U.S. DEPARTMENT OF COMMERCE
Office of Inspector General

International Trade Administration

Commercial Service India: Challenges Remain for Management of a Large and Economically Diverse Post

Final Inspection Report No. IPE-16808/September 2004

PUBLIC RELEASE

Office of Inspections and Program Evaluations

MEMORANDUM FOR: Grant Aldonas   SEP 30 2004
                   Under Secretary for International Trade

                   Rhonda Keenum
                   Assistant Secretary for Trade Promotion and Director General of
                   the United States & Foreign Commercial Service

FROM: Johnnie E. Frazier

SUBJECT: Final Report
                   International Trade Administration: Commercial Service India:
                   Challenges Remain for a Large and Economically Diverse Post
                   (IPE-16808)

As follow-up to our August 27, 2004, draft report, attached is the final report on our inspection of Commercial Service (CS) operations in India. A copy of your response to our draft report is included in its entirety as Appendix B of the report.

Our inspection focused on management oversight, as well as the post's programmatic and financial operations. We are pleased to report that CS India generally performs well in providing export assistance to U.S. companies and collaborates well with its trade partners, the embassy, other ITA components, and other U.S. government agencies. However, we identified several issues that warrant Commercial Service's attention. In particular, we noted that regional support and resource allocation at CS India need improvement. Additionally, while client satisfaction with post products and services was generally good, export success reporting requires additional management scrutiny. We also found that the inappropriate handling of trade events by CS India indicates the need for Commercial Officer training on ITA's trade event policies and procedures. Finally, financial and administrative operations were generally sound, but we cited the need for clear written guidance on overseas collection and deposit requirements and timely completion of performance appraisals. We also discuss security matters related to CS India in Appendix C.

We are pleased to note that CS and ITA have already taken actions to address some of the recommendations. For example, your response to our draft report indicates aggressive steps to strengthen the accuracy of performance reporting. Please provide us with an action plan within 60 calendar days that further outlines the actions you have taken or plan to take to address the recommendations. If you have any questions or comments, please call me at (202) 482-4661, or Jill Gross, Assistant Inspector General for Inspections and Program Evaluations, at (202) 482-2754.

We thank the personnel in ITA headquarters and CS India for their assistance and the courtesies they extended to us during our review.

Attachment

Cc: Linda Cheatham

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EXECUTIVE SUMMARY

The Department of Commerce's International Trade Administration (ITA) plays a major role in leading the federal government's efforts to increase U.S. exports. ITA's U.S. Commercial Service,[1] as one of the most visible export promotion agencies, works closely with the American business community as well as federal, state, and local trade partners to promote companies' awareness of export opportunities and increase U.S. sales abroad. To this end, Commercial Service operates offices in 78 countries and 106 domestic trade assistance offices in the United States.

The Office of Inspector General conducted an inspection of Commercial Service's India post, which operates seven offices in Ahmedabad, Bangalore, Calcutta, Chennai, Hyderabad, Mumbai, and New Delhi, from May 24 through July 21, 2004. We focused primarily on the post's management, program operations, and financial and administrative practices.

Overall, we found that the post is generally doing a good job of providing export assistance to U.S. companies and collaborates well with its trade partners, other components of the U.S. mission and ITA, and other government agencies. However, we also identified a number of issues that warrant Commercial Service's attention. Our specific observations are as follows:

Trade Partner Relationships Are Strong, but Some Weaknesses in Administrative Operations Exist. The Senior Commercial Officer (SCO) provides leadership and direction to the post and focuses its efforts on CS' core mission of assisting U.S. exporters. Embassy colleagues, trade-related organizations, and other ITA components and government agencies, such as Export-Import Bank, U.S. Trade Development Agency, U.S.-Asia Environmental Partnership, described CS India as a valuable trade partner that is responsive, collaborative, and knowledgeable. However, management should evaluate staff and resource utilization in an effort to minimize administrative support costs. In addition, some weaknesses in administrative operations exist (see page 7).

Clients Whom We Interviewed Were Generally Satisfied with Post's Assistance, but Export Success Reports Need Additional Management Scrutiny. CS India provided services to 98 companies during FYs 2003 and 2004 (through April 2004). We spoke to 14 of these clients, 12 of whom were satisfied with CS India's products and services. In addition, CS India's market research products adhered to Commercial Service guidelines. However, the post's business information centers are underutilized and ill equipped, and in some instances occupy an inordinate amount of office space (as much as 50 percent in two cases). In addition, the current SCO has put a priority on increasing export successes—CS' primary performance measure. As of June 2004, the post had reported a 241 percent increase in successes over FY 2003 (from 148 last fiscal year to 505 so far in FY 2004). However, we found that many export successes reported by the South India region (Bangalore, Chennai, and Hyderabad) did not meet CS guidelines. In many cases

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[1] U.S. Commercial Service is also known as the U.S. & Foreign Commercial Service (US&FCS).

we could not verify the link between CS assistance and the reported export success, and identified several that did not meet the criteria of an export success. As a result, the SCO reviewed and removed, withdrew or combined 50 FY 2004 export successes from the CS database, and some additional deletions may still be needed. We recognize that CS headquarters, in response to prior OIG reports, has taken a number of steps to communicate to its staff the importance of performance measures and accurate export success reporting, and it is working to (1) train CS managers and staff on correct reporting procedures and (2) put quality control measures in place. However, CS needs to ensure that this message is made part of written CS guidelines and procedures. We are concerned that CS' new reporting guidelines, which went into effect for FY 2004, have reduced management accountability for ensuring the accuracy and integrity of export success reports (see page 19).

CS India's Handling of Trade Events Indicates Need for Commercial Officer Training. For three trade fairs held during FY 2003-2004, we found problems with CS India's participation in two areas—the method by which the post collected fees and whether the post provided support for noncertified trade fairs that is only supposed to be provided for certified trade fairs. Specifically, for two of these trade fairs, CS India accepted or considered accepting promotional fees from non-U.S. government fair organizers that were based on space rental fees paid by U.S. fair participants, rather than on the cost of the CS services provided. In the third case, CS India collected a portion of discounts that U.S. participants received from the organizer. ITA should consult with the Department's Office of General Counsel to determine whether it can collect promotional fees. In addition, ITA should clarify the level of services appropriate for noncertified trade fairs.

A fourth trade event program, initiated in FY 2001 but with continuing financial problems in FY 2004, also highlighted post's failure to properly manage trade events. This program involved trade events planned for 12 cities in western India for FY 2001-2002. After events had been held in six cities, an allegation of misuse of funds by CS Mumbai was forwarded to ITA by the OIG, and the remaining events were not held. As part of a headquarters decision made in 2002, CS and ITA intended to disburse approximately $25,000 in 2004 to the Indian trade association, which had handled contributions for the events. On our return from post, we informed CS and ITA officials of additional pertinent facts related to this series of events, and ITA agreed that it was no longer appropriate to disburse the funds. Hence, about $25,000 are now available for better use (see page 34).

Financial and Administrative Operations Are Generally Sound, but a Few Areas Require Management Attention. In general, CS India's financial and administrative operations were sound, and weaknesses noted during FYs 2003-2004, such as untimely payments to vendors, have largely been addressed. However, management needs to resolve two remaining issues: (1) conflicting written guidance regarding its overseas collection and deposit requirements; and (2) untimely completion of performance appraisals, and the resulting delays in pay increases for some foreign service nationals (see page 43).

On page 47, we list a summary of the recommendations we are making to address our concerns.

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In its response to our draft report, ITA and CS concurred with most of our recommendations. Specifically, ITA stated that CS management would carefully review current staffing patterns and job allocation in India within existing resource constraints and recommend appropriate changes. In addition, CS management and the SCO plan to evaluate CS India's existing office space allocations and rent obligations, including issues pertaining to the Business Information Centers. CS management reported that it has allocated funds for the purchase of voicemail equipment where appropriate, and online databases for CS India offices and the Business Information Centers, respectively. CS management plans to ensure that CS India officers and staff receive appropriate administrative and financial training. Finally, CS stated that the SCO understands the importance of submitting timely FSN personnel evaluations and has made good progress in overcoming the backlog that he attributed to the ordered evacuation and curtailment of the previous SCO. CS management did not specifically address five of our recommendations: (1) that the Department's Office of General Counsel clarify CS' authority to collect promotional fees from non-USG fair organizers, (2) that it oversee post's trade events, (3) that it ensure that COs worldwide are trained on ITA policies regarding certified and noncertified trade fairs, trade event financing arrangements, and current Department guidelines on interoffice and other special agreements, (4) that it coordinate its overseas collections and deposit requirements and ensure administrative personnel are aware of and follow appropriate procedures, and (5) the recommendation in Appendix C related to post security concerns.

ITA and CS also disagreed with our findings related to export success reporting. CS management disagreed with our finding that its FY 2004 reporting guidelines have reduced management accountability for ensuring the quality and integrity of export success reports. CS' response to our draft report also stated that the Senior Commercial Officer in India disagrees with our concerns about the need for the current level of post cars, drivers, and administrative staff.

In closing comments, CS noted that it appreciated the OIG's constructive recommendations, but would like to see the OIG regularly mention best practices it finds during post inspections. We recognize the value of highlighting best practices and note that we outlined a number of those of CS India, such as its outsourcing guidance, its efforts to improve post teamwork and responsiveness, its collaboration with trade partners, and its initiative with the Group of American Businesses in Western India.

We discuss ITA's response to our findings and recommendations in greater detail following each section of this report. ITA's entire response to our draft report begins on page 50.

BACKGROUND

The International Trade Administration (ITA) established the Commercial Service (CS)[2] in 1980 to assist U.S. companies—particularly small and medium-sized businesses—in exporting their products and services to international markets, and to help protect U.S. business interests abroad. CS operates offices in 78 countries to represent these interests on foreign soil, and 106 U.S. export assistance centers to provide assistance domestically.

Of its foreign posts, CS India is one of the largest: it maintains offices in seven cities (see map, figure 1) and had an FY 2004 budget of approximately $2.36 million.[3] The post assists U.S. companies in a wide range of industries, such as telecommunications equipment; computers and peripherals; electrical power generation, transmission, and distribution equipment; pollution control equipment; and educational services. Its trade specialists provide one-on-one counseling and customized business solutions to U.S. firms venturing into the Indian market or seeking to expand their international activities in India.

With more than 1 billion residents, India is the second most populous country and the largest democratic republic in the world. It is the seventh largest in terms of physical space, and while its land area is only about one-third the size of the U.S., India's population is more than three times as large.[4] Since 1991, India has implemented significant economic reforms to encourage international trade, including substantial reductions in tariffs and other trade barriers.[5]

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[2] The Commercial Service is also known as the U.S. and Foreign Commercial Service.
[3] This amount represents expenditures for staff salaries (commercial officers, foreign service nationals (FSNs), and personal services agreement contractors); administrative support paid through the State Department's International Cooperative Administrative Support Services (ICASS) program; office and residential leases; and direct program support.
[4] Source: www.mrdowling.com/800area.html, The Nations and Territories of the World.
[5] U.S. Department of State, Bureau of South Asian Affairs, Background Notes: India, March 2000.

Figure 1. Commercial Service Operations in India

Source: http://www.mapsofindia.com/maps/india/india-political-map.htm , accessed July 19, 2004

With a gross domestic product of $500 billion, India is the world's 12th largest economy.[6] GDP growth is expected to surpass 6 percent in 2004, making its economy one of the fastest growing as well. This growth is causing a rapid expansion of the country's middle class (currently some 200 million strong) and spawning a large consumer society, both of which should keep demand for U.S. consumer goods in India high.

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[6] U.S. Commercial Service, *India Country Commercial Guide FY 2004*: Chapter 2 - Economic Trends and Outlook.

U.S.-India Trade Is Growing

The United States is India's single largest trading partner. U.S. exports to that country in 2003 were $5 billion, up 22 percent from the previous year. Corresponding imports from India to the U.S. were $13.1 billion, up 10.4 percent. India is the 24th largest export market for U.S. goods,[7] and its requirements for equipment and services in the infrastructure, transportation, energy, environmental, health care, high-tech, and defense sectors are expected to exceed tens of billions of dollars in the coming years.[8]

Large in population, physical, and economic size, India is also very diverse. The Indian Government has recognized 18 official languages.[9] Hindi is the national language and primary tongue of 30 percent of the people. English is the most important language in national, political, and commercial communications. Ethnic groups consist of Indo-Aryan (72 percent), Dravidian (25 percent), and Mongoloid and other (3 percent). The two main religions are Hinduism (81.3 percent) and Muslim (12 percent), but there are also Christians (2.3 percent), Sikhs (1.9 percent), Buddhists, Jains, and others.[10] In 2000 India created 3 new states,[11] giving the multiethnic, multireligious, federal republic a total of 28 states, 6 union territories, and the national capitol territory of Delhi.[12]

At various times, social unrest and the threat of war have negatively affected the business environment in India. These include historical tensions between India and Pakistan, which almost brought war in 2002; continuing militant separatist movements in northeastern India; and Hindu-Muslim tensions in the state of Gujarat in 2003. However, as these dangers have been largely contained in specific regions, they did not lead to widespread disruption of the national economy.[13]

Research by the Commercial Service and U.S. Department of State has concluded that business in India's regions is booming. According to the American Chamber of Commerce in India, a majority of U.S. firms with a presence in the country are reporting double-digit year-on-year growth. Mumbai, Chennai, Ahmedabad, Bangalore, Calcutta, and Hyderabad, 6 of the 7 cities where CS has a presence, are expected to play increasingly important roles in trade relations between India and the United States. CS' *India Country Commercial Guide*, using the Confederation of Indian Industry as its source, reports that more than 50 percent of production and research is occurring in southern and western India.[14]

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[7] USTR, 2004 National Trade Estimate Report on Foreign Trade Barriers.

[8] U.S. Commercial Service, *India Country Commercial Guide FY 2004*: Chapter 1 – Executive Summary.

[9] U.S. Department of State, Bureau of South Asian Affairs, *Background Notes: India*, March 2000

[10] U.S. Commercial Service, www.buyusa.gov/india/en/44.html.

[11] Chhattisgarh, Jharkhand and Uttaranchal were carved from the larger states of Madhya Pradesh, Bihar, and Uttar Pradesh respectively. Source: Dev, Ganesh, "India creates first new states in 30 years." www.wsws.org/articles/2000/oct2000/ind-o20.shtml.

[12] www.cia.gov/cia/publications/factbook/geos/in.html, CIA, *The World Factbook—India;* www.indax.com/basic.html*, States of India.*.

[13] U.S. Commercial Service, *India Country Commercial Guide FY 2004*: Chapter 3 – Political Environment.

[14] U.S. Commercial Service, *India Country Commercial Guide FY 2004*: Chapter 1 – Executive Summary

Two events significantly impacted CS operations in India during FY 2002-2004. The first was an authorized evacuation of all commercial officers (COs) from May 31 through July 29, 2002, due to the threat of war between India and Pakistan. The second event was the curtailment of the previous senior commercial officer's (SCO's) assignment in February 2003, which left CS India without an SCO for 5 months. The current SCO arrived in New Delhi in July 2003.

CS India Offices and Staffing

In June 2004, CS India had 5 commercial officers in Chennai, Mumbai, and New Delhi; and 18 foreign service nationals (FSNs) and 21 contractors hired under personal services agreements (PSAs) spread among these three cities as well as in Ahmedabad, Bangalore, Calcutta, and Hyderabad. Figure 2 shows the distribution of staff among the seven post offices.

The post is organized under CS headquarters' Office of International Operations (OIO), and reports to the regional director for the Africa, Near East, and South Asia region (ANESA), who is located in Washington, D.C. CS India also works with partner posts in Nepal, Bangladesh, Sri Lanka, Bhutan, and the Maldives[15].

The SCO and deputy SCO are located in New Delhi, the capital of India (population—11 million). This office is responsible for Delhi, the union territory of Chandigarh, and the states of Rajasthan, Jammu & Kashmir, Uttar Pradesh, Haryana, Himachal Pradesh, Punjab, and Uttaranchal. The New Delhi office also supervises the Calcutta CS office.

Calcutta (12 million) is the capital of the state of West Bengal in eastern India. The Commercial Service office here is responsible for the states of West Bengal, Orissa, Assam, Bihar, Jharkhand, Arunachal Pradesh, Meghalaya, Manipur, Nagaland, Tripura, Mizoram, and Sikkim, and the union territory of the Andaman and Nicobar Islands.

Mumbai (15 million) is a commercial center on the west coast. Formerly known as Bombay, Mumbai is India's most populous city and the capital of the state of Maharashtra, which accounts for 23 percent of the country's gross value of industrial output.[16] CS Mumbai and its Principal Commercial Officer (PCO) are responsible for the states of Maharashtra, Goa, Madhya Pradesh, and Chattisgarh. The Mumbai office also supervises the Ahmedabad CS office.

The Ahmedabad office is responsible for the state of Gujarat, a leading Indian industrial belt of 50-million-plus people in western India and the ancestral home of more than half of all nonresident Indians in the U.S.[17] Chennai (6 million), formerly known as Madras, is the major industrial, business, and cultural center of south India, and the capital of the

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[15] Department of State posts with no Commercial Service presence.
[16] www.webindia123.com/maharashtra/economy/economy.htm, *Indian States and Union Territories*
[17] U.S. Commercial Service, *India Country Commercial Guide FY 2004*: Chapter 2 - Economic Trends and Outlook

state of Tamil Nadu--the third largest economy among Indian states.[18] The Chennai office is responsible for the states of Tamil Nadu, Kerala, and the union territory of Pondicherry, and also supervises the CS offices in Bangalore and Hyderabad.

Bangalore (5 million) is the capital of Karnataka in south India and home of several leading scientific and technical institutions and key IT and defense entities. Bangalore is considered the fastest growing city in Asia.[19] The Bangalore office is responsible for Karnataka—one of the leading states in industrial development and computer software.[20]

Hyderabad (5 million) is the fourth fastest growing city in the world and the capital of the state of Andhra Pradesh in south India.[21] CS Hyderabad is responsible for Andhra Pradesh, the third largest state.[22]

Figure 2. CS India Staffing (July 2004)
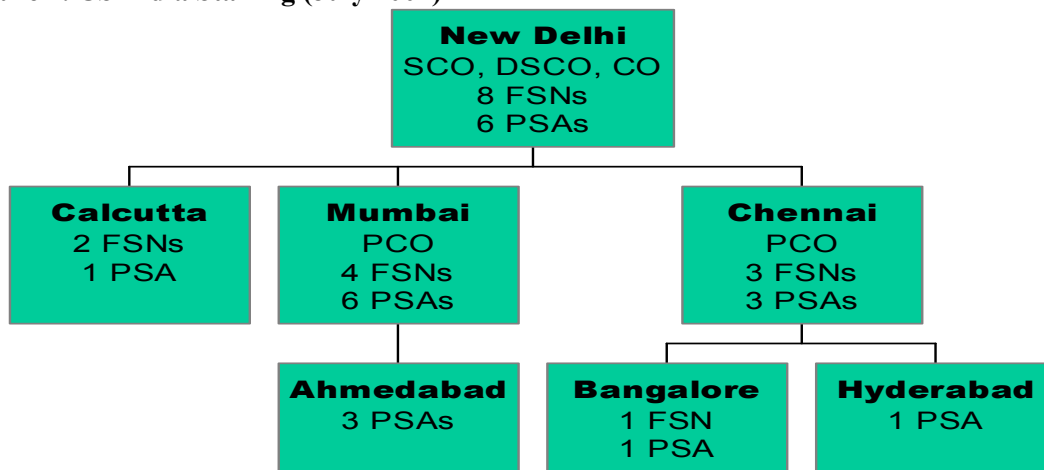
Measuring Post Performance

The Commercial Service uses an Overseas Resource Allocation Model (ORAM) and a cost-benefit model to evaluate each post's performance. The ORAM takes into account many factors such as mission requirements, workload, market share and barriers, and per capita gross domestic product, and then ranks CS posts according to their potential for facilitating U.S. export business in their assigned countries. The cost-benefit model divides projected export successes by the variable costs of operating the post and calculates a 3-year rolling average cost-benefit ratio. CS divides the posts into five groups, or quintiles, according to their ORAM ranking and cost-benefit ratio, with the first quintile containing the best performers. For both measures, CS India ranked in the second quintile for FY 2002 (the most recent data available).

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[18] www.tidco.com/tn_policies/focus_tamilnadu/economic_profile_of_tamilnadu1.asp, *Focus Tamil Nadu*
[19] U.S. Commercial Service, *India Country Commercial Guide FY 2004*: Chapter 2 - Economic Trends and Outlook
[20] www.webindia123.com/karnataka/economy/economy.htm, *Indian States and Union Territories*
[21] U.S. Commercial Service, *India Country Commercial Guide FY 2004*: Chapter 2 - Economic Trends and Outlook
[22] www.economywatch.com/stateprofiles/andhrapradesh/profile.htm, State Profile – Andhra Pradesh

OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose of our inspection was to assess the effectiveness of the management, programs, and financial and administrative operations of CS India. Specifically, we sought to determine whether the post:

- Plans, organizes, and controls its work and resources effectively and efficiently;
- Operates effectively, in that it meets the needs of U.S. exporters and helps increase U.S. exports and market access; and
- Has appropriate internal controls and financial management practices.

To accomplish our objectives, we did the following:

- Reviewed the post's FY 2003 and FY 2004 strategic plans, which offer quantifiable performance goals and measures for increasing U.S. exports as well as efforts to coordinate and collaborate with trade partners;
- Interviewed appropriate CS officials, as well as trade partners representing various federal, state, and local government agencies and organizations, and various geographic, ethnic, and industry-focused constituencies;
- Surveyed all post staff and a random sample of the post's clients;
- Evaluated coordination between the post and other trade-related organizations in relation to achieving the overall goals of ITA and the Department of Commerce; and,
- Examined pertinent files and records relating to CS India's financial, administrative, and other operations.

We conducted our fieldwork from May 24 through June 16, 2004, by visiting all seven CS India offices: Ahmedabad, Bangalore, Calcutta, Chennai, Hyderabad, Mumbai, and New Delhi. We also met with the U.S. Ambassador, Deputy Chief of Mission, and other embassy officials from various government agencies, and ITA, CS, and Bureau of Industry and Security (BIS) officials in Washington, D.C. During the review and at its conclusion, we discussed our findings with the CS India senior commercial officer and the Africa, Near East, South Asia (ANESA) Regional Director. We also discussed our findings with ITA's Chief Financial Officer and Director of Administration, the Deputy Assistant Secretary and Deputy Director General of the Commercial Service, and CS' Deputy Assistant Secretary for International Operations.

OBSERVATIONS AND CONCLUSIONS

I. Strong Trade Partner Relations Exist, But Some Weaknesses in Administrative Operations Exist

We found that CS India had a strong, collaborative relationship among its component offices and with its domestic counterparts, trade-related partners, and business clients. Staff repeatedly noted that the SCO, deputy SCO (DSCO), and Principal Commercial Officers (PCOs) provide a sense of focus, direction, and leadership. We also found that the post is well respected by the other sections of the U.S. mission, local partners, and the business community. They consider the post to be a reliable source of information and readily available to help sponsor, promote, and organize trade-related events. Additionally, most of the clients we contacted noted that the commercial specialists are generally knowledgeable of the markets and provide timely and valuable information.

A. CS India Collaborates Well with Trade Partners and Other Government Agencies

Export opportunities are maximized for U.S. firms when representatives from a range of trade-related organizations work together to facilitate delivery of export assistance. CS India has done a good job establishing such relationships. The post's efforts to assist U.S. exporters generally received favorable comments from embassy colleagues, U.S. companies, and American Chamber of Commerce members because of the staff's responsiveness and extensive knowledge of the market. Specific examples of collaboration are discussed below.

Federal Agencies. The complex nature of international commercial business requires teamwork among all U.S. government trade-related agencies. Officials from numerous U.S. agencies told us that the CS India staff is responsive, knowledgeable, and collaborates well to help expand opportunities for U.S. exporters.

Export-Import Bank (Ex-Im) is the official export credit agency of the United States. Ex-Im Bank's mission is to assist in financing the export of U.S. goods and services to international markets. A senior Ex-Im official stated that the SCO is one of the very few commercial officers to attend Ex-Im training and have thorough knowledge of its policies. Although Ex-Im's training is free to CS officers, the official stated that very few take advantage of it. This official also participated in a recent delegation of U.S. companies to India and stated that CS India helped facilitate potentially one of the largest deals for Ex-Im this fiscal year.

The U.S. Trade and Development Agency (USTDA) has an active program in India. The agency's mission is to promote economic development and trade in developing and

middle-income countries by funding feasibility studies, orientation visits, training programs, and related services. When deciding who or what to fund, the agency looks for projects that offer significant export potential for the United States as well as economic development opportunities for the host country. A USTDA official reported that the agency works closely with CS India and depends on Commercial Service's relationships with Indian private and public sector representatives. As an example, the official credited CS India as having been instrumental in the success of the USTDA–sponsored South Asia Communications Conference held in April 2004 in New Delhi.

Orientation visits bring foreign procurement officials interested in purchasing American goods and services to view U.S. technology and products first-hand. In 2003, CS India supported four USTDA-funded orientation visits. According to post,

IN ADDITION TO MEETING WITH U.S. GOVERNMENT TRADE-RELATED AGENCIES, WE MET WITH THE U.S. AND INDIAN BUSINESS AND TRADE ASSOCIATIONS LISTED BELOW.

Washington, D.C.
   Confederation of Indian Industries (CII)
   U.S.-India Business Council[1]
Ahmedabad
   CII Ahmedabad
   Group of American Businesses (GAB[2]) Ahmedabad
Bangalore
   AMCHAM[3] Bangalore
   CII Karnataka
   Greater Mysore Chamber of Industry
   Indo-American Chamber of Commerce (IACC) Bangalore
Calcutta
   IACC East India
Chennai
   AMCHAM Chennai
   IACC Andhra Pradesh
Hyderabad
   AMCHAM Hyderabad
   Hindustan Chamber of Commerce
   Hyderabad Software Exporters Association
   IACC Hyderabad
Mumbai
   All India Association of Industries
   Franchise Association of India
   GAB Mumbai
   IACC Mumbai
   Visit USA Committee India
New Delhi
   AMCHAM New Delhi
   CII New Delhi
   Federation of Indian Chambers of Commerce & Industries
      (FICCI)
   IACC New Delhi
   National Association of Software & Services Companies (NASSCOM)

[1] A large policy development organization promoting American economic interests in India.
[2] GAB members are wholly owned U.S. subsidiaries in smaller cities.
[3] The American Chamber of Commerce. AMCHAM has over 300 members, typically American companies operating in India and Indian/U.S. nationals living in India. AMCHAM works closely with the policy groups of the U.S.-India Business Council

one of the visits—to companies in the coal bed methane industry—resulted in the purchase by an Indian firm of $870,000 worth of services from two U.S. companies that were new to the Indian market. Post reported that another visit—supported by the U.S.-Asia Environmental Partnership as well as USTDA and CS India—led to the sale of a $70,000 aeration system for a new-to-export U.S. company in the pulp and paper industrial sector. According to an internal ITA report, a 2004 orientation visit to renewable energy firms, supported by CS India, resulted in a number of business agreements between some of the U.S. companies visited and the Indian delegates.

The U.S.-Asia Environmental Partnership (USAEP)--a program of the U.S. Agency for International Development--works with the U.S. and Indian governments, nongovernmental organizations, and businesses to facilitate sustainable solutions to India's environmental challenges. USAEP works with CS India to identify U.S. sources for specialized technologies sought by Indian clients to address these challenges. For example, an Indian environmental engineering company requested help finding U.S. incinerators for hazardous waste management projects. CS India and USAEP identified appropriate U.S. vendors, and the post also counseled the Indian firm on doing business with the U.S. As a result of these efforts, CS India reported that a U.S. company signed an agreement for roughly $575,000 to provide engineering and design support services to fabricate three incinerator facilities in 2003. In another instance, an Indian environmental engineering company asked for help locating industrial separation and purification technologies. CS India counseled the company and provided contact information for a U.S. firm. In July 2003, CS India reported that the U.S. company exported products worth more than $55,000 to the Indian firm.

Other ITA Components. According to officials at ITA's other trade bureaus—Market Access and Compliance (MAC) and Trade Development (TD),[23] CS India has been responsive and informative throughout the entire period they have worked with the post—13 years in the case of one official. MAC trade specialists focus on trade issues of particular countries, and TD officials are industry-sector specialists.

We spoke with MAC's India desk officer and TD trade specialists for telecommunications, e-commerce, information technology, and energy—sectors that in 2003 were ranked by Commercial Service and the Department of State as among the best prospect sectors for U.S. exports to India. ITA trade specialists we interviewed said that CS India responds quickly to their requests for information and provides willing assistance in numerous other areas, such as arranging meetings for visitors and organizing trade events. One specialist remarked that even if CS India doesn't have the lead for a particular project, post staff advises the team on which Indian officials to meet and works persistently to arrange the meetings.

Advocacy Center. The goal of U.S. government advocacy assistance is to expand U.S. exports and export-related employment as a means of promoting U.S. economic health and well-being. ITA's Advocacy Center helps U.S. businesses obtain contracts in industries controlled by foreign governments or quasi-foreign-governmental entities, such as utilities and airlines. The center acts as a central repository of information on how to compete in foreign markets, issues advocacy guidelines, and determines whether and to what extent U.S. government support is appropriate for transactions involving U.S. interests. Commercial Service plays an integral role in advocacy efforts, through its contacts with foreign government and business leaders.

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[23] Effective July 30, 2004, Department Organization Order 40-1, transferred trade promotion responsibilities of ITA's former Trade Development to CS, and renamed Trade Development as Manufacturing and Services.

The Advocacy Center reported that CS India has assisted with the second highest number of advocacy cases of all CS posts (17 in the past 2 years) and has been very responsive to requests for assistance. Senior officials at the embassy and both consulates (Chennai and Mumbai) also told us that the post's commercial officers are knowledgeable and involved in all appropriate advocacy cases, providing such assistance as arranging advocacy-related meetings between visiting U.S. officials and Indian government representatives or attending such meetings on behalf of U.S. companies, and conducting advocacy-related research. In one example of the post's involvement in an advocacy success, post reported that a U.S. company received a $12 million contract to improve environmental protection at two Indian refineries. In May 2004, CS India had requests from the center for help with 11 projects pending in India.

Trade Compliance. Established in 1996, the Trade Compliance Center (TCC) coordinates with ITA's Trade Development office, Commercial Service, and other U.S. government agencies that help U.S. companies further their international market presence. According to the CS *Operations Manual*, the role of Commercial Service is limited to encouraging disputing parties to settle their conflicts without adjudicating or acting as an advocate for one particular side. The guidance outlines detailed procedures for when and when not to handle a trade complaint.

CS India provided in-country support to ITA's MAC desk officer, offering background information on Indian government policies in an expedited manner or organizing meetings between parties to promote communication and resolution of the trade dispute. The desk officer reported that, as of April 2004, India was involved in five trade compliance cases. The post has been involved in at least one case regarding imports of 135 commodities subject to Indian quality standards. Exporters of these goods are required to register with the Bureau of Indian Standards and pay an *ad valorem* (i.e., based in proportion to its value) fee certifying they meet the quality standards before they can send shipments. CS India facilitated a meeting between a U.S. exporter and Indian representatives to discuss this market barrier. According to ITA's MAC desk officer, import fees should not exceed the approximate cost of services and as a result the World Trade Organization Committee on Technical Barriers to Trade was notified of the certification fee requirement and the Indian government subsequently reduced the fees. However, the desk officer reports the fees are still not standardized.

B. New SCO Has Restructured Post Operations

Several factors impacted CS India's operations during FY 2002 and FY 2003: all American officers and their families were evacuated from post between May 31 and July 29, 2002—leaving the post with no American management presence for about 2 months. In February 2003, at the direction of CS headquarters, the previous SCO left the India post early to fill another vacant SCO position; this left CS India to operate without a senior officer for 5 months. The deputy SCO had to manage the entire operation with only the assistance of a junior officer in New Delhi. CS India staff stated that the deputy SCO tried to meet all the demands of running the post, but operations suffered.

At the time of our visit in May and June 2004, the SCO had been at the post about 10 months and had already visited all seven CS India offices and met with all staff. The deputy SCO, both PCOs, the commercial officer in New Delhi, and CS India staff consistently told us that the SCO has provided the post with a clear focus and sense of direction. Commercial officers stated that he is accessible and responsive, despite the large territory and number of offices he oversees. To promote better responsiveness throughout the post, the SCO has instituted a post-wide policy that CS India must respond to all e-mails within 24 hours. Staff told us that although it is not always easy to comply with this policy, the SCO leads by example and works long hours to ensure he meets the 24-hour deadline as well.

> "The SCO's leadership by example is very motivating." --CS India staff

Strong focus on reporting and record keeping. Staff stated that the SCO has set a strong management tone, and refocused the staff's efforts on export successes—CS' primary performance measure. He implemented a targeted strategic plan for FY 2004 that has a goal of doubling the post's export successes over FY 2003. He stresses the importance of staff follow-up with clients who were previously counseled, and has emphasized to the U.S. Ambassador and other embassy colleagues that CS' core mission is to assist U.S. exporters—and that export successes are the measure of its mission achievement. The SCO has also encouraged consistent use of the Client Management System (CMS) to record and update client contacts and counseling sessions, as required by Commercial Service. In the past, commercial specialists had used the system on an *ad hoc* basis. For example, the number of clients counseled, according to CMS records, increased from 262 in FY 2003 to 719 in FY 2004.

The SCO has reduced staff participation in events that he believes do not directly lead to export successes. For example, before the SCO explained CS' core mission, some of CS India's embassy colleagues stated that they were uncertain of CS' responsibilities and at times would request assistance on unrelated initiatives. Further, before commercial specialists travel to participate in tradeshows or other events, they must clearly show how the event may lead to export successes. Additionally, the SCO has made it clear to the other CS India officers that visa referrals are only to be submitted for contacts who are potential importers, and thus may lead to export successes. Visa referrals are recommendations by American officers to assist their contacts in obtaining visas from the consular section. Our review of visa referrals in Mumbai found that not all of them were for potential importers of U.S. products or services. During FY 2002, CS New Delhi submitted more than 200 visa referrals to the consulate on behalf of its contacts. So far in FY 2004, the number of referrals in CS New Delhi has been reduced drastically, to only 1 or 2 per month.

The aggressive strategy has resulted in an increase of reported export successes. By June of this fiscal year, CS India had jumped from a ranking of 14th to 1st worldwide in number of reported export successes (the post reported 291 export successes for all of FY 2003, compared with 524, as of June 24, 2004). However, as discussed on page 23,

problems with the quality of reporting exist and thus warrant continued management attention.

Enhanced interoffice cooperation. Commercial specialists told us that the SCO has improved interaction among the post's seven offices: during FY 2003, the offices did not always coordinate well. For example, CS New Delhi staff recruited companies for a reverse trade mission in the textile industry, without involving CS Mumbai—and thereby missing opportunities for U.S. firms to meet with companies from the lucrative western part of the country. The SCO has initiated methods for improving teamwork—in February 2004, for instance, he brought all staff to New Delhi for an all-hands meeting and training session on customer relations. Staff reports that such activities have enhanced collaboration. In addition, CS Delhi coordinates efforts with CS Chennai and Mumbai regarding the Study USA program, a multi-city trade fair designed to help American universities register Indian students. CS New Delhi handles university recruitment and event marketing, and it communicates the names of the universities to those posts to help CS staff there prepare for the event.

Strong support staff. CS India staff and members of the business community praised the market knowledge of the deputy SCO and Mumbai PCO as invaluable to U.S. firms and embassy officials. Business members also pointed to the Mumbai office's creation of a program called Group of American Businesses (GAB) as evidence of the PCO's initiative. The GAB seeks to assist wholly owned U.S. subsidiaries in cities that have no Commercial Service offices or American chambers of commerce. Much like a chamber of commerce, GABs provide a forum for U.S. subsidiaries to interact and share common concerns and best practices. At the time of our visit, the Mumbai office had established three GABs in Western India (Pune, Goa, and Ahmedabad). We met with members of two of the three GABs, who uniformly praised the program's usefulness. They remarked that the PCO promoted discussions on significant areas of concern such as customs and excise matters, Ex-Im policies, and visa requirements, and facilitated several trips by the consul general and other embassy officials to GAB meetings in Pune.

C. CS India Does Not Help U.S. Companies Establish Outsourcing Operations

Outsourcing is the practice of subcontracting a business function to an outside supplier. In the U.S., outsourcing most typically occurs in information technology and financial services professions.[24] Since the Internet has enabled real-time connectivity to low-cost offshore labor pools, offshore outsourcing has been

> *Foreign direct investment* is a cross-border investment in which a resident (the direct investor) in one economy acquires a lasting interest (i.e., 10 percent or more of the ordinary shares or voting power) in an enterprise in another economy (the direct investment enterprise).
>
> --*Foreign Direct Investment in Emerging Market Countries,* Working Group of the Capital Markets Consultative Group, International Monetary Fund, September 2003

on the rise. India—with its many English-speaking engineering, business, and medical graduates—has become a large supplier of outsourced expertise.

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[24] Drezner, Daniel W. "The Outsourcing Bogeyman," *Foreign Affairs*, May/June 2004.

Commercial Service does not have written guidelines about providing assistance to U.S. companies interested in offshore outsourcing or other foreign direct investment (FDI) in countries abroad. During our meetings with 25 Indian trade associations in Washington, D.C., and India, members of several associations commented that they wished Commercial Service would assist U.S. companies interested in outsourcing or other FDI in India. CS India's SCO described his office's stance on FDI in an e-mail dated December 5, 2003:

> For potential U.S. investors in India, whether they be service providers or manufacturers, CS India only provides general briefings on market opportunities and doing business in India issues. We do not generally involve ourselves with the FDI efforts of U.S. firms. However, after a U.S. firm has invested in India, we will advocate on their behalf, as well as assist them with issues they may have with the Government of India. We are prudent about [not] creating any perception that we are facilitating the export of American jobs, especially since our primary mandate is the promotion of U.S. exports by small and medium enterprises.

This advice was circulated to CS headquarters officials as well as to a senior counsel in the Department's Office of Chief Counsel, who commented that this approach seemed reasonable.

CS India commercial specialists had a clear understanding of their mission and the SCO's guidance on outsourcing. Staff consistently told us that U.S. companies interested in establishing outsourcing operations in India generally do not seek assistance from CS India. According to the staff, these companies are well-versed in setting up their operations, but a few may ask CS about general market conditions in India. Further, commercial specialists stated that there are many private sector companies that specialize in outsourcing, and companies usually seek their assistance—not CS'. However, the trade associations and Indian companies we spoke with complained to us that CS' mission is "too narrow" because it only promotes U.S. exports, not bilateral trade.

D. ANESA Region Provided Untimely Support During FYs 2002 - 2004

CS India is organized under OIO's Africa, Near East, and South Asia (ANESA) region, and reports to the regional director of that office. We reviewed a number of requests for guidance or assistance that the SCO made to ANESA region staff during FYs 2003-2004. Many of the issues raised had clear implications on post operations. However, it appears that the ANESA region staff did not always acknowledge and were not responsive to the requests for guidance by the post. For example, the SCO did not receive timely responses when he sought the ANESA region's input regarding a December 8, 2003, meeting called by the deputy chief of mission to address the possible relocation of CS New Delhi. Such a move had the potential to affect CS' office locations, operations, and budgets—all issues ANESA region staff should have been concerned about. After receiving no response, the SCO e-mailed ANESA region staff, saying, "I've written at least fifteen emails…since early September…and have neither received an answer, nor a

simple acknowledgement for them." On December 3, 2003, the acting deputy director responded and scheduled a conference call between the SCO and the regional director for December 11—3 days after the meeting with the deputy chief of mission was to be held.

Further, in May 2004, the SCO sought the ANESA region's guidance on trade event collections totaling about $15,000. Although ANESA staff had some communication with post regarding this issue, the region did not follow up with CS headquarters officials to provide a definitive answer to post until July 30, after we became involved with the issue (see page 35 for a detailed discussion).

ANESA region staff acknowledged to us that they did not provide timely responses to many issues raised by CS India, and the regional director gave several reasons why:

- Because of the SCO's glowing reputation within the Commercial Service, she believed the post was on "auto-pilot" and did not require much guidance.
- Iraq had been added to the ANESA portfolio of countries, and occupied much of the region's time, until February 2004, when a country manager was assigned primary responsibilities for Iraq.
- The deputy director's position for ANESA was vacant for 5 months (from August 2003 to December 2003) and this absence added to the existing staff's responsibilities.

The ANESA regional director told us that she visited India during January 2004, primarily to attend the all-hands meeting organized by the SCO and CS' customer relationship training (January 22-25). During this visit, she stated that she spent some time meeting with CS India staff and visiting the New Delhi office.

Regional directors, and the OIO in general, are responsible for overseeing many posts from a distance. Under such conditions, it may be difficult to stay fully involved with each post's operations and staff activities. However, the regional staff serve as post's focal point for headquarters guidance and assistance. Thus, it is critical that the ANESA region staff provide timely responses to the post, especially regarding such issues as staffing and other resources.

In previous OIG reports, we have cited the problems caused by inadequate oversight to the posts by headquarters staff, and we reiterate our concerns here.[25] We are pleased to note that the ANESA region and OIO, after being briefed on our initial review results, took some immediate steps to improve its managerial oversight of CS India. Specifically, the new ANESA regional director, who assumed the position in June 2004, plans to visit CS India in October 2004, to follow up on our recommendations and better understand post operations.

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[25] *The Commercial Service Needs to Improve Management of Its Operations In Turkey*, OIPE-15370; *Recent Overseas Inspections Found US&FCS Delivering Services Effectively But Facing Internal Constraints*, September 1997, OIPE-9178.

E. CS India's Staff and Space Utilization Warrant Management's Attention

Given India's size and recent growth as a market for U.S. exports, it is important that Commercial Service carefully position itself and its staff resources to capitalize on these trends and provide optimal service to U.S. companies. We evaluated CS India's staff utilization and found that at least 46 percent of post employees are performing administrative functions, e.g. answering phones, coordinating U.S. government visitors, financial operations, chauffeuring, etc. (See figure 3).

Figure 3. CS India's Actual Utilization of Foreign Service National Staff as of July 2004

LOCATION	Commercial Work			TOTAL Com'l	Administrative Work					TOTAL Admin
	Commerc'l Specialist	Commerc'l Assist.[1]	Commerc'l Clerk[1]		Commerc'l Assist.[1]	Commerc'l Clerk[1]	Admin Assist.	Secretary	Chauffeur	
Ahmedabad	1		0.5	**1.5**		0.5			1	**1.5**
Bangalore	1	0.5		**1.5**	0.5					**0.5**
Calcutta	1		0.5	**1.5**		0.5			1	**1.5**
Chennai	2	0.5	0.5	**3**	0.5	0.5	1	1		**3**
Hyderabad	1			**1**						**0**
Mumbai	4	1	0.5[2]	**5.5**	1	0.5[2]	1		2	**4.5**
New Delhi	5	2		**7**	2	2[3]		1	2	**7**
TOTAL	**15**	**4**	**2**	**21**	**4**	**4**	**2**	**2**	**6**	**18**

Source: FCS Staffing Pattern, July 2004 and FCS management

[1] Based on interviews with foreign service nationals and our review of their survey responses on their job responsibilities, we determined that on average commercial assistants and most commercial clerks spend their time performing commercial functions and administrative functions. For example, we found three of the six commercial clerks are responsible for managing the Business Information Center (BIC), a primary CS service, along with performing administrative tasks. As a result, we counted most of these positions as half-time positions under both the commercial and administrative categories.
[2] The commercial clerk in Mumbai is not responsible for the BIC but performs some commercial work in managing industry sectors.
[3] In New Delhi, one commercial clerk is primarily responsible for financial management operations and the second is a secretary. These were counted as full administrative positions.

For example, at least 49 percent of Mumbai's foreign service national positions perform administrative functions, as do 50 percent in Chennai and 50 percent in New Delhi. Post-wide, CS India has the equivalent of 21 foreign service nationals performing core mission duties, such as trade promotion, outreach, and counseling, and *18* handling a mix of nontrade-related functions. As CS India continues to expand its reach and portfolio, we recommend that post managers reassess staffing utilization and placement to increase resources devoted to commercial functions.

Further, CS India should reevaluate its need for chauffeurs and vehicles at three of its offices. We found that Mumbai had two drivers and only one American officer (the PCO), and Ahmedabad and Calcutta had one driver each, with no American officers on board in those offices. FSNs primarily utilized the chauffeurs in their respective offices.

Although CS guidelines do not preclude foreign service nationals from having drivers, many CS staff at post and at headquarters stated that this was not the norm, and that

usually only officers have drivers and vehicles. Although parking is difficult in India, taxis and other forms of transportation are readily available.

The PCO and SCO told us that Mumbai was assigned two drivers and vehicles at a time when the office had two American officer positions. Though only one officer position remains, the PCO explained that the second driver is sometimes needed to courier documents to and from the consulate. Because the drivers are not needed full-time, they are also tasked with photocopying and answering phones—supplementing the work of four other administrative personnel. From our observations, it appears that the drivers are underutilized and that Mumbai may need no more than one.

Staffing in Hyderabad office. Hyderabad—the fourth fastest growing city in the world— has only one foreign service national commercial specialist, and when he is out of the office for meetings, travel, training, or leave, the Hyderabad office is closed. The office has no voicemail system, so in his absence, the city has no CS presence. Although we understand that CS has many one-person posts like this worldwide, in light of the market potential of this city, CS India should consider shifting resources from one of the post's other offices to Hyderabad. We discussed this with the SCO and he agreed with our conclusions.

We also noted during our visit that none of the CS offices have voicemail capability, even though voicemail is commonly used in India for business purposes. CS New Delhi staff stated that they looked into getting voicemail but that it would require complete rewiring of the office and was thus cost-prohibitive. However, several other offices stated that voicemail is readily available (i.e., no re-wiring necessary) and desirable in their locations.

Space and Locations of Some CS India Offices Need Reevaluation

We noted that the CS New Delhi office appeared to have much unused office space at its current location in the American Center. When we discussed this with the SCO, he agreed and stated that in his opinion, about half the amount of space it currently occupies is unnecessary. The post pays approximately $66,000 per year in rent. CS India leased the space when New Delhi had a larger staff, and thus required more space. The SCO and other embassy officials told us that there is a plan to move the New Delhi office into the embassy once renovations to the embassy complex are completed. However, no date has been set for this proposed move and no construction has begun. Added to the wasted space are a number of security concerns at the current location [see Appendix C (page 61) for a complete discussion of security weaknesses]. Given these two issues, it seems prudent for CS to consider relocating or downsizing the New Delhi office.

The SCO has identified two viable alternatives for the CS office. We discussed the possibility of the post moving to one of these locations with CS headquarters officials, who stated that they would consider it.

The Bangalore and Hyderabad offices are located in luxury hotels: CS Bangalore occupies four rooms in a 5-star American hotel, while the Hyderabad office is in two rooms of an Indian hotel chain. Members of the business community in Bangalore told us that they found it odd that a U.S. government office would be located in a hotel when other commercial space is readily available. We agree. The foreign service nationals in both offices cited increased security as a reason for being in hotels. However, hotel security did not question us or other guests entering the premises. In addition, both offices had their own on-site security guards—a protection they could readily transfer to other commercial space.

The lease for the Bangalore space expired April 30, 2004, and the office is now on a month-to-month arrangement. While on site we discussed this matter with the SCO and he stated that he would consider relocating to other commercial space. In a subsequent e-mail dated August 20, 2004, the DSCO informed us that CS is currently paying 64.50 rupees (Rs.) per square foot per month, but is now in the process of negotiating for alternative commercial space at a cost of Rs. 30-40 per square foot per month.

RECOMMENDATIONS. Commercial Service should do the following:
- Evaluate staffing allocation and utilization throughout India to ensure it appropriately supports the CS mission.
- Explore options to potentially reduce CS India's rent obligations and thereby improve the post's cost-effectiveness, as appropriate.
- Assess the feasibility of equipping offices with voicemail.

<p style="text-align:center">──●◉◉◉●──</p>

In responding to our draft report, ITA agreed with our recommendation that staffing allocation and utilization throughout India should be evaluated, and stated that it would pay particular attention to the question of resources, in light of recent reductions in operational resources and personnel staffing. It further stated, that in 2004, to reduce charges under the State Department Capital Security Cost Sharing Program (CSCSP), it eliminated vacant positions worldwide, including 8 vacant positions in India for which it did not have current funding. OIO said that it would look at the impact of these cutbacks and other resource allocation issues on India operations when the Regional Director visits four of the seven posts in October 2004. Both the Regional Director and the SCO will review current resource allocation and look for ways to optimize available resources.

ITA further noted that "the SCO disagrees with the IG's view that too many staff are engaged in administrative work." Although the SCO did not dispute our finding that at least 46 percent of post employees were performing administrative functions, he pointed out that a number of these employees, such as those in CS Mumbai, perform multiple duties including some previously handled by former staff who have not been replaced. The SCO maintained that all the duties performed by current CS Mumbai staff, whether they are considered to be commercial or administrative in nature, are essential to the office's operation.

With regard to our recommendations that CS review opportunities to reduce space and CS India's rent obligations, CS said that the Regional Director will also review this, along with the SCO, when he visits post in October. Given the plans to bring CS into new embassy or consulate space in New Delhi, Mumbai and Chennai, CS noted that the costs of moving twice within a few years and the disruption to operations might overwhelm any cost savings to be gained. It also stated that the rent in New Delhi is a "rather modest $66,000 per year."

During our meetings with CS and embassy officials in New Delhi, they indicated that plans to bring CS into a new embassy were more than a few years in the future. As noted in our draft report, no date has been set for the proposed move, and no construction has begun. As also noted in our draft report, the SCO expressed the opinion that about 50 percent of CS New Delhi's space was not necessary. In view of CS India's resource constraints, CS' increasing ICASS costs, and anticipated charges to CS under the State Department's Capital Security Cost Sharing Program, CS managers should seriously consider options, such as downsizing its current space, to decrease rent obligations. We request that CS provide details of the RD's assessment in its action plan.

With regard to the Bangalore and Hyderabad offices, CS stated in its response that according to the SCO, the present locations were the best available when CS was searching for space. According to CS, these locations were approved by the Regional Security Officer and complied with U.S. government contracting and security specifications. In response to our recommendation, CS stated that post would prefer to relocate to other commercial office space, given the right circumstances.

We are pleased to see in its response that Commercial Service has allocated FY 2004 funds to CS India for the purchase of voicemail systems, where feasible and appropriate.

Finally, CS indicates that official vehicles and drivers are intended for use by the entire staff, not only officers. CS stated that there was nothing improper in having cars and drivers for local staff use, and the post's policy complies with the mission policy in India. CS stated that according to an Administrative Notice dated February 28, 2001, all employees of the U.S. Consulate Mumbai are entitled to use official vehicles for official business.

Although ITA's response indicated that the SCO maintains that the taxis in Mumbai, and generally throughout India, are old, dangerous and not suitable for FSNs who need to attend business meetings "in proper condition," we note that the Commercial Specialist in Hyderabad, the fourth fastest growing city in the world, performed his duties with no car or driver.

Our report did not question CS India's authority to use cars and drivers for FSNs as well as officers. The post and CS headquarters should decide whether CS India's current resource distribution is the best possible utilization of its limited resources and provides the best service to U.S. exporters.

II. Client Satisfaction is Generally Favorable But Post Library Services and Export Success Reports Need Closer Management Attention

CS India provides a number of products and services to U.S. companies and other U.S. government agencies. To gauge client satisfaction, we sought feedback from CS India's clients during FYs 2003 and 2004 (through April 2004). Clients were generally satisfied with the quality of the services received. In addition, we reviewed CS India's International Market Insights and Industry Sector Analyses that covered a wide range of topics and sectors important to the Indian economy. Furthermore, we evaluated CS India's business information centers, which provide Indian companies with information about U.S. exporters through a wide variety of reference resources, to see if they help fulfill the post's mission. We found concerns regarding their utilization and usefulness.

Commercial Service measures its performance based on export success stories. As CS's primary performance element, export success reporting evaluates its impact on U.S. firms' exporting efforts. We performed a review of CS India's reported export success stories for FY 2004 (through April 2004). Our review sought to determine CS officers' and foreign service nationals' compliance with CS guidelines for reporting an export success. We determined that generally CS India complied with reporting guidelines. However, during our initial review we identified significant problems with CS Bangalore, CS Chennai, and CS Hyderabad's reported export successes, and found management review of export success stories warrants improvement.

Finally, we reviewed the post's conduct of end-use checks for export licenses on behalf of the Bureau of Industry and Security (BIS), which we found generally followed BIS guidelines. We also share our observations on the export control attaché who is scheduled to arrive in New Delhi in the fall of 2004.

A. *Most Clients Whom We Interviewed Were Satisfied with CS India's Products and Services*

To gauge U.S. companies' satisfaction with the quality of CS India support, we contacted representatives from 31 of the 98 companies that received a product or service described in figure 4 during FY 2003 and FY 2004 (through April 2004).

Figure 4. CS India's Products and Services

Product or Service	Description
Business Facilitation Service	Interpretation/translation services, single company promotions, use of CS facilities/space, courier services, and targeted commercial presentations.
Gold Key Service	One-on-one meetings between U.S. companies and potential overseas business partners in a targeted export market.
International Company Profile	Detailed background check on a foreign company to evaluate its potential as a partner to a U.S. firm.
International Partner Search	Identification of potential overseas partners to market U.S. product or service in a given area. CS promises searches will be completed in no more than 15 working days.
Platinum Key Service	Ongoing, customized support for a specified duration, scope, and fee. The service is tailored to a client's needs and provides counseling and information, such as market identification and technical assistance.

Source: Commercial Service

Of the 14 respondents,[26] 12 clients were satisfied with the service they received while 2 expressed dissatisfaction. One of the two dissatisfied clients noted that the majority of the Indian firms with whom he met did not seem interested in what the company offered. The client believed these firms agreed to meet with him simply to remain on good terms with the U.S. embassy. In addition, the client felt follow-up by the commercial specialist in CS New Delhi was poor. The second dissatisfied client was unhappy with the appointments set up by CS New Delhi staff, claiming that they failed to perform due diligence on potential buyers.

Figure 5 details the client feedback we received.

Figure 5. Client Survey of CS India Services

Product	Location	Comments
Business Facilitation Service		
Client 1	Mumbai	"Excellent" service; praise for PCO.
Client 2	New Delhi	"Fantastic," "plentiful," and "enthusiastic" assistance; good follow-up.
Gold Key Service		
Client 3	Bangalore	"Extremely fantastic job."
Client 4	Hyderabad	CS staff in Hyderabad and Mumbai were responsive to follow-up e-mails.
Client 5	Mumbai	"Great service"; would recommend the service to anyone; appointments arranged by CS New Delhi were disappointing unlike CS Mumbai's, which were "excellent."
Client 6	Mumbai	Client was unhappy with appointments arranged by CS New Delhi, claiming it failed to perform due diligence on potential buyers.
Client 7	New Delhi	Service did not meet expectations, poor follow-up.
Client 8	New Delhi	CS Staff should reconfirm appointments before client's arrival.
International Company Profile		
Client 9	Calcutta	Quick service.
Client 10	Chennai	Satisfied with quality, but time taken to complete report could be shortened for emergencies; detailed report sometimes not necessary.
Client 11	Hyderabad	Service met expectations.
Client 12	Mumbai	Service and its cost met expectations.
Client 13	New Delhi	"More than satisfied ... when entering a new market FCS is always the first stop."
International Partner Search		
Client 14	Chennai	"I am a happy and 'loyal customer' of the Commercial Service."

Source: OIG

<u>CS India's Market Research Products Adhered to CS Guidelines</u>

According to CS data, CS India produced 55 International Market Insights (IMIs) reports during FY 2003 and only four during the first 7 months of FY 2004 (October through April). CS India's FY 2004 Strategic Plan committed the post to doubling the number of export successes over the previous year while discouraging products with "hard-to-measure impact," such as IMIs. According to CS India staff, this decision is justified by the abundance of readily available market information online and through other non-fee-based sources.

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[26] We successfully contacted representatives of 16 companies but had to disregard the information from two of them, as the representatives were no longer employed by their respective companies and no input could be provided.

We reviewed 13 IMIs and found that they generally adhered to the *CS Operations Manual* guidelines on format and content and covered a variety of topics: market overviews on cosmetics, environmental technologies, smart cards, and telecommunications; Indian investment climate; and government health guidelines for gene-based medicines, to name a few.

During the same period, CS India produced a total of 31 Industry Sector Analyses (ISAs), according to CS data – 24 in FY 2003 and 7 in the first 7 months of FY 2004 – covering sectors such as aircraft, alternative energy, cosmetics, food retailing, machine tools, mining equipment, telecommunications, and textile machinery. The ISAs generally adhered to CS guidelines for length, format, content, and frequency of publication.

> *International Market Insights* provide information to U.S. exporters on international market trends. Individual posts are responsible for the content of the reports, which are usually written by foreign service nationals. Commercial Service does not require a minimum number of IMIs per year.
>
> *Industry Sector Analyses* provide sector-level market research information to help U.S. companies assess market opportunities for their products and services. ISAs may cover market trends, competition, regulations and standards, and best sales prospects. Commercial Service does not require a minimum number of ISAs per year.
>
> ***Source:*** *Commercial Service*

B. *Business Information Centers are Underutilized and Ill-Equipped*

Each CS India office maintains a business information center (BIC) to provide Indian companies with information about U.S. exporters. The centers contain a wide variety of resources—company directories, trade journals, periodicals, and company and product catalogs—are open to the public, and accept walk-in visitors as well as telephone and e-mail inquiries.

Business Information Centers at CS India Offices

CS Ahmedabad   CS Bangalore   CS Calcutta   CS Chennai

CS Hyderabad   CS Mumbai   CS New Delhi

We reviewed visitor logs for March 2004 (typically, a higher-than-average month for visitors) and interviewed the BIC staff at each office. We found great disparity in the

number of walk-ins to the centers. In addition, BICs at many offices take up a significant amount of total office space (see figure 6).[27]

Figure 6: BIC Visitors and Office Space

Location	Number of Visitors (March 2004)	BIC Space (sq. ft.)	Total CS Office Space (sq. ft.)	Percent of Total CS Office Space
Ahmedabad	10	717	1442	50
Bangalore	24	486	1577	31
Calcutta	92	406	812	50
Chennai *	16	538 (710)	1765 (2357)	31 (30)
Hyderabad	10	692	1956	35
Mumbai	4	822	5716	14
New Delhi	87	624	6865	9
* Revised measurements in parentheses are effective for FY 2005.				

Source: CS India (all figures are rounded to the nearest square foot or percent)

While two posts reported large numbers of visitors during this single month, foreign service nationals who manage the centers told us that the BICs receive, on average, between 7 and 10 visitors per week.[28] At CS Mumbai, the BIC manager estimated that he receives 2 visitors per month. Some mentioned that serious visitors—business representatives readily interested in importing from U.S companies—are only a fraction of the total number of recorded visitors. BIC traffic has been in decline in recent years for several reasons: stringent security requirements at U.S. diplomatic missions, outdated publications, and the alternative availability of company information online. However, CS staff informed us that they receive information requests via the phone or e-mail (we could not confirm this statement because not all BICs maintain phone inquiry logs). Given the low number of visitors, some CS posts in India are incurring expenses for space that is underutilized.

We confirmed the problem with dated resources: some centers had business directories as much as 8 years old. For example, CS New Delhi had an Encyclopedia of Association (sic) dated 1997, a 2000 Standard and Poor's Register, and a 1999 Thomas Register. CS Mumbai's BIC contained a 1998 Thomas Register, a telecommunications business directory from 2000, and a food processing industry directory from 1995. CS Hyderabad had an American Chamber of Commerce Directory and a National Trade and Professional Association Directory, both from 2000.

CS India reported that no funds for new publications were provided in FY 2003. In July 2004, CS staff stated that it would use FY 2004 funds to order publications for all its posts by the end of August 2004. However, with company information widely available on the Internet, the value of the BIC as an information resource has diminished. American officers and FSNs at each CS office informed us that they would like to create

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[27] In the case of CS New Delhi, while the BIC takes up less than 10% of total office space, the SCO has stated that this office has approximately 50% more space than necessary; therefore, the New Delhi BIC takes up significantly more space (20%) if compared to utilized office space.

[28] This estimate is based on information provided by 5 of the 7 BIC managers.

"virtual BICs" that would utilize more online services and subscription-based databases, allowing FSNs to conduct research faster and give the BICs access to the most current publications. When we discussed the use of such online services and subscription databases with CS headquarters officials, they indicated some interest into looking into providing such services for CS' BICs on a worldwide basis.

RECOMMENDATIONS: Commercial Service should evaluate the concept and mission of the BICs in their present form. This evaluation should consider, for example, the amount of space utilized by the BICs and whether the BICs should utilize more online services and subscription databases.

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In its response, Commercial Service stated that the ANESA regional director allocated FY 2004 funds to CS India to purchase subscriptions to online services and databases for use in the BICs. In addition, both he and CS India's SCO would evaluate options for creating "virtual BICs" and reducing BIC space on a case-by-case basis. We would appreciate receiving the results of this evaluation when it is completed.

C. *Export Success Reporting Has Improved but Needs Better Management Review*

The number and value of export successes are Commercial Service's primary performance measures for judging its impact on U.S. firms' exporting efforts. This data is provided to Congress and OMB. These numbers must be accurate, and it is important that individual posts follow reporting guidelines in the CS *Operations Manual* to ensure their numbers are correct.

Commercial Service personnel report the details of each export success in the Client Management System. CS officers are responsible for reviewing and approving all export successes listed in CMS. Upon their review, approved success stories are posted to CS' e-Menu and credited to the participating offices. In response to prior OIG recommendations, the Commercial Service has taken or plans to take a number of actions to improve the accuracy of export success reporting. For example, it is working to (1) train its managers and staff on current reporting procedures and (2) put several quality control measures in place. However, CS revised its export success criteria for FY 2004, and the new *U.S. Commercial Service Performance Measures and Reporting* do not provide specific written guidance for maintaining quality control. The only stated responsibilities for approving officials are that they ensure the language of the export narrative is coordinated with those individuals receiving credit and check for duplicate reports. There is also a vague statement that "local managers will ultimately decide what will be approved." The previous export success guidelines specifically outlined an accountability system for posts and CS headquarters, giving detailed descriptions of the responsibilities of each:

> EPS managers and staff are responsible for reporting performance
> statistics consistent with this guidance. Product Managers provide

> quality control certifications by completing approval fields in the
> CMS database. Office Directors spot-check Export Success reports
> and generate quarterly performance reports based on the data in
> CMS. CMS entries must include sufficient supporting
> documentation such that anyone reading the documentation would
> understand the link between the CS service provided and the result
> reported.

As indicated above, under the prior export success reporting guidelines, each office was required to verify the export success, compared to the limited review currently in place. While officers must approve each export success, the current guidance does not require a detailed review of each export success or a "spot-check" by the office director. We discuss later in this section several examples of export successes that were problematic but approved with limited review.

Both the previous and FY 2004 guidelines do require the narrative to demonstrate that value-added assistance contributed to the success. However, it is difficult to ensure accurate reporting when the new guidelines do not include details for claiming "value-added" assistance, and precise guidance for reporting specific types of success stories (e.g., harvesting successes, client counseling, trade events). For example the previous guidelines stated,

> A client counseling session occurs when the post provides value-
> added and customized counseling to a U.S. client or a local firm. If
> there are four firms attending the same meeting, and each firm
> receives value-added and customized counseling, this would count as
> four counseling sessions. Merely serving as a library disseminating
> information to 1000 visitors is not enough, nor is sending out a flyer
> to 1000 potential trade fair attendees. Rather, there must be that
> extra step taken which demonstrates how CS staff personally assisted
> U.S. firms to identify and contact a business contact, or assisted local
> firms to identify and contact U.S. suppliers, or helping either to
> execute the transaction or contract.

The revised guidelines for counseling merely state, "you can claim an export success if it can be demonstrated that there is a link between the counseling provided and the export transaction, signing of an agency agreement, etc.", without going into the details, as described above. Currently there is no guidance between what is considered counseling versus value-added assistance.[29] The example mentioned above, providing information to 1000 visitors and claiming the interaction as counseling, is no longer mentioned as "not enough" to be claimed as value-added in the revised guidelines. In addition, if the post is not using CMS, the only verification of this link is through supporting documentation, which should validate the success story.

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[29] The new guidelines do say "see the operational guidance for definition of value-added assistance", but the October 2003 guidance was the only one available.
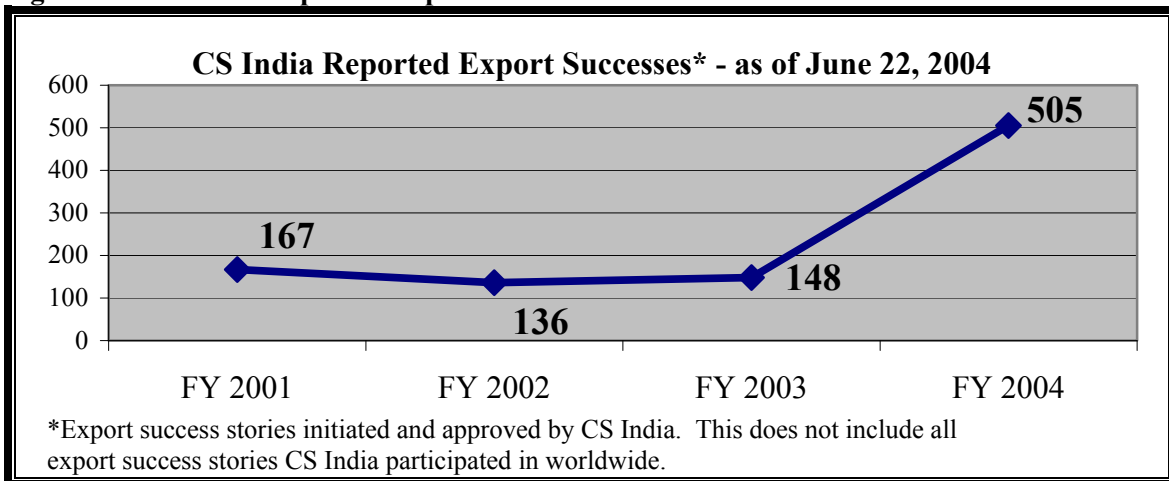
In June 2004, CS' e-Menu resource page posted "how to" informational material for export successes. Among these were *CMS Export Success Record Guidance, Entering Export Successes, Editing Approved Export Successes*, and *FAQs for Export Successes.* While these documents provide limited reference to the post and CS headquarters review and approval process, they do not provide a clear explanation for what is acceptable value-added assistance. We encourage CS to expand on this informational material and include it in a revised version of its CS performance measure guidance.

Without clear quality control procedures to verify that the information provided in the export success and supporting documentation meets CS guidelines, quality assurance appears to be left primarily to the success story author, rather than the SCO and CS headquarters. This reduces the reliability of Commercial Service's primary performance measure, as inaccurate performance reporting is unlikely to be identified.

CS India Dramatically Increased Reported Export Successes in FY 2004

Our review of the post's export success stories for the last three fiscal years revealed a post with changing priorities. From FY 2001 to FY 2003, CS India reported an aggregate 10 percent decrease in export successes. But for FY 2004, the number increased 241 percent over the previous fiscal year.

Figure 7: CS India's Reported Export Success Stories

*Export success stories initiated and approved by CS India. This does not include all export success stories CS India participated in worldwide.

Source: e-Menu, Commercial Service, June 2004.

As mentioned in Finding I, CS India's *FY 2004 Post Strategic Plan* established a performance target of doubling its export successes over the previous fiscal year. The plan discourages initiatives that are hard to measure or have an ambiguous focus—a clear realignment of management priorities. As noted previously, last year, CS India reported 55 IMIs compared to only 4 in the first 7 months of this fiscal year. Visa referrals dropped from 260 in FY 2002 to an average of 1 or 2 per month in FY 2004—a result of the new SCO's ban on processing referrals that do not directly relate to a potential export success. The SCO is encouraging active client follow-up, i.e. harvesting, and providing a strong focus on improved post performance. He is also requiring staff to consistently document clients counseled in CMS as shown by an increase from 262 in FY 2003 to 719

so far this fiscal year. When we asked the SCO and staff about how they intended to maintain these high performance levels, they stated that they would focus on cities that did not have post offices in them ("second-tier" cities) and increased outreach to Indian importers. However, one FSN noted that pressure to emphasize this year's success stories causes staff to neglect efforts, such as, counseling, trade promotion, and meeting new clients & markets, that will result in success stories next year.

CS India was ranked number one worldwide for assisting[30] in the most export success stories as of June 2004, having reported involvement in 524 (7.3 percent of all export successes) compared with 291 (2.1 percent) in the previous fiscal year.[31] This export success performance—if maintained—could keep India in its new position.

Figure 8: Reported Worldwide Export Success Rankings

RANK	Country	# of success counts*	% of worldwide total	RANK	Country	# of success counts*	% of worldwide total
FY 2003				**FY 2004 - as of June 24, 2004**			
1	Mexico	823	5.8	1	**India**	524 (474)**	7.3 (6.6)**
2	Brazil	668	4.7	2	Mexico	413	5.7
3	Japan	601	4.3	3	China	341	4.7
4	China	582	4.1	4	Nigeria	284	3.9
5	Germany	513	3.6	5	Egypt	279	3.9
6	Canada	512	3.6	6	Japan	272	3.8
7	Egypt	408	2.9	7	Brazil	259	3.6
...14	**India**	291	2.1				
Worldwide Total	14,089			Worldwide Total	7,218 (7,168)		

*Totals for each country include export success stories initiated and approved by other offices—CS India FY 2003-148 and FY 2004 505. Both the initiating and participating offices receive the same credit for their involvement in an export success.
** The revised figure reflects 50 export success stories CS India removed, withdrew, or combined as a result of our review.

Source: e-Menu, Commercial Service, June 2004

Export Success Stories Reported by Four Offices Generally Meet CS Guidelines, but Reporting by Three Offices is Problematic

For FY 2004 (through April) CS India initiated and approved 419 export successes.[32] We reviewed a 20 percent random sample of these, plus any additional export successes with reported values totaling $5 million or more, to determine whether staff and officers had

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[30] Posts can now receive credit for participating in an export success initiated and approved by another office. During our sample, we only reviewed export success stories initiated and approved by CS India since this post was responsible for the entire process.

[31] This includes the export success stories CS India initiated and approved (FY 2004-505 and FY 2003-148) shown in Figure 7.

[32] CS India participated in a total of 524 export success stories as of June 2004. This includes the 505 it initiated. We focused on the 419 of the 505 the post had initiated at the time of our sample review (April 2004).

followed CS reporting guidelines. Our initial sample of 94 export success stories included 54 from Ahmedabad, Calcutta, New Delhi, and Mumbai (ACDM) and 40 from Bangalore, Chennai, and Hyderabad (South India).

ACDM sample. To assess the validity of the reported information, we reviewed supporting documentation provided by the post and contacted 13 clients from our ACDM sample to confirm the information. We determined that all 13 of these approved successes followed CS guidelines. Our review of the remaining sample (41) found ACDM generally kept sufficient documentation to support CS assistance and the narratives, but noted several narratives that failed to indicate when the export success or counseling took place, or that had outdated U.S. company contact information.

In our review of the 41 success stories, we found two success stories that clearly did not meet CS guidelines for an export success. In one case, the company had contacted CS Mumbai as it faced a fast-approaching deadline: the items in transport were needed for a trade show the following day, and the office helped the company clear the items through customs to enter India. The PCO believed this export success was an example of due diligence for having helped the company avoid financial harm or loss. However, per CS guidelines, the assistance had to have helped the company determine the legitimacy of a business deal or contract, or avoid a fraudulent sale, and thus avoid financial harm or loss. While Mumbai provided valuable assistance and helped the company retain its investment at the trade show, the assistance did not meet CS guidelines for an export success.

In the second case, CS Mumbai helped an Indian client obtain a visa to travel to the U.S. and rent video equipment. The export success narrative states that the office helped a company rent camera equipment while filming a movie in the U.S. According to CS guidelines, an export success occurs in a foreign market—a country or region outside of the U.S.—and visa referrals are not considered export successes if the assistance does not lead to an export sale. We do not question the legitimacy of CS' assistance, only the validity of the export success claim. The reviewing official should not have approved the export success based on the visa assistance and location of the transaction (U.S. vs. abroad). We did find CS Mumbai correctly reported three export success stories in which visa assistance resulted in sales valued at more than $17 million.

South India. Bangalore, Chennai, and Hyderabad reported 149 success stories for the period October 2003 through April 2004.[33] We reviewed a total of 40 of those success stories. Three were reported by more than one office, which reduced our sample to 37. Our initial review of the sample revealed that many successes did not demonstrate a direct link between Commercial Service assistance and the export transaction.

To assess the validity of the reported information, we spoke with 3 clients from our sample and reviewed CS India's supporting documentation for the related success stories.

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[33] South India reported 162 success stories but 13 were reported in more than one office and the duplicates were not included as part of our sample.

We found that during our telephone interviews one of these three approved successes did not comply with CS guidelines.

During a telephone interview with that client, we learned that the client did not believe CS assistance directly contributed to the reported export sale. However, the export success narrative claimed that, after counseling the client, CS India encouraged the company to participate in a 2003 trade show. The company gave a presentation at the event—and as a result of CS-supported follow-up—received an order for goods reportedly worth $10,505. As supporting documentation, CS India provided a letter from the U.S. company to the commercial specialist involved, dated September 2003, in which the firm thanked the specialist for organizing a luncheon meeting for colleagues in the industry to discuss "some of the challenges faced on the licensing procedures for India," and for meeting with several companies to learn about their application and support requirements. At the time of our review, we found no documentation referring to their participation in the trade show. Instead, the company reported a license for this product in March 2002, long before the trade show presentation in 2003. We do not question the quality of the assistance provided nor CS' efforts to perform outreach with the business community on licensing procedures. In fact, the client was very satisfied with the service received, but based on his feedback and the documentation provided, the sale was not a direct result of CS assistance and thus does not meet CS guidelines.

We then reviewed CS' documentation for all 37 reported success stories[34] in our sample. Thirty-two of them, or 86 percent, did not meet CS guidelines: they either did not provide documentation that sales resulted from CS assistance, did not fit the categories of valid export successes, or had deficient export narratives. We therefore expanded our review to include all 149 export successes reported by South India as of April 20, 2004, and determined that 135 warranted further analysis because of the following problems:

- Direct CS assistance for success was not apparent;
- No supporting documentation (after initial OIG request) was provided;
- Sale did not occur in the last 24 months; and,
- CS guidelines for a U.S. export were not met.

Figure 9: Sample of FY 2004 Reported Success Stories for South India, as of April 2004
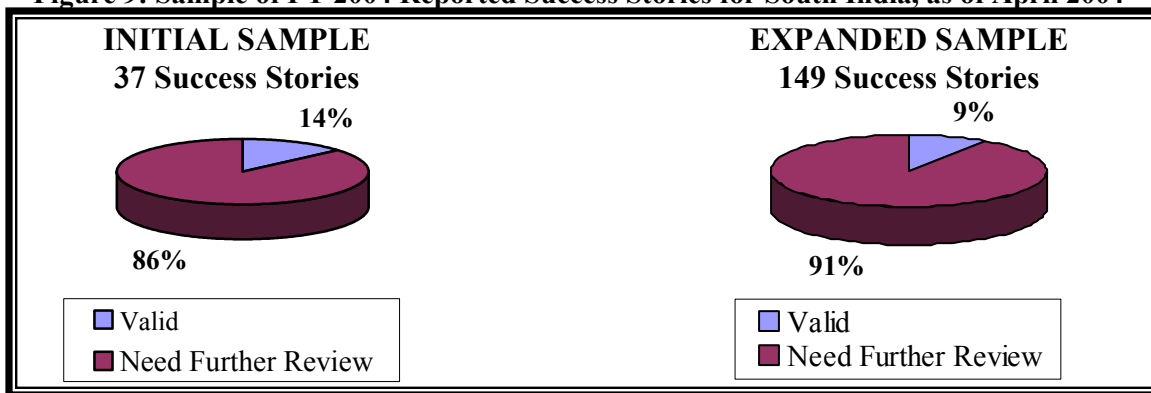
Source: e-Menu, CS Performance Measures

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[34] This includes the three telephone surveys.

We are concerned that CS guidelines and CS India's reporting mechanisms do not provide for accurate and thorough management review at all levels. During initial conversations with the SCO, he told us that he reviews all export success stories. However, some of the issues we found suggest that all export successes were not reviewed. In particular, we noted a large number of problematic export successes in Chennai with only one sentence in the export success narrative.

After we discussed our findings with the SCO and Chennai PCO, they determined that all FY 2004 reported success stories for South India, including those submitted after our April 2004 sample, warranted the SCO's personal reevaluation. The SCO traveled with the Mumbai PCO to Chennai and reportedly "reviewed all 181 success stories generated through CS Chennai in FY 2004. These … include success stories submitted from CS Bangalore and CS Hyderabad. As a result, 131 of these success stories have been edited, and 50 have been either removed from e-Menu, withdrawn pending additional documentation, or combined into single success stories."

The SCO determined 16 of the 50 stories were portrayed as multiple successes, but were really part of single successes and were thus combined into single records reportedly worth approximately $4 million. Of the remaining 34 records, 14 exceeded the 24-month rule; 13 had insufficient documentation; 3 represented assistance primarily from partner agencies; 2 did not involve U.S. exports; and 2 were not completed transactions. These 34 export success stories accounted for more than half (approximately $75 million) of the original $145 million in export values reported by South India.

Upon completion of the SCO's review, we requested he send us all current documentation for the remaining 131 export success stories so we could analyze those success stories a second time. We found at least 124 of the export success stories contained new documentation: South India provided letters dated June 2004 through July 2004 from distributors, suppliers, importers, and/or exporters confirming that CS assistance contributed to their export sales.

However, we found documentation for 3 of the 131 remaining export success stories still did not meet CS guidelines and should therefore be removed. Specifically, the new documentation did not support the reported dates of sale or export success claimed in the narratives. We also noted with many of the remaining 128 narratives and documentation that they did not cite when the value-added counseling took place or what sale directly resulted from specific counseling. Instead, as a result of the harvesting process, firms combined all their reported U.S. exports from CS assistance within the last two years. We found this is not specifically prohibited in the guidelines,[35] however when a company

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[35] CS guidelines state, "the signing of a contract or agreement and an export sale immediately thereafter, related to the same contract, must be reported as a single Export Success. Subsequent sales may be considered for an ITM if additional service is provided for those transactions in that market." In these cases, the sales could be considered a result from continued assistance during the last two years. However, such continuing value-added assistance should be specific and documented to support each export success.

lumps together all sales that occur in a year, it is difficult for CS to directly link its assistance with a particular sale, nor can it determine whether additional sales from the exporter resulted from additional assistance—transactions that Commercial Service categorizes under "increase-to-market" support. We also found several additional problems that should be resolved: miscalculated values, no inclusion of co-participants in narratives, and inadequate verification for what type of client was assisted (e.g. new-to-market).

Going forward, some of these documentation problems should be resolved if CS India strictly enforces its use of CMS at the direction of the SCO, which requires documentation of counseling sessions and the specific type of CS assistance involved in a transaction.

Problematic reporting in South India offers lessons for the entire post. Our very detailed review of the 149 export success stories for South India identified several mechanisms that could enhance export success reporting throughout CS India. Though not a CS requirement, following a time line with specific dates for contacting clients, counseling, and reporting an export success would provide a framework for the events and help determine what value-added assistance was provided and whether it was for a new or established contact. We also remind CS India to consistently include all participants and contributors for the export success in the narrative, per CS guidelines, in addition to verifying dollar values, client contact information, and providing the date of counseling and reported export success.

RECOMMENDATIONS: Commercial Service should:
- Revise the current CS performance measure guidelines to (1) include, as in the past, specific procedures and responsibilities for review and oversight of export successes, along with detailed definitions, as appropriate, and (2) emphasize as confirmation of the export success that the documentation should include what specific CS value-added assistance contributed to the reported export success; and,
- Ensure approving officials thoroughly review each export success for quality and adherence to CS guidelines, including a review of CMS records and other documentation to verify value-added assistance.

In responding to our draft report, CS management strongly disagreed with our finding that CS' FY 2004 reporting guidelines have reduced management accountability for ensuring quality and integrity of export success reports. CS management stated that the new guidelines should be viewed as "the result of a multi-year process to improve the quality, consistency and accountability of the export successes recorded by the Commercial Service." The response further states that the OIG did not adequately consider steps taken by the Commercial Service to communicate and provide guidance to CS' field offices pertaining to export success quality control and the mechanisms in place. ITA reported that in October 2003, the Deputy Director General sent a worldwide

email introducing the changes in the FY 2004 performance measures, specifically stating that first-line managers were ultimately responsible for the successful implementation of CS performance measures.

ITA also reported that Commercial Service established a "Performance Measures Experts Group" to respond to questions, provide performance measures training, and discuss policy questions and make appropriate determinations. In addition, CS said that it had provided performance measures training for CS staff in October and November 2004, and in the early Spring, quality control was discussed at each of the regional SCO meetings. In July 2004, ITA appointed an Export Success Quality Control Officer (GS-14) to monitor all export success reporting worldwide in order to create a "permanent management tool for improving the content, quality, and consistency of export success reporting throughout the Commercial Service." ITA reported that the actions of this Officer, in coordination with other CS units, resulted in the systematic review of 7,254 export success records and the deletion of 121 duplicate export successes.

ITA also reported that it is developing a sampling methodology for an in-depth quality review of export successes from Commercial Service offices worldwide. In FY 2005 and subsequent years, ITA said that it intends to review approximately 20 percent of current export successes submitted by each office. In addition, ITA stated that its Performance Measures Working (PM) Group is being reconfigured to better represent the current Commercial Service structure, and an Export Success Summit will be held in the first quarter of FY 2005 to organize, clarify, and augment the standard export success guidelines now in place.

We support ITA's effort to improve the quality of export success reporting and the reporting of other performance data. However, we note that despite many enhancements, significant problems still occurred. The export success stories we reviewed were subject to this new FY 2004 guidance. However, as noted in our report, even though the SCO stated he reviews all export success stories, he withdrew, edited, or combined 50 out of 181 reported export successes (valued at $79 million of the original $145 million), as a result of our review. In addition, the previous guidelines provided a second level of quality control that is no longer included in the current guidelines. Specifically, it gave responsibility to the Office Directors, in this case Regional Directors, to "spot-check" export success reports. When we asked the former Regional Director if she reviewed India's export success stories, given the dramatic increase in FY 2004, she stated she did not review any of the post's export success stories. In addition, we identified problematic documentation supporting export success claims in three of CS India's seven offices, even though ITA noted in its response that documentation requirements were an important component of its performance measures training sessions.

In conclusion, all of the enhanced quality control mechanisms mentioned above did not prevent CS India from having to remove, edit, or combine 50 out of 181 approved export success stories for FY 2004, totaling approximately $79 million of the original $145 million in export values reported by South India. ITA agreed that the written CS guidance may be "deficient" and stated it will be examined and revised at the Export

Success Summit. As the primary written guidance available to field staff, we reiterate our recommendations that CS revise its current guidance to include specific procedures and responsibilities for review and oversight of export successes and emphasize, as confirmation of the export success, that the documentation should include what specific CS value-added assistance contributed to the reported export success. In addition, CS should ensure that approving officials thoroughly review each export success for quality and adherence to CS guidelines, including a review of CMS records and other documentation to verify value-added assistance.

D. Export License End-Use Checks Are Generally Handled Well

The Bureau of Industry and Security (BIS) is the Department of Commerce agency that issues dual-use export licenses. In a 1988 memorandum of understanding between BIS and the International Trade Administration, it was agreed that Commercial Service posts would conduct end-use checks related to U.S. dual-use export licenses on behalf of BIS in each country in which they were located. BIS' end-use check handbook, *How to Conduct Pre-License Checks and Post-Shipment Verifications* (January 2004 edition),* requires that CS overseas offices maintain records of end-use checks for a period of 5 years (the statute of limitations for BIS investigations into export matters).

From FY 2000 through FY 2004 (through April 2004), CS India conducted 110 end-use checks – 59 PLCs and 51 PSVs. We found that these checks generally adhered to BIS' reporting requirements, with one exception: 14 response cables from CS Chennai and 9 response cables from CS Mumbai did not provide the date of the end-use check visit, as required in the BIS handbook (response cables from post provide an account of the end-use check results).[36] Proper documentation, requiring a detailed account of the end-use check visit, is important in the event of a BIS investigation. We brought this issue to the attention of the SCO and PCOs in New Delhi, Chennai, and Mumbai, who stated that they would be more cognizant of BIS reporting requirements.

> *End-use checks* are verifications employed to safeguard the export of controlled U.S. goods and technology. They consist of pre-license checks and post-shipment verifications.
>
> *Pre-license checks* determine the suitability of an overseas person or firm to receive controlled U.S.-origin goods or technical data. CS officers conduct the majority of PLCs.
>
> *Post-shipment verifications* confirm that the goods or technical data exported from the United States were received by the intended importer and are being used for the approved purposes. BIS' Safeguards teams conduct the majority of PSVs worldwide.

At CS New Delhi, we also noted missing copies of request cables for 9 checks and response cables for 16 checks, most of which were for checks conducted in Mumbai between FYs 2000 and 2002. According to CS officers in India, CS New Delhi maintains copies of all end-use check cables from CS Chennai and Mumbai. The SCO and CS staff in New Delhi explained that upon the SCO's arrival at post in July 2003, significant problems with records retention were noted and the post had no central location for BIS-related documentation. CS New Delhi staff informed us that the office

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[36] Although BIS' end-use check handbook was revised in January 2004, the current version and previous (2000) version contain the same reporting requirements.

has since catalogued existing BIS cables and related documentation and has a dedicated location for all BIS-related documents.

<u>BIS export control attaché is expected to take over end-use check responsibility</u>. BIS' Office of Export Enforcement investigates alleged export control violations and coordinates its enforcement activities with other federal agencies, including the Bureau of Immigration and Customs Enforcement (ICE), the FBI, and U.S. Attorneys' Offices. In addition to its 10 domestic offices, BIS has stationed export control attachés in Abu Dhabi, United Arab Emirates, Beijing, Hong Kong, and Moscow. BIS anticipates stationing an attaché in the CS New Delhi office in the fall of 2004 to oversee in-country export control activities, including conducting end-use checks and maintaining liaison with host government senior officials and export control and enforcement agencies. The attaché will report to the SCO and hold the rank of a commercial officer. In addition to handling export control activities, the attaché will provide end-use check training at regional conferences for U.S. commercial officers stationed in other countries and perform limited Commercial Service program duties, such as providing assistance to U.S. business representatives and reporting on host country export control developments. Both CS headquarters and the SCO look forward to having the attaché in country.

III. CS India's Handling of Trade Events Indicates Need for CO Training

For three trade fairs held during FY 2003-2004, we found problems with CS India's participation in two areas—the method by which the post collected fees and the question of appropriate CS support for noncertified trade fairs.[37] A fourth trade event program, initiated in FY 2001 but with continuing financial problems in FY 2004, was an example of post's failure to properly manage trade events.

A. *Authority for Methods Used by Post to Collect Fees for Three CS India Trade Fairs Is Not Clear*

ITA can finance trade events via user fees, which require ITA to recover direct and indirect costs, or via MECEA[38], which authorizes collections and use of collections for Commerce trade promotion and related activities. Applicable guidelines for user fees include Circular A-25 from the Office of Management and Budget (OMB) and the Department's *Accounting Principles and Standards Handbook*.[39] We found that the methods used by CS India to collect fees for three CS India trade fairs do not appear to have been based on applicable guidelines for either user fees or MECEA. In fact, we could not identify any authorization or guidance to support the post's fee arrangements for such events.

We initially reviewed the collection arrangements for one trade fair because the SCO had an open question to CS headquarters on whether CS India was allowed to collect funds from the fair organizer. After asking CS India staff if there had been fairs with similar collection arrangements during FY 2003-2004, we then reviewed two additional fairs. For two trade fairs during this period, CS India accepted or considered accepting promotional fees from non-USG fair organizers that were based on space rental fees paid by U.S. fair participants. For a third fair during this period, CS India collected a portion of discounts that U.S. participants received from the organizer. According to the former ANESA regional director, who was responsible for overseeing CS India when these fairs occurred, CS headquarters was not aware of these collection arrangements until after the fairs had occurred

<u>CS India Accepted or Considered Accepting Promotional Fees for Two Fairs</u>

Biotech India 2003 (New Delhi, February 5-8, 2003). An Indian nonprofit business association, with 4,250 members companies from the private and public sectors, organized this noncertified trade fair. In a letter to the association, dated August 5, 2002, CS India's deputy commercial counselor offered a number of CS services in return for 15 percent of all space fees collected from American companies, U.S.-India joint venture companies, and other U.S. organizations that agreed to participate in the U.S. pavilion.

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[37] A trade fair or show is one type of trade event. In this discussion, it signifies an exhibition by U.S. companies of their products or services.

[38] Mutual Education and Cultural Exchange Act (1961), 22 U.S.C. 2355(f) and 2458(c)

[39] Office of Management and Budget, *Circular A-25, User Fees,* and U.S. Department of Commerce, *Accounting Principles and Standards Handbook,* Chapters 11 and 12, April 2000.

Fees were based on the number of square meters rented. In a letter to CS, dated September 3, 2002, an association official wrote that the association would pay 15 percent of the total space rented in the U.S. pavilion as a promotional fee to CS, but should the U.S. pavilion be cancelled, the association would not pay the fee, which meant that CS could incur expenses and not be reimbursed.

The details of this fair, as entered into e-Menu, show 14 participants; an average participation fee of $430; authorizations for expenditures of $5,600; liquidations of $5,483; and fees collected of $6,020. However, only one of the participants listed—the association—paid a fee to CS. A check from the association, dated February 8, 2003, was made to "American Embassy, New Delhi" for Rs. 284,819 (approximately $6,020 at that time). This amount equaled 15 percent of the total space rental fees that the association had collected from U.S. pavilion participants and had agreed to pay as a promotional fee to CS.

DefExpo 2004 (New Delhi, February 4-7). The same business association, in conjunction with India's Ministry of Defense, organized this noncertified trade fair. In a letter to the association's deputy director, dated May 28, 2003, CS' acting commercial counselor wrote the terms under which CS would recruit American companies and support a U.S. pavilion. In a responding letter, dated June 26, 2003, the association's director for trade fairs and events wrote that the association would pay 15 percent of the total space rented in the pavilion as a promotional fee to CS with a minimum of 500 square meters required. The director also wrote that the association would not pay the promotional fee if the U.S. pavilion were cancelled [due to insufficient response].

When we reviewed e-Menu entries for this fair, we found that CS India did not charge any expenses to the DefExpo account. According to a CS India staff person who worked on this fair, CS India used the association to collect fair fees in order to avoid paying an ICASS administrative charge.[40]

In an e-mail to a CS staffer dated February 11, 2004, the association's director of trade fairs and events listed eight U.S. companies that had participated in the U.S. pavilion in DefExpo 2004, the square meters rented (342 total), and amount paid by each company ($97,017 total). CS India had not met the minimum space requirement of 500 square meters for the U.S. pavilion. However, the association was willing to waive the requirement and pay CS India a 15 percent fee ($14,452), of its total collections.

In an exchange of e-mails in May 2004, the SCO in New Delhi sought clarification from headquarters before collecting any funds from the association. Excerpts from his e-mail follow:

> All the companies directly signed up with [the association] and paid the participation charges directly to [the association]. However, there was no consolidated U.S. pavilion since many U.S. companies signed up at the

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[40] There is a 7 percent ICASS charge for non-bankcard expenses and 3 percent ICASS charge for bankcard expenses for all events and activities, except Business Facilitation Service.

last minute. Also, many of them signed up directly the [the association] without CS knowledge. Since there were no direct expenses and given the fact that CS did not fulfill the minimum requirements of 500 sqms and set up a U.S. pavilion, we did not submit a budget on the emenu since post didn't believe we'd be making any collections.

Nevertheless, since the event ended up with a significant U.S. representation, we checked with [the association] after the show to see if they were willing to waive the conditions attached to the fee payment. Given our good working relationship with [the association's] event management division, [the association] agreed to pay post a 15% fee (on the total U.S. recruitment of 243 square meters with collections of $97,017), which amounts to $14,452. Anyway, the event is now over and we have no expenses that need to be charged to the Defexpo account. However, we have the option of collecting this fee from [the association] and using these trust funds for other budgetary needs.

If HQ gives the okay, we think this technique could possibly be introduced to other posts as a way to generate user fees.

After we questioned the appropriateness of CS India's request to collect a fee from the fair organizer for its recruitment efforts, CS consulted with the Department's Office of General Counsel (OGC), and CS headquarters finally answered CS India on July 30, 2004. Following OGC's guidance, headquarters wrote that CS India could only recover its costs, including overhead. To justify the costs claimed, CS India would have to specify what services had been provided and the number of hours commercial officers and foreign service nationals had worked to provide those services in support of DefExpo 2004. The SCO responded on August 2, 2004:

Given the sound guidance we've just received, we believe it would probably not be prudent at this time to reengineer our costs. The smart thing to do, in our view, is to not collect the fees from [the association], and to develop for future events a protocol that is completely in compliance with the spirit and letter of OMB Circular A-25. So if no one has any objections we'll close this case.

CS Collected a Portion of Discount Participants Received from Organizer of Aero India 2003

Organized by India's Ministry of Defense, Aero India is considered India's premier aerospace fair. CS India recruited 8 U.S. aerospace and defense companies for Aero India 2003 (February 5-8, 2003), which was not a certified trade fair.

In reviewing documentation for Aero India 2003, we found the following:
- Fees paid by exhibitors to the fair organizer were based on
  - Square meters rented,

        o   Location of rented space (indoor, outdoor, with or without shell)
- The fair organizer discounted fees for exhibitors recruited by CS India by 15 percent.
- These exhibitors paid 7 percent of the pre-discount fee amount to CS India.

(Figure 10 provides a breakdown of total fees billed by the ministry versus fees paid to CS by four of the participants.)

Figure 10. Aero India 2003: Total Fees Billed to Four Participants vs. CS Fees Collected[41]

Co.	Square Meters Rented	Total USD Amount Billed	15% Discount	Net Amount Due	7% of Total Amt Billed	Fees Paid to CS India (from e-menu)
1	30 sqm raw space	$12,000	$1,800	$10,200	$840	$840
2	27 sqm indoor shell	13,500	2,025	11,475	945	945
3	12 sqm indoor shell	6,000	900	5,100	420	420
4	30 sqm raw space	12,000	1,800	10,200	840	864

When we asked CS India to explain the basis for the 7 percent commission, the deputy SCO responded that it was based on post's initial estimates of costs for the fair and likely U.S. participation. However, the exhibitors' fees and CS' share of their 15 percent discount did not reflect projected or actual CS expenses but rather the size and type of space rented.

The methods used by CS India to collect fees for Biotech India 2003 and Aero India 2003 do not seem to be appropriate under either OMB Circular A-25 or MECEA. ITA should consult with the Department's Office of General Counsel regarding what authority allows CS to collect promotional fees. ITA and CS should oversee post trade events to help ensure that the posts handle trade event finances in accordance with applicable rules and regulations.

B. CS India Provided Inappropriate Services for Noncertified Trade Fairs

Each year the Department of Commerce selects trade fairs in prime markets worldwide and certifies them via the Trade Fair Certification Program.   This program is a cooperative arrangement between U.S. private sector trade show organizers and Commerce through which the Department endorses and supports organizers' efforts to recruit U.S. exhibitors to international trade shows and manage an official U.S. pavilion,

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[41] During our review of the Aero India file at post, we found copies of invoices sent to only 4 of the 8 fair participants. When we compared those invoices to the data in e-Menu, we found that the 7 percent commission paid by the 4 participants had been entered as fee payments in e-Menu. Fee payments had also been entered for the remaining 4 participants. Based on the entries for the first 4 participants, we concluded that the total fee payments of $10,863 listed in e-Menu for Aero India were equal to 7 percent of the total amount billed to the 8 participants or 7 percent of approximately $155,180.

and the Commercial Service provides a specific menu of services to exhibitors. Fair organizers pay a nonrefundable contribution of $1,750 for each fair that is to be certified. Of this amount, CS headquarters reserves $300 for ICASS expenses and the post receives $1,450 for its expenses.

According to CS' website promoting trade fair certification[42], the benefits of certification include the identification of the certified organizer's area as an official government supported pavilion for U.S. exhibitors, the recognition that the show organizer is reliable, the arrangement of support services from CS offices in the U.S. and at other countries, and the standardization of CS support worldwide.

> **Certified vs. Noncertified events**
>
> According to an official from CS' Trade Certification Program, post support for certified fairs involves actively recruiting exhibitors and arranging support services from domestic CS offices. For noncertified fairs, CS support is supposed to be limited to information sharing, e.g., market briefings, and public relations duties. This official noted that when posts provide the same level of services for certified and noncertified fairs, they dilute the value of certification and of Commerce's endorsement.

For Biotech India 2003, CS services promised by the deputy commercial counselor included promoting the show in the U.S. and to American and joint venture companies located elsewhere, recruiting participants, printing an exclusive U.S. pavilion directory, and providing other business facilitation services. A booklet for the fair, "Guide to U.S. Exhibitors at Biotech India 2003," featured the logos of CS India, the Pharmaceutical Research and Manufacturers of America, and the U.S.-India Business Council.

For DefExpo 2004, the acting commercial counselor wrote that CS would promote the fair in the U.S. and elsewhere, recruit American participants, print a directory and briefing materials, and construct booths for participants opting for built-up space. In its reply, the event organizer wrote that it would pay 15 percent of the space rental fees in the U.S. pavilion as a promotional fee to the U.S. Commercial Service. When the current SCO arrived, he sent letters to U.S. companies, inviting them to exhibit at the U.S. pavilion for DefExpo 2004. CS New Delhi also asked the U.S.-India Business Council to promote the show to U.S. defense and aerospace companies. For Aero India 2003, CS India delivered a range of services at the fair, including business counseling, U.S. pavilion organization, opening by the U.S. ambassador, and a cocktail reception for U.S. exhibitors.

The services provided by CS India at these three trade fairs—Biotech India 2003, DefExpo 2004, and Aero India 2003—gave the appearance that these fairs were certified trade fairs. ITA should clarify the level of services appropriate for noncertified trade fairs.

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[42] www.export.gov/comm._svc/trade_fair_certification.html

C. Problems with USA Day Events Further Illustrate Post's Failure to Properly Handle Trade Events

According to the *CS Operating Manual*, all official events must be approved through the ITA trade events approval process. Once an official event has been approved through this approval process, a unique project code is assigned, and all collections and expenditures must be posted to this unique code. According to officials with CS' Export Promotion Service, ITA's approval process involves officials from the major offices of ITA[43], including the regional director for the CS post. The number of events per post varies, depending on the relative interest of U.S. industry in various markets, as well as resource allocation decisions by senior commercial officers.

USA Day Events was a series of 2001-2002 events planned by the PCO in Mumbai for 12 cities in western India. The goal of the event series was to promote awareness of CS services in western India and awareness and participation in the CS web-based Buy USA.com electronic business matchmaking service. Between May and November 2001, events were held in 6 cities.

Although the first event was scheduled for late May 2001, the responsible PCO did not ask headquarters for help structuring the series until April 2001, and a project ID (needed to fund the events) was not requested until early May. The events were to be funded by contributions from Indian and U.S. companies. In May 2001, several officials at CS headquarters raised concerns about the structure and funding of the events, and ITA officials did not approve the series of events. However, CS Mumbai collected about $40,000, which was stored in its office safe.

By late May, a new plan, developed by CS India's deputy SCO, was adopted. As part of this plan, the initial contributions payable to CS were returned and contributors were asked by the PCO to make new contributions payable to the USA Day Fund, controlled by an Indian trade association. Members were informed that the contributions would be deposited in an account administered by an Indian trade association but used solely for the 12 USA Day events to be held throughout western India. According to a November 2002 memorandum to NOAA's Office of Finance and Administration, written by the Deputy Director for ANESA, the details of the new plan were communicated via e-mail to all relevant Washington managers. As no funds were to be collected or paid by CS, the restructured series of events was not entered into ITA's trade event database.

The first event in the series was held on June 1. By November 2001, approximately $93,000 had been collected from companies agreeing to sponsor the events. There was no written agreement between the trade association and Commercial Service detailing

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[43]Formerly involved in the approval process were officials from CS' Office of International Operations, Office of Domestic Operations, and the former Export Promotion Services; Market Access and Compliance; the former Trade Development, and ITA's Trade Events Board. Effective July 30, 2004, Department Organization Order 40-1, abolished the position of Deputy Assistant Secretary for Export Promotion Services, transferred trade promotion responsibilities of ITA's former Trade Development to CS, and renamed Trade Development as Manufacturing and Services.

how the funds should be spent. Also by November, 6 events had been successfully conducted at a cost of approximately $25,000 (leaving approximately $68,000 in the association's bank account). In November 2001, an allegation of misuse of funds by CS Mumbai was forwarded to ITA by the OIG, and events were not held in the remaining cities.

Commercial Service conducted an internal review of the financial arrangements in November-December 2001, and recommended the following actions:

- In order to clarify any perceived misperceptions, we recommend that CS India return all USA [Day] Funds to its contributors, including any monies used to finance USA Day events. If needed, CS India will use its own [appropriated or Operations and Administration] funds to assure that 100 percent of all monies are returned to the [sponsor] contributors.
- The ANESA Office, in coordination with the Office of Planning, should schedule a visit to Mumbai to train its staff, including [the PCO], on all CS fiscal and budget procedures. Training should include Trust Fund and Trade Event Management and the use of e-Menu Finance.

In May 2002, CS headquarters decided to give all company sponsors a full refund: it planned to send approximately $25,000[44] to the trade association, hoping that in turn, the association would refund the full $93,000 to the company sponsors. In July 2002, CS India's deputy SCO was in Washington and discussed Commercial Service's objective with officials from the Department's Office of General Counsel, ITA, and the NOAA Contracting Office, whose role would have been to authorize any repayment, via a ratification action, to the trade association for any costs incurred on behalf of CS.

In November 2002, the deputy director for ANESA requested that NOAA's Office of Finance and Administration ratify CS' plan to give the association $25,000 so that Commercial Service could transfer the funds to the trade association. In July 2004, the ratification request was still pending because of questions NOAA had concerning expenses incurred by the association in conducting the first 6 events.

At the time of our review, most of the CS headquarters officials who had been involved in the decision to give a full refund had retired. We found that current headquarters officials were not aware of or did not recall the pertinent facts and circumstances of the case: for example, that $68,000 remained in the trade association's bank account when the program was canceled in November 2001.

Since CS had no formal written agreement with the association, which would have addressed this contingency, it could not be sure that the association would distribute the $25,000 to the original sponsors. By July 2004, it also appeared that the trade association no longer had the $68,000 needed to make a full refund of $93,000. In addition, the responsible PCO knew of no sponsors that had asked for reimbursement. After we

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[44] Amount was $25,541.

brought this issue to the attention of CS, ITA, and NOAA officials and discussed all known pertinent facts and circumstances, they agreed with us that the plan to pay the association approximately $25,000 should not proceed. ITA advised NOAA to cancel its 2002 request for ratification. This decision will result in funds to be put to better use of $25,541—the amount that ITA was prepared to disburse to the Indian trade association—in FY 2004.

Late planning and poor communication within the Commercial Service contributed to the continuing problems with this 2001 series of trade events. However, the absence of a written agreement between Commercial Service and the Indian trade association controlling the collected funds was the key factor that left CS unable to defend itself against allegations of financial impropriety and with no recourse to require the association to return the remaining $68,000 to the contributors when the remaining events were not held.

As of July 2004, CS headquarters had not implemented the recommendation from its 2001 internal review that the Mumbai PCO and staff receive administrative and financial management training, including trust fund and trade event management counseling. During our on-site inspection of India's CS posts, the Mumbai PCO acknowledged that he had not followed Commercial Service procedures for trust funds. Given the administrative and financial management responsibility placed on overseas officers, especially at one-officer posts, commercial officers would benefit from training in CS policies regarding noncertified trade fairs, trade events, and current Department guidelines on interoffice and other special agreements.

Recommendations: ITA's Chief Financial Officer (CFO) and Director of Administration, in conjunction with CS, should:
- Request the Department's Office of General Counsel to clarify under what authority, if any, CS can collect promotional fees from non-USG fair organizers.
- Oversee post trade events to help ensure that the posts handle trade event finances in accordance with applicable rules and regulations.
- Ensure that COs worldwide are trained on ITA policies regarding certified and noncertified trade fairs, trade event financing arrangements, and current Department guidelines on interoffice and other special agreements.

In its response, ITA did not explicitly address the problems and recommendations regarding trade fairs and events that were outlined in our draft report. CS did agree that there is a confusing array of guidance on the various administrative and financial management issues which its officers and local staff are called upon to execute and that the officers and staff need better training on these issues. CS wrote that they have been working on these issues well before this IG report. It noted that its efforts have included (1) a pilot project to use experienced FSN budget managers to help train and guide overseas administrative/budget field staff; (2) administrative and financial management training courses for both FSNs and Commercial Officers during FY 2004; and (3)

preparation of a draft overseas budget and administrative manual. CS also wrote that in FY 2005, OIO plans to integrate the policy expertise of ITA's Global Trade Programs (GTP) unit into overseas trust fund execution and training. With regard to CS India, the Acting Director General stated that the regional director will ensure that the officers and administrative staff receive this trust fund management training.

We commend CS for the steps that it has already taken to strengthen the financial and administrative operations. We request that in its action plan, CS specify whether the training by the GTP unit will include training on CS policies regarding certified and noncertified trade fairs, trade events and current Department guidelines on interoffice and other special agreements. If such training will not be part of training by the GTP unit, please specify how overseas staff worldwide will receive such training. We also request that in its action plan, CS provide the implementation schedule for its plans to have the GTP unit train the OIO regional budget managers in correct trust fund management and to ensure that the regional budget managers review these procedures with their posts. In addition, we request that ITA's action plan include the schedule for providing overseas trust fund training to CS India's officers and administrative staff.

Regarding our recommendation that CS request the Department's Office of General Counsel to clarify under what authority, if any, CS can collect promotional fees from non-USG fair organizers, we request that CS take action on this recommendation and provide us with a copy of the general counsel's opinion on this matter.

IV. Financial and Administrative Operations Are Generally Sound, But a Few Areas Require Additional Attention

In general, CS India's financial and administrative operations are sound. Specifically, we found that CS India is properly monitoring its use of State Department-provided International Cooperative Administrative Support Services (ICASS), and efficiently managing its FY 2004 ICASS budget of $418,986 (roughly $13,000 less than its FY 2003 budget). Procedures for gifts and bequests, representation funds, purchase orders, FSN time and attendance, petty cash replenishment, and use of assets appear to be properly followed. CS New Delhi was not keeping records of personal telephone usage and only recently began tracking and paying for personal calls. The FSNs responsible for the financial operations in New Delhi, Mumbai, and Chennai should receive much of the credit for the sound processes we reviewed at each of the posts.

For FY 2003 and part of FY 2004, most of the financial operations for the seven offices were centralized in New Delhi and handled by one FSN. Many of the problems we identified occurred during this time. However, our review did find several remaining financial and administrative weaknesses regarding lockbox deposits and rating officials not providing timely performance evaluations and salary increases despite apparently maintaining a tracking log and recent enforcement by the SCO. The post has already addressed some of these issues; some warrant further review and action.

A. CS India's Financial Operations Are Generally Well Managed

During the last two fiscal years, we found instances in which payments to vendors were late, a travel voucher was charged to the wrong fund apparently because O&A funds were not available, and the cost of an item charged to a purchase card was split in two to circumvent the $2,500 limit on purchase card expenditures. However, the current SCO has divided financial duties between two FSNs in New Delhi, following the departure of the FSN who previously handled such matters. He also decentralized many of the operations to the financial personnel in the constituent posts—making the posts increasingly responsible for many of their own financial tasks. Since this redistribution of financial responsibilities, we found no evidence of similar problems and expect this division of duties should improve the efficiency and integrity of post's operations. Some financial matters, however, need to be addressed.

CS Headquarters Should Standardize Conflicting Lockbox Requirements

According to a March 2000 e-mail from CS headquarters (OIO) and the *FSN Intermediate Administrative and Financial Management Training Handbook* (2004), all client payments received at foreign posts in U.S. dollars and foreign currencies should be listed on an ITA Collections Transaction Record (CTR) and sent to the post's BANKONE lockbox in Chicago, IL. The guidance also requires posts to charge a $55 service fee for all foreign currency checks and U.S. dollar checks drawn against a foreign bank.

We found that CS India is not sending all currency collections to the lockbox or charging the mandatory $55 service fee. Instead, it deposits local currency with the State Department cashier, rather than in the lockbox, and sends U.S. dollar checks to the lockbox. Although the current practice ultimately results in the monies posting to CS India's account, it does not follow OIO instructions or the FSN handbook. When we mentioned the discrepancy to the State Department Budget and Finance office in New Delhi, officials there told us they were not aware of CS' lockbox requirements.

We found the post's noncompliance may be due to confusion over what is considered foreign currency. Post stated they "do not get U.S. checks drawn against a foreign bank or foreign currency" and all local currency checks from local banks are deposited with the State Department cashier. However, it appears post may not consider local currency as foreign currency. In addition, the variety of guidance on standard operating procedures for overseas collections does not provide a consistent practice. ITA and CS documents offer conflicting guidance on where to deposit collections and whether to collect a service fee. Some of the documentation requires all collections be deposited in the lockbox, while other guidance suggests the State Department should handle all collections. Figure 11 lists the inconsistencies we discovered in a review of documents.

Figure 11. ITA and Commercial Service Guidance on Collections

	Guidance	Source	Year	Deposit Location:	Collection Fee:
1	*CS Operations Manual*	Ourplace	Not available	Lockbox	$55
2	*Online Overseas Financial Policies and Procedures Manual*	ITA Office of Financial Management	1999	State Department	$0
3	*Changing Procedures to "Lockbox" for Depositing Collections Received at Posts*	OIO E-mail	2000	Lockbox	$55
4	Office of Financial Management: *Policy and Procedures for Collecting and Depositing Funds Overseas*	ITA Office of Financial Management	2001	State Department	$0
5	Office of Financial Management: *How to Prepare a Collection Transaction Record (CTR) at Foreign Posts*	ITA Office of Financial Management	2003	Lockbox	Costs to convert cash into money order or check
6	Office of Financial Management: *Deposit Procedures for Collections Received at Foreign Posts*	ITA Office of Financial Management	2003	Lockbox	$55
7	*FSN Intermediate Administrative and Financial Management Training Handbook*	OIO	2004	Lockbox	$55

RECOMMENDATION: ITA's CFO and CS headquarters should ensure that (1) the requirements for overseas collections and deposits are clear and consistent; and (2) administrative personnel are aware of and follow appropriate procedures.

In their response, ITA and CS did not specifically address our recommendation that headquarters should ensure that (1) the requirements for overseas collections and deposits are clear and consistent; and (2) administrative personnel are aware of and follow appropriate procedures. As previously noted in our discussion of ITA's response on page 41, CS agreed that there is a confusing array of guidance on the various administrative and financial management issues, which its officers and local staff are called upon to address, and that the officers and staff need better training in this area. CS wrote that they have been working on these issues well before this IG report and have already begun taking action. We request that ITA and CS, in their action plan, provide the specific steps taken to address our recommendation.
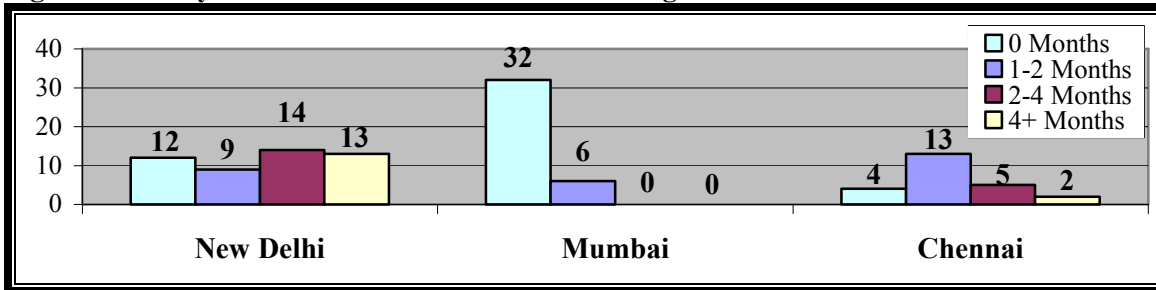
B. *Performance Evaluations and Within-Grade Increases Have Been Delayed*

Performance evaluations give foreign service nationals annual feedback from management that helps them successfully perform their required duties and contribute to the post's mission. Employees whose performance is deemed to be at "an acceptable level of competence" are eligible for a salary increase. We found the reviewing officials in New Delhi, Mumbai, and Chennai did not complete performance appraisals in a timely manner for some foreign service nationals, thus delaying management feedback and raises (i.e., "within grade increases") for these staff, despite reminder notices from the State Department personnel office, recent enforcement by the SCO, and tracking logs maintained by post.

As part of post's ICASS services, rating officials receive reminder notices for personnel evaluations and within grade increases from the State Department's personnel office. In addition, post reports that CS New Delhi and CS Chennai have been maintaining tracking logs for personnel evaluations and within grade increases since 1999 and October 2000, respectively. The DSCO reported CS Mumbai maintains a similar log for western India, but we were unable to verify its implementation date. In addition, post reports "rigorous enforcement of due dates in most of these tracking logs began in the Fall of 2003."

However, we found for the 2001-2004 rating cycles we reviewed, 45 percent of CS India performance evaluations and 56 percent of FSN within-grade increases were more than 30 days past due. This includes at least 5 late performance appraisals and 6 delayed within grade increases, since the SCO apparently began "rigorous enforcement" of the tracking logs. According to the *Foreign Service Management Planning and Performance Appraisal System*, a performance appraisal is required for each employee annually, at the end of the rating cycle. Figure 13 shows the number of FSNs affected by and the corresponding delays in salary increases from the three rating offices in New Delhi, Mumbai, and Chennai.

Figure 13: Delayed Within-Grade Increase for Rating Periods 2001-2004

Source: FSN Personnel Files located in the State Department Personnel Office, U.S. Embassy New Delhi, U.S. Consulates Mumbai and Chennai

It appears current measures to prevent delayed performance evaluations and within-grade increases are not effective for ensuring FSNs receive their reviews and salary increases in a timely manner.

RECOMMENDATION: CS should ensure that CS India officers complete and submit FSN personnel evaluations within the appropriate time frames.

<center>⬥⬗❁❁❁⬖⬥</center>

In its response to our draft report, CS stated that the SCO understands the importance of submitting timely FSN personnel evaluations and has made good progress in overcoming the backlog that he attributed to the ordered evacuation and curtailment of the previous SCO. In addition, it stated that the SCO has instituted a tracking system and has made timely completion of FSN evaluations an item on officers' performance appraisals.

However, we note that the evacuation occurred from May 31 through July 29, 2002, and the curtailment of the previous SCO occurred in February 2003. The current SCO and DSCO both arrived in New Delhi in July 2003.

As we stated in our draft report, CS New Delhi and CS Chennai have maintained tracking logs for personnel evaluations and within grade increases since 1999 and October 2000, respectively. The DSCO reported that CS Mumbai maintains a similar log, but we were unable to verify its implementation date. While post reported that rigorous enforcement of due dates began in Fall 2003, we found five late performance appraisals and six delayed within grade increases since Fall 2003.

We did not review any performance appraisals or EERs (Employee Evaluation Reports) completed by the current SCO so we cannot comment on his assertion that he has made timely completion of FSN evaluations an item on officers' EERs.

In response to our recommendation regarding security issues addressed in Appendix C, ITA did not provide any comments. We request that ITA provide written comments addressing our findings and recommendation.

SUMMARY OF RECOMMENDATIONS

To strengthen the management and operations of CS India as well as other foreign commercial posts, where applicable. We recommend that the Assistant Secretary and Director General of the Commercial Service should do the following:

Resource and Staffing Utilization

- Evaluate staffing allocation and utilization throughout India to ensure it appropriately supports the CS mission (see page 15).
- Explore options to potentially reduce CS India's rent obligations and thereby improve the post's cost-effectiveness as appropriate (see page 15).
- Assess feasibility of equipping offices with voicemail (see page 15).
- Evaluate the concept and mission of the BICs in their present form. This evaluation should consider, for example, the amount of space utilized by the BICs and whether the BICs should utilize more online services and subscription databases (see page 21).
- Ensure CS India officers complete and submit FSN personnel evaluations within the appropriate time frames (see page 45).

Export Successes

- Revise the current CS performance measure guidelines to include—as in the past, specific procedures and responsibilities for review and oversight of export successes, along with detailed definitions, as appropriate—and emphasize as confirmation of the export success that the documentation should include what specific CS value-added assistance contributed to the reported export success (see page 23).
- Ensure approving officials thoroughly review each export success for quality and adherence to CS guidelines, including a review of CMS records and other documentation to verify value-added assistance (see page 23).

To strengthen the financial and administrative operations of ITA and CS, we recommend that ITA's chief financial officer (CFO) and director of administration, in coordination with CS, do the following:

- Request the Department's Office of General Counsel to clarify under what authority, if any, CS can collect promotional fees from non-USG fair organizers (see page 34).
- Oversee post trade events to help ensure that the posts handle trade event finances in accordance with applicable rules and regulations (see page 34).
- Ensure that COs worldwide are trained on CS policies regarding certified and noncertified trade fairs, trade events and current Department guidelines on interoffice and other special agreements (see page 34).

- Coordinate its overseas collections and deposit requirements and ensure administrative personnel are aware of and follow appropriate procedures (see page 43).

APPENDIX A

List of Acronyms

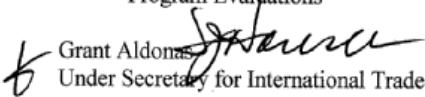|	
ANESA	Africa, Near East, South Asia
BIC	Business Information Center
BIS	Bureau of Industry and Security
CMS	Client Management System
CO	Commercial Officer
CS	Commercial Service
DCM	Deputy Chief of Mission
DSCO	Deputy Senior Commercial Officer
FSN	Foreign Service National
EDA	Economic Development Administration
Ex-Im	Export-Import Bank of the United States
GSO	General Service Officer
ICASS	International Cooperative Administrative Services Support
IMI	International Market Insight
ISA	Industry Sector Analysis
ITA	International Trade Administration
MAC	Market Access and Compliance
NFST	National Field Support Team
ODO	Office of Domestic Operations
OFSHR	Office of Foreign Service Human Resources
OGC	Office of General Counsel
OIG	Office of Inspector General
OIO	Office of International Operations
OMB	Office of Management and Budget
ORAM	Overseas Resource Allocation Model
PCO	Principal Commercial Officer
RSO	Regional Security Officer
RD	Regional Director
SCO	Senior Commercial Officer
USAEP	U.S.-Asia Environmental Partnership
USTDA	U.S. Trade Development Agency

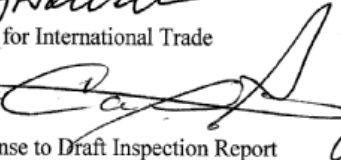**APPENDIX B. Agency Response to Draft Report**

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Assistant Secretary for Trade Promotion
and Director General of the U.S. and Foreign
Commercial Service
Washington, D.C. 20230

SEP 30 2004

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

THRU: Grant Aldonas
                    Under Secretary for International Trade

FROM: Rhonda Keenum

SUBJECT: US&FCS Response to Draft Inspection Report
                    US&FCS India – Draft Inspection Report: IPE-16808

I am pleased to provide you with our response to the draft inspection report of US&FCS' operations in India. Attached are the CS responses to the recommendations contained in the August 2004 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 the issues raised in the IG report.

We appreciate the report and the opportunity to strengthen the Commercial Service management team overseas, not just in India, but in other CS posts as well. It has been an integral part of this Administration's goals to effect improvements in the way we assist American business firms, not only abroad, but throughout our network of domestic offices (USEACs) as well. It is our clear and firm intention to standardize the delivery of our services, as well as conduct our post operations in an efficient and appropriate manner. With 147 offices abroad and an insufficient number of American CS officers to staff these offices, it has taken time to instill a comprehensive and coherent CS philosophy that will ensure the most professional delivery of products and services to our clients. I am proud to say that the vast majority of CS posts have met or are on track to meet these expectations, and where there may be shortcomings, we will vigorously address and correct them.

Along those lines and in response to previous IG reports, we reinstituted the policy for posts to develop Strategic Plans (SPs) in FY01, where OIO issued new guidance to refocus the SPs to raise our accountability, effectiveness and efficiency. The purpose of the refocused SPs is to have each post outline its strategy for improving its bottom line, as well as prioritize those activities that contribute to achieving increased export successes. In FY04, as part of the ITA Reorganization, OIO coordinated the creation of a unified market research and trade events strategic planning process to bring even greater effectiveness and efficiency to post operations.

Since my tenure here, CS management has indeed issued individual guidance on many administrative and budgetary procedures and policies mentioned in your Inspection Report. CS posts are systematically issued guidance on operations through worldwide bulletins, conference calls with posts, broadcast e-mail communications, internal Management and Program Reviews conducted by the Office of Planning and via on-site post management reviews by our OIO management staff.

In FY02 CS established a centralized Office of Professional Development to better coordinate, manage and strengthen its training and professional development programs. Courses dealing with personnel, management, financial and administrative issues are core to this effort and will better prepare our officers to effectively deal with the vast array of challenges they encounter on a daily basis overseas.

CS also established a Customer Relationship Management Unit charged with analyzing customer feedback from CS products and services. FY04 will give the first complete year's survey results. These results will be analyzed to make product enhancements that improve customer satisfaction. Additionally, the Customer Relationship Management Unit conducted on-site customer service training throughout the overseas and domestic fields that provided additional skills that our staff can utilize to better serve clients.

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

Attachment

cc: Timothy J. Hauser
        Rhonda Keenum
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Commercial Service India: Challenges Remain for Management of a Large and Economically Diverse Post

Introduction

The Commercial Service welcomes the opportunity to comment on the Draft Report. CS Management has already addressed many issues raised in the report and we can report progress as documented below. However, other issues require considerably more time to be resolved. For the latter, we will note that these are works "in progress."

As an overarching comment, we would like to note that a number of the issues highlighted in the IG Report stem from or were exacerbated by:
a) disruptions caused by an ordered evacuation,
b) the curtailment of the previous SCO and
c) a shortage of personnel resources both at post and ANESA headquarters during critical periods

Senior CS management recognized the considerable disruptions over the past several years and precisely for that reason assigned one of our most experienced senior officers as SCO in 2003 and selected as his deputy the former PCO in Chennai, who brings depth of experience in India. The current CS India management team has worked diligently to overcome setbacks and has made commendable strides towards making CS India one of our top-performing and best-managed posts. A new Regional Director for Africa/Near East/South Asia has made India one of his top priorities. He will spend ten days in India in early October to review the IG's recommendations, to assess the economic/commercial potential for US exporters, and to determine how HQ might best work with post to realize its potential.

Because India has undergone considerable reduction in operational resources and personnel staffing in recent years, the RD will pay particular attention to the question of resources. In 2004 we eliminated 8 gapped FSN/PSA positions. These positions were gapped not because we had concluded that these positions were all unnecessary, but in accordance with our policy to eliminate existing vacant positions worldwide for which we did not have current funding to fill, in order to reduce our charges under the State Department Capital Security Cost Sharing Program (CSCSP). CSCSP effectively "taxes" us for every official position overseas, whether it is currently filled or not. Eliminating gapped positions reduces our flexibility to respond quickly to changes in overseas markets, foregoing opportunities for our clients, but is a necessary economy in a resource-constrained environment. OIO will be looking at the impact of these personnel cutbacks on our operations in India. The RD and the SCO will review the current allocation and look for ways to optimize available resources. They will also look at an optimal staffing pattern, which we may use to create and fill positions, as and when resources become available. In addition, CS Headquarters has sent an experienced CS officer to New Delhi on 90-120 days TDY to allow the SCO and D/SCO more time to

focus on reviewing the IG's recommendations, drafting an Action Plan and implementing the best solutions.

Comments on Recommendations

Recommendation: <u>Evaluate staffing allocation and utilization throughout India to ensure it appropriately supports the CS mission</u> (pg. 14)

The RD/ANESA will visit four of seven posts in October, accounting for all officers and the bulk of the local staff. The RD and the SCO will review carefully current staffing patterns and job allocation *within the resource constraints FCS faces* and will make recommendations to CS Management for any changes as appropriate.

<u>The SCO disagrees with the IG's view that too many staff are engaged in administrative work.</u> As an example, CS Mumbai has lost 6 positions over the past four years; thus many CS Mumbai employees have taken on duties previously handled by separate staff. For example, each of the drivers also serves as a receptionist. The PCO's secretary also serves as the Trade Events Coordinator. The LAN operator also serves as a Commercial Assistant. The Commercial Clerk also serves as back-up receptionist. Although staff members have departed and not been replaced, CS Mumbai has achieved significant successes with fewer staff, through sharing of duties and greater productivity. All the duties done by the staff, whether they are considered to be commercial or administrative in nature, are essential to the operation of the office.

<u>The SCO does not concur with the Draft Report's criticism of CS India's utilization of cars and drivers</u> (pages 15-16)

The Draft Report (Page 15, paras 3, 4 and 5, and page 16, para 1) states: *"CS India should reevaluate its need for chauffeurs and vehicles at three of its offices. We found that Mumbai had two drivers and only one American officer (the PCO), and Ahmedabad and Calcutta had one driver each, with no American officers on board in those offices. FSNs primarily utilized the chauffeurs in their respective offices.*

Cars and drivers are intended for the use of the entire operation, where conditions dictate the need for such transportation. They are not intended only for officers; FSNs in India are entitled to utilize official cars and drivers for official duties. Although the IG Team found that "many CS staff at post and at headquarters stated this was not the norm," most posts with cars and drivers also have officers. But that is not the case in India. There is nothing improper in having cars and drivers for local staff use. Each post has a policy issued by the Administrative Officer in compliance with the directives of the Chief of Mission. For instance, Mumbai follows the guidelines issued in CS Mumbai Administrative Notice 03/2001 of February 28, 2001, which states:

In section III, General Policy: *It is the policy of the Consulate General to provide transportation to employees of the U.S. Government for the performance of official duties, consistent with regulations, as stated in 6FAM228.1-3. When an official U.S.*

Government vehicle is not available, use of taxicabs is authorized. 6FAM 228.1-3(D).
These guidelines are more or less similar and standardized throughout the US Mission in India. Please note that this Administrative Notice makes no distinction between American employees and FSN employees. All employees of the U.S. Consulate Mumbai are entitled to use official vehicles for official business. Use of taxis is only authorized when official vehicles are not available.

According to the SCO, Mumbai does indeed have a parking problem, but more important, Mumbai's taxis are old and often dangerous or in accidents, and are filthy and lack air conditioning. This is generally the case throughout India. As the climate is hot and humid or extremely rainy for over six months of the year, it is very difficult to travel to business meetings in business attire in a taxi, as one would arrive soaked with either rainfall or sweat. Ahmedabad has only rickshaw taxis, which lack windows. As the temperature is over 100 degrees for over six months of the year, and there are torrential rainfalls during the monsoon, it is difficult and unreliable for the senior FSNs to attend meetings and arrive in proper condition by taxi. As they are required to use an FSN driver, a car and driver are both essential. Taxis also do not have diplomatic license plates which allow access to central and local government drive-in entrances and parking facilities.

A further point of clarification: PCO Mumbai believes that the drivers in Mumbai are not underutilized. The drivers also handle reception duties when they are not required for driving. In fact, because of their driving workload, the office generally does not have sufficient receptionist coverage, and other office staff must take on these duties. On the driving workload point, the PCO did not/not explain to the OIG that the drivers are "sometimes needed" to courier documents to and from the consulate. The PCO did in fact explain that the drivers are used on a daily basis, and sometimes twice a day, to courier documents and mail to and from the consulate. This is particularly critical as CS Mumbai is located 20-30 minutes drive from the main consulate. The PCO also explained that two drivers are required so that coverage could be available every day, as drivers are entitled to leave. Moreover, because the receptionist had been promoted, and CS Mumbai was unable to hire a new receptionist due to the hiring freeze, the two Mumbai drivers do perform receptionist and related tasks when they are not driving. Most of the considerations mentioned above are applicable to all CS posts in India.

Recommendation: Explore options to potentially reduce CS India's rent obligations and thereby improve the posts' cost-effectiveness as appropriate (pg. 14)

The RD will visit four of seven posts and review all space allocations and rent obligations with the SCO. Given the plans to bring CS into new embassy or consulate space in New Delhi, Mumbai and Chennai, we note that the costs of moving twice within a few years, and the disruption to operations may overwhelm any cost savings to be gained. The rent in New Delhi, for example, is a rather modest $66,000 per year.

With regard to the appropriateness of our office locations in Bangalore and Hyderabad, the SCO reports that these were the best locales available when CS India was searching for appropriate office space. In addition, these locales were fully approved by the RSO and were in compliance with all USG contracting and security specifications. Post would prefer to have attractive commercial space in an office building or a modern business complex, and would gladly relocate given the right circumstances. The SCO notes, however, that this kind of property is hard to come by and is in demand by multinationals willing to pay a premium for first-class space. In addition, deals fall through because of protracted USG contracting and security reviews.

Recommendation: Assess feasibility of equipping offices with voicemail (pg. 14)

The RD allocated FY'04 funds to post to purchase voice mail systems where feasible and appropriate. Details will follow in the Action Plan.

Recommendation: Evaluate the concept and mission of the BICs in their present form. This evaluation should consider, for example, the amount of space utilized by the BICs and whether the BICs should utilize more online services and subscription databases (pg 20)

The RD allocated FY'04 funds to purchase subscriptions to online services and databases. The RD and the SCO will evaluate options for "virtual" BICs and/or reducing the amount of space on a case-by-case basis.

Recommendation: Ensure CS India officers complete and submit FSN personnel evaluations within the appropriate time frames (pg. 42)

The SCO understands the importance of submitting timely FSN personnel evaluations and has made good progress in overcoming a backlog which developed due to the ordered evacuation and curtailment of the previous SCO. The SCO has instituted a tracking system, and has made timely completion of FSN evaluations an item on officers' EERS. The SCO has committed to eliminate the backlog and assure timely submission of 100% of FSN evaluations in FY'05.

Export Successes

Recommendation: Revise the current CS performance measure guidelines to include--as in the past, specific procedures and responsibilities for review and oversight of export successes, along with detailed definitions, as appropriate – and emphasize as confirmation of the export success that the documentation should include what specific CS value-added assistance contributed to the reported export success.

Recommendation: <u>Ensure approving officials thoroughly review each export success for quality and adherence to CS guidelines, including a review of CMS records and other documentation to verify value-added assistance.</u>

The Draft Report expresses concern "that CS' new reporting guidelines, which went into effect for FY 2004, have reduced management accountability for ensuring quality and integrity of export success reports." (p ii) *CS Management strenuously disagrees with this assessment as the new guidelines are the result of a multi-year process to improve the quality, consistency and accountability of the export successes recorded by the Commercial Service.*

The Draft Report states that the Commercial Service did not have sufficiently detailed written documentation for maintaining export success quality control. The IG's statement does not give adequate consideration to steps taken by the Commercial Service to communicate and provide guidance to our fields pertaining to export success quality control and for having a quality control apparatus in place.

In October 2003, the Deputy Director General sent a worldwide email introducing changes in FY04 performance measures. The email specifically stated that first-line managers were ultimately responsible for the successful implementation of CS performance measures. In conjunction with the introduction of new performance measures, the Commercial Service established a "Performance Measures Experts Group" comprised of members from each CS unit. This group serves as a resource to the field for questions, provides performance measures training and meets to discuss policy questions and make determinations.

In an on-going effort to provide training to CS staff, performance measures training sessions were held throughout October and November in HQ, and, via conference calls, in the international and domestic fields to ensure that CS staff thoroughly understood performance measures and how to correctly report export successes. Throughout early spring, the subject of the quality of export successes was raised at each of the regional SCO meetings. An important component of these trainings informed all CS of a new requirement that every export success should have company documentation of the assistance provided by CS. The published language is below:

> Each success must be documented to verify the information the company has provided. This documentation can take the form of a memo to the file of a conversation with the company, an email, or some posts/EAC's have forms companies fill out. There are no specific requirements just that some record [must exist] that verifies the communication of the success. This is prompted by recent IG recommendations.

To further commit to maintaining export success (ES) quality controls, in July 2004, the Commercial Service appointed a senior-level employee to monitor all ES reporting worldwide on a full-time basis. This creates a permanent management tool for improving the content, quality, and consistency of export success reporting throughout the CS. In just two months, the actions of this new Export Success Quality Control (ESQC) Officer,

in coordination with other CS units, resulted in several important steps toward better quality control:

(1) A systematic review of 7,254 Export Success records was conducted, identifying 121 duplicate ES reports in FY-04. This represents 1.7% of all ESs reviewed, a significant improvement over previous years. Lower duplication levels are an early benefit of CS's adoption of shared Export Success Credits in measuring individual performance (which encourages greater inter-office collaboration), as well as improved staff training in Performance Measures. The duplicate reports identified in this sweep were referred to their authoring offices for consolidation, which will be completed by the end of FY-04.

(2) A sampling methodology was developed for in-depth quality review of Export Successes from CS offices worldwide. In the course of FY-05 and in each subsequent year, about 20% of current ESs submitted by each office will be reviewed to provide timely feedback on ES strengths and weaknesses. Marked improvement in ES quality should result as each author and reviewing official is apprised of his/her prevailing errors and held accountable for correcting them.

(3) The Performance Measures Working (PM) Group formed in 2003 is being reconfigured to better represent the current CS structure. Its role in ES policy development will be further defined and formalized.

(4) An "ES Policy Summit" will be held in the first quarter of FY-05 to organize, clarify, and augment the standard ES Guidelines now in place. This will involve 2-3 days of concentrated discussion by the reconstituted PM Working Group and additional participants to be named by CS senior management. The Summit will address ES issues identified by the IG (such as how to report export successes for financial institutions, and timely creation of client counseling records), as well as other ES issues already identified by the ESQC Officer.

In short, the Commercial Service has taken numerous steps to communicate the importance of performance measures, to train managers and staff on correct reporting procedures, and implement export success quality controls. When looked at in a vacuum, the written guidance may be deficient. In fact this guidance will be examined and revised after the "ES Policy Summit". However, if the CS performance measures communication policy, training program and implementation guidelines are looked at as a whole package, one can see that appropriate steps have been taken to inform steps of the importance of maintaining export success quality control.

India specific examples:

With regard to CS India success stories, the Draft Report notes that the current SCO and his team turned a 10% decline in the number of export successes into a dramatic increase of 241% in the space of one year, while still winning high marks from partners in the USG and the private sector for high-quality, timely responses. It also notes that successes

from four posts, including New Delhi and Mumbai, met CS criteria for quality. The Draft Report raises concerns with 181 export success reports from three posts in the south of India. In 131 of these, the primary problem was lack of substantiating documentation or explanation, and post has already brought these up to standard. In the end, about 12% (50 of 425) export successes reported in the period reviewed had more serious problems and were withdrawn for further review by the SCO. Some of these may be rewritten and resubmitted if additional information substantiates their accuracy.

The SCO and his team are committed to ensuring that all export successes reported from India meet CS criteria. Post will create safeguards to ensure that this occurs even under difficult circumstances; e.g., when the reviewing officer is away from post for significant periods, as was the case with the PCO in Chennai due to family emergencies. The RD will review this plan with the SCO in October.

Strengthening the Financial and Administrative Operations of ITA and The Commercial Service

Recommendation: Request the Department's Office of General Counsel to clarify under what authority, if any, CS can collect promotional fees from non-USG fair organizers.

Recommendation: Oversee post trade events to help ensure that the posts handle trade event finances in accordance with applicable rules and regulations.

Recommendation: Ensure that COs worldwide are trained on CS policies regarding certified and noncertified trade fairs, trade events and current Department guidelines on interoffice and other special agreements.

CS OIO agrees that there is a confusing array of guidance on the various administrative and financial management issues which our officers and local staff are called upon to execute and that the officers and staff need better training on these issues. We have, in fact, been working on these issues well before this IG report.

For the past two years, the OIO Budget/Admin Team worked to integrate its overseas budget/admin execution into both centralized training and policy/procedures (guidance formulation). While this included working closely with the USFCS Centralized Training Unit and the Management and Program Review (MPR) Unit, the greatest focus was on the establishment of the **Regional Admin Specialist (RAS)** pilot project, which harnesses the expertise and knowledge of seasoned FSN Budget Managers to help train and guide the rest of the overseas admin/budget field staff.

In FY04, the RAS project teamed up with the USFCS Centralized Training Unit to provide consistent and quality admin/budget training to each region of the world. In the area of Trust Fund Management alone, the team executed the following FY04 trainings:

FSNs -

Introductory Administrative and Financial Management- October 2003
Intermediate Administrative and Financial Management- January 2004
Intermediate Administrative and Financial Management- March 2004

Officers -
Intermediate CS training - 5/17-21/04
JO Training - 7/19-23/04
SCO/PCO Training - 8/23-27/04

In December 2003, the OIO Budget/Admin Team realized the need to apply the RAS model to overseas budget/admin guidelines. The goal was to create one single dynamic overseas admin/budget manual that would take the place of numerous inconsistent and often outdated manuals. Over the Spring and Summer of FY04, the RAS, MPR Unit and OIO Budget/Admin Team pulled together overseas budget and administrative guidelines from ITA, USFCS and State to write an inclusive overseas budget/admin manual. The manual is finished and has been vetted by an overseas admin focus group. It is now being reviewed by the Office of the ITA/CFO and it will be cleared through the OGC. Upon final clearance it will become the exclusive manual used to guide the overseas budget/admin staff. It will be placed on the OurPlace website and linked to the Commercial Service Operations Manual.

In FY05, the OIO Budget/Admin Team will focus on integrating the policy expertise of the Global Trade Programs (GTP) unit into overseas trust fund execution and training. This will begin immediately by the GTP office:
1) reviewing the Trust Fund section of the new budget/admin manual;
2) training the OIO Regional Budget Managers in correct Trust Fund management
3) ensuring that the regional budget managers review these procedures with their posts.

With regard to CS India, the RD will ensure that the officers and admin staff receive this training.

Other Comments:

ANESA Region Support

The Draft Report states that "the OIO ANESA Regional Staff provided untimely support during FY 2002-2004." (p13-14) The deficiencies occurred primarily in the second half of 2003 and early 2004, as indicated by the examples given. This corresponds to the period when OIO/ANESA was suffering significant staff shortages, especially the gap in the Deputy Regional Director position following the retirement of the very experienced Deputy RD in the summer of 2003 and the lengthy process involved in hiring a replacement, as noted in the Draft Report. While we regret the lack of timely responses to CS India's inquiries in 2003/4, we must underline the truly unprecedented and extraordinary challenges which faced OIO/ANESA and CS/OIO management during that period when their staffing was weakest. Providing support for Iraq reconstruction and establishing a CS presence in Baghdad, but without additional personnel or financial

resources, was the highest priority for the Administration and the Secretary. It involved placing CS staff in a dangerous and volatile environment and mobilizing the surrounding posts in the region for a series of events as part of the Iraq Regional Reconstruction Initiative developed by ANESA at the specific request of the Deputy Secretary. At the same time, in 2003, security conditions deteriorated sharply throughout the Middle East Region. There were a series of evacuations, drawdowns of staff and even relocations of operations (in Jeddah and in Pakistan) at our posts in the region which required constant daily monitoring by the ANESA RD and/or Acting Deputy RD and frequent reporting to CS and ITA/DOC senior management. The essential security of CS staff was at stake and these issues had to take priority over regular activities. By February-March 2004 this situation was already being rectified. OIO/ANESA is now fully staffed; the new Regional Director has scheduled his first trip is to India to review the operations there, and CS/OIO is planning new OIO Country Manager training later this Fall to both train new managers and strengthen the overall consistency of OIO supervision by all managers.

The Commercial Service appreciates the Draft Report's constructive recommendations and will follow through with an Action Plan for the issues identified above by the end of October. At the same time, the Commercial Service would like to see the IG regularly mention the best practices it finds at posts ("Inspections may also highlight effective programs or operations, particularly if their success may be useful or adaptable for agency managers or program operations elsewhere."). CS India has a number of these which we are happy to document.

Pages 61-65 of this report have been withheld in their entirety.