUR posts' success stories on a quarterly basis.

As part of OIO's Performance-Based Management System, OIO instituted a three-level quality control process to screen every export success report. Quality control starts at post with the SCO who reviews each success before their submission. Next, country managers and directors in OIO regional offices at headquarters must review each report. (In the case of OIO/Europe, country managers check export success reports throughout the year.) Finally, at the DAS level, a contractor, who has been reviewing OIO's export successes for the past seven years, reads each one to ensure that it meets the performance measures criteria.

**6. Coordinate with US&FCS headquarters to ensure that the post's performance numbers are accurately reflected in CMS, E-menu, and MRD. Post management needs to work with OIO and OIS to make changes to the databases, as needed. Additionally, ensure that all staff members are given appropriate training on CMS and E-menu.**

Post will work closely with headquarters to improve field performance data. It will also undertake to provide more feedback on possible solutions to common problems. Post staff training in the use of CMS and E-menu will also continue. Post recognizes that this process requires close and constant attention by post management, as well as prudent supervisory oversight provided by HQ. Post continues to take a very active position in making sure information relative to CMS, E-menu and MRD applications are current and accurate, by routinely entering data on a timely basis and in the correct format.

Since the IG's visit, CS Italy staff has taken extensive advantage of several HQ sponsored training offerings aimed at upgrading staff knowledge and understanding of database management. Training including E-menu and Fiscal Management last fall the fall in Paris and Vienna, as well as a round of administrative training in Washington by a CS Rome staffer. During the last week of January 2002, CS Milan's junior officer also participated in a new round of e-menu training in Vienna.

**7. Determine whether the post should offer the Platinum Key Service (PKS) and Flexible Market Research (FMR) products.**

Since the OIG team field inspection, post has discussed with several clients the feasibility of FMR. Post will pursue additional opportunities in this vein and explore PKS possibilities for its long-term clients.

**8. Monitor production of the International Market Insight (IMI) product in Milan, as well as the other US&FCS offices, to ensure that the level of production is appropriate, and that sustainable quality is maintained.**

At the September 2001 US&FCS Italy annual planning conference, it was determined that each trade specialist would prepare two IMIs per month. A uniform policy now governs US&FCS IMI production. Results to date have been significant, with 71 produced in the first quarter of FY 2002 (compared to 21 in the fourth quarter of FY 2001).

**9. Reemphasize the importance of client follow-up by ensuring that post staff performs it routinely.**

In the second quarter, an all-hands policy will be issued to CS Italy staff, underscoring the benefits of client follow-up. (One specialist generated most of her export successes – estimated at several million dollars – by conducting such follow-up.) For all posts, OIO's cost benefit model, encourages client follow-up. Client follow-up is necessary for posts to "harvest" and then report export successes. Export successes are a significant factor in OIO's allocation of worldwide budgets to the four regions. The models are already correcting under-reporting of export successes.

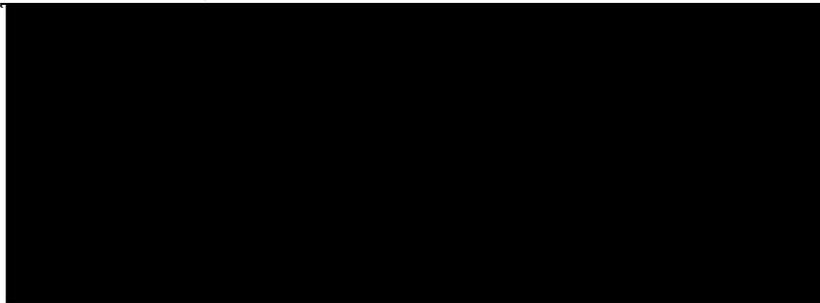
10. Ensure that the Country Commercial Guide (CCG) for Italy is accurate and timely, and that its information is consistent with that posted on the US&FCS web page.

Post has improved its working relationship with Mission elements in the preparation of the CCG. Together with the Economic Section, it is working to obtain the most accurate data available from American and Italian sources. Post has reconciled best prospects in the CCG with those on its web page.

11. With the assistance of OIO, address outstanding software, hardware, and support issues with OIS and determine viable, cost-effective solutions.

Post management will work with headquarters to strengthen its automated data reporting capabilities. This will remain a top priority, given the importance of performance indicator tools. Post and OIO will seek to resolve any outstanding software, hardware, and support issues with the Office of the Chief Information Officer (OCIO) by end of the second quarter. (Note: OIS now is designated OCIO).

12.



13. If the post wishes to continue accumulating deposits until they reach \$100, request that ITA headquarters seek a waiver from the Treasury Department to enable US&FCS Rome to accumulate collections until they reach \$100 so that the cost of processing the collection is not exorbitant in light of the amount to be deposited.

During the second quarter, post will request Headquarters to seek a waiver by Treasury to permit accumulation of collections (until they reach \$100) to avoid high costs of processing through Financial Management Center (FMC).

14. Segregate the collection, documentation of collection, deposit and reconciliation of deposit responsibilities, as well as reconcile deposits to the log and the E-menu system. Additionally, ensure that supervisory review of deposits is conducted on a regular basis.

During the second quarter, in consultation with OIO, post will segregate the aforementioned financial responsibilities; reconcile deposits to the log and E-menu database; and ensure regular supervisory review of deposits.

**15. Ensure that all invoices are date-stamped upon receipt, as required by ITA policies and procedures.**

Effective January 1, 2002, post implemented this recommendation in all its commercial offices. All invoices are date-stamped upon receipt, as required by ITA policies.

**16. Ensure that future uses of funds provided for representation purposes are adequately documented and justified, according to the requirements of DAO 203-10.**

Post will ensure that lists of participants at representational events are recorded and that accompanying memos contain a written justification.

**17. In cooperation with US&FCS headquarters, (1) ensure that, in the future, only authorized employees use the purchase card and (2) consider obtaining additional cards with a \$2,500 limit for the US&FCS Rome secretary and the US&FCS Milan financial assistant, as well as a new \$25,000 card for the DSCO.**

Post will make sure to adhere to the purchase card guidelines as outlined in the Commerce Acquisition Manual, thereby, ensuring that only authorized employees use purchase cards in the future. Post will also consider obtaining \$2,500 purchase cards for the US&FCS Rome secretary and the US&FCS Milan financial assistant. Post also understands that before these individuals can apply for a card, the SCO must first solicit OIO/HQ's approval and must also request that the applicants take the on-line Simplified Acquisitions Course offered by OIO/HQ/DAS. Post confirms that the DSCO already has a \$25,000 purchase card, and does not need a new one.

**18. Ensure that future requests to use trade event funds for the purchase of capital equipment items for trade events are submitted for approval by either (a) the Regional Director in US&FCS (under \$5,000 purchases), or (b) by both the Regional Director and the Trade Events Board (over \$5,000), as appropriate.**

Management at post will immediately reinforce the capital equipment purchases requirement as stipulated.

**19. Whenever possible, anticipate, notify headquarters at the earliest possible date, and budget for expected expenditures related to FSN severance pay.**

In order to meet this recommendation, post managers will advise FSN staff as well as the Embassy Office of Human Resources of the need for advance notice of severance pay advances, given their budget impact.

- 20. Develop and implement, in consultation with US&FCS Milan and headquarters, an effective cost allocation system to rationally identify and assign costs, both direct and indirect, associated with fee-for-service events, in accordance with the guidelines established by OMB Circular A-25 and DAO 203.5.**

Since the review, post has learned that the Under Secretary of ITA has recently asked OMB for a waiver on recovering indirect costs for fee-for-service events. This is consistent with ITA's long-standing practice of recovering only direct costs. At the same time, ITA plans to conduct a study on how to expand cost recovery. OIO awaits the outcome of both events before instituting a formal cost accounting system, which to be effective, will have to function seamlessly with financial accounting systems at the US&FCS and ITA levels.

Nevertheless, OIO has been taking steps toward developing a formal cost allocation system. Cost allocation is an important part of a broader management accounting system, OIO's Performance-Based Management System, introduced in February 2001. The Post Performance Targets Worksheet, which accompanies Post Strategic Plans, is a first step toward a formal cost allocation system and is an important part of a broader management accounting system. The Worksheet asks posts to work with all of its costs and benefits (outcomes) to help managers make decisions about product and client mix that will drive their business strategy for improving the bottom line, client successes. It requires posts to work with all of its costs, including previously "hidden" cost categories -- ICASS and American officer salaries -- paid centrally by HQ.

- 21. Ensure that US&FCS headquarters' telephone policy is properly implemented by all of the post's offices.**

At the September 2001 US&FCS Italy planning conference, post management reiterated the requirement to maintain long distance phone logs. Periodic checks to ensure compliance are being conducted.

- 22. Determine whether US&FCS Rome's official vehicle is needed, and if not, sell or transfer it in accordance with appropriate procedures.**

US&FCS Rome's official car has already been transferred, with OIO approval, to US&FCS Vienna.

- 23. Ensure that imprest fund procedures are followed for the fund maintained by the US&FCS Genoa office. In particular, US&FCS Milan should ensure that imprest fund cash counts and examinations occur in coordination with commercial officer visits to the Genoa office.**

Post management will implement this recommendation for the interim period that our presence in Genoa is maintained.

24. Reconsider the guidance for preparation of post strategic plans, balancing headquarters; need for brevity with posts' needs for a useful plan that accurately portrays their operations.

(See Response to Recommendation 1)

25. Improve the quality and the accuracy of posts; reporting by regularly conducting spot checks of reporting of export successes by all posts to ensure that CMS entries are appropriate.

(See Response to Recommendation No. 5)

26. Promptly provide guidance and information about the Platinum Key Service and Flexible Market Research service to all non-pilot posts.

Both the Platinum Key Service (PKS) and the Flexible Market Research (FMR) products are scheduled for worldwide rollout during this fiscal year. With each respective rollout, detailed guidance and instruction will be provided. Posts interested in promoting the PKS and FMR prior to worldwide rollout may do so and can seek guidance from the respective OIO product coordinator and CS operations manual.

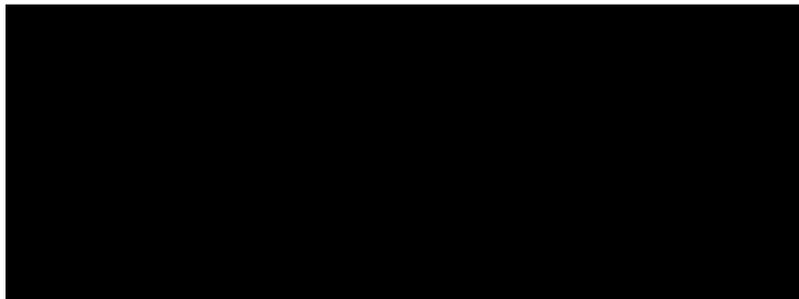
27. Review and analyze worldwide statistics for the International Partner Search product for FY 2001 and determine whether the 15-day time frame is reasonable and achievable not only for US&FCS Italy, but worldwide and, if not, make appropriate adjustments or issue new guidance.

Export Promotion Services (EPS), within the U.S. Commercial Service, tracks how long it takes to complete an International Partner Search (IPS). According to their statistics, a 15-day time frame is reasonable and achievable for the vast majority of posts. It was noted that in the event that this is not a reasonable amount of time to complete an IPS, posts need to convey this detail with the relevant U.S. Export Assistance Center making the request and with EPS. In most instances, CS posts worldwide and firms have worked out any delays in delivery beyond the 15-days to mutual satisfaction.

28. Assist US&FCS Italy in addressing outstanding software, hardware, and support issues with OIS and determine viable, cost-effective solutions.

OIO/Europe will send a memorandum to the Office of the Chief Information Officer (OCIO), outlining the outstanding IT issues in Italy and requesting that OCIO work with post to resolve these issues. OIO/Europe will follow-up to ensure that OCIO establishes contact with post and that post is satisfied with suggested remedies.

29.



(See Response to Recommendation No. 12)

- 30. Consider ways, perhaps through the CMS system, of defining and capturing successes for Showcase Europe.**

OIO/EUR will work with OCIO to determine whether a code can be added to CMS' Success Story database to allow HQ to sort and view any export successes stemming from Showcase Europe. The CMS database does currently allow for tracking of export successes stemming from Showtime Counseling Sessions.

- 31. Ensure that the US&FCS Italy SCO completes the Simplified Acquisitions training program and achieves a passing score. Until then, the US&FCS Regional Director for Europe should be the approving official on the post's credit card purchases. If additional cards are obtained, ensure that the approving officials for these cards also receive the training.**

OIO/EUR will ensure that the SCO completes the Simplified Acquisitions training program upon his next trip to the Washington, DC area. Meanwhile, OIO/EUR has already begun receiving the credit card invoices from US&FCS Italy. OIO/EUR will continue to review and approve these invoices until the SCO is certified as an approving official. OIO/EUR will continue to ensure any additional cardholders and the necessary approving officials complete the Simplified Acquisitions training.

- 32. Ensure that expenditures of trade event-generated funds by US&FCS Italy comply with US&FCS procedures requiring headquarters approval.**

OIO/HQ will reiterate to post the ITA policy governing acquisition of capital equipment with trade event-generated funds and all necessary procedures for so doing.

- 33. Assist US&FCS Milan in developing an effective cost allocation system to rationally identify and assign costs, both direct and indirect, associated with fee-for-service events, in accordance with the guidelines established by OMB Circular A-25.**

(See Response to Recommendation No. 20)

- 34. Improve compliance with the US&FCS telecommunications usage policy by adjusting it to address the following issues: 1) Whether employees should log all long-distance calls, or only international calls; 2) Whether calls to other US&FCS Italy or in-country offices need to be logged; 3) How frequently US&FCS headquarters regional directors should conduct spot checks of post compliance with the policy.**

OIO's Telecommunications Policy states that overseas callers must "track long distance calls and faxes." This includes any type of long distance calls (within country or international). Under OIO's policy, calls within Italy (including those to other USFCS offices) must be logged. The OIO/DAS' message in March 2000 announcing the Telecommunications Policy includes guidance that each region will spot check two posts per fiscal year. OIO/EUR exceeds this requirement and reviews telecommunication bills throughout the year during management reviews of the posts. The policy will be retransmitted to CS Italy and OIO/EUR will relay the IG's recommendations on the telecommunication policy to the Office of the DAS.