

U.S. DEPARTMENT OF COMMERCE
Office of Inspector General



***INTERNATIONAL TRADE
ADMINISTRATION***

***CS Brazil Is Operating Well Overall
But Needs Management Attention In
Some Areas***

***Final Inspection Report
IPE-18114/March 2007***

Office of Inspections and Program Evaluations





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

MAR 30 2007

MEMORANDUM FOR: Franklin L. Lavin
Under Secretary for International Trade

Michelle O'Neill
Deputy Under Secretary for International Trade

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

FROM: Johnnie E. Frazier 

SUBJECT: Final OIG Report
CS Brazil Is Operating Well Overall But Needs Management Attention
In Some Areas (IPE-18114)

As follow-up to our January 2007 draft report, we are pleased to provide you with the final report on our inspection of CS operations in Brazil. Thank you for your comments on the draft report. We also received comments from the Director of the National Institute of Standards and Technology, the Acting Under Secretary for Industry and Security, and the Director of the Office of Enforcement for the U.S. Patent and Trademark Office. We have considered these comments in preparing our final report and have attached them in their entirety as appendices to the report.

Our report highlights how CS Brazil and its staff operate well for a large, diverse post, but we note some challenges exist related to the post's management structure and allocation of office resources. We also question the validity of some export successes as they relate to CS' mission to promote U.S. exports and found that the post's response to budget cuts may impact its overall performance. In addition, we identified some discrepancies in the ITA and CS accounting reports and found some administrative policies that were not being followed. Finally, export control end-use checks and post security matters are addressed in the appendices (*For Official Use Only*) to the report.

We are pleased to note that ITA and CS have already taken or are planning to take actions to address most of our recommendations. The speed with which you have moved on several specific recommendations to strengthen CS management and CS Brazil operations has been quite impressive. We request that you provide us with an action plan addressing the status of action on the recommendations in our report within 60 calendar days.

We thank the personnel in ITA headquarters and CS Brazil for their assistance and the courtesies they extended during our review. If you have any questions about our report, please call me at (202) 482-4661 or Jill Gross, Assistant Inspector General for Inspections and Program Evaluations, at (202) 482-2754.

Attachment

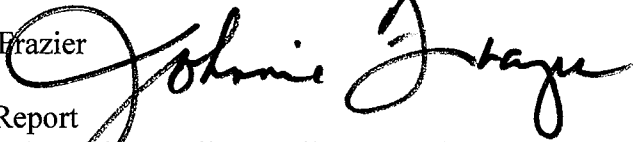




UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

MAR 30 2007

MEMORANDUM FOR: William A. Jeffrey
Director
National Institute of Standards and Technology

FROM: Johnnie E. Frazier 

SUBJECT: Final OIG Report
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Our report also discusses the standards attaché recently posted to CS Brazil. Given the importance of the position and the fact that it was vacant for over two years, the attaché will need to commit considerable effort and time to redeveloping the South American standards attaché program and fulfilling the duties of the position. We are recommending that CS, ITA, and the National Institute of Standards and Technology work together to identify measurable long-term goals and resource commitments to support standards development in the Mercosul region and for CS' Western Hemisphere regional standards program (see page 8 and recommendation 41).

We are pleased to note, as indicated in your response to our draft report, that NIST has already taken or is planning to take action to address our recommendations. We request that you provide us with an action plan addressing the status of action on the recommendations in our report within 60 calendar days.

If you have any questions about our report, please call me at (202) 482-4661 or Jill Gross, Assistant Inspector General for Inspections and Program Evaluations, at (202) 482-2754.

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MAR 30 2007



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

MEMORANDUM FOR: Jon W. Dudas
Under Secretary of Commerce for Intellectual Property and
Director of the United States Patent and Trademark Office

FROM: Johnnie E. Frazier

SUBJECT: Final OIG Report
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Attention In Some Areas (IPE-18114)

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Our report also discusses the new intellectual property legal expert that USPTO recently assigned to Brazil. The exact nature of the attaché's regional duties is yet to be decided. We recommend that USPTO work with CS to develop those regional responsibilities and ensure the availability of support staff and adequate travel funds for the attaché to pursue his mission (see page 8 and recommendations 42 and 43).

We are pleased to note, as indicated in your response to our draft report, that USPTO has already taken or is planning to take action to address our recommendations. We request that you provide us with an action plan addressing the status of action on the recommendations in our report within 60 calendar days.

If you have any questions about our report, please call me at (202) 482-4661 or Jill Gross, Assistant Inspector General for Inspections and Program Evaluations, at (202) 482-2754.

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

MAR 30 2007

MEMORANDUM FOR: Mark Foulon
Acting Under Secretary for Industry and Security

FROM: Johnnie E. Frazier

SUBJECT: Final OIG Report
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We are pleased to note that your response to our draft report provided a detailed discussion related to our concerns regarding end-use checks. As such, we consider this recommendation closed. If you have any questions about our final report, please call me at (202) 482-4661 or Jill Gross, Assistant Inspector General for Inspections and Program Evaluations, at (202) 482-2754.

Attachment





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

MAR 30 2007

MEMORANDUM FOR: Otto J. Wolff
Chief Financial Officer and Assistant Secretary for Administration

David Bell
Acting Director for Security

FROM: Johnnie E. Frazier

SUBJECT: Final OIG Report
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As follow-up to our January 2007 draft report, we are pleased to provide you with the final report on our inspection of the Commercial Service's (CS) operations in Brazil. We received comments on the draft report from the Deputy Under Secretary for International Trade, the Director of the Office of Enforcement for the U.S. Patent and Trademark Office, the Director of the National Institute of Standards and Technology, and the Acting Under Secretary for Industry and Security. We have considered these comments in preparing our final report and have attached them in their entirety as appendices to the report.

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We draw your attention to Appendix E in which we discuss security issues involving CS Brazil. This section also includes ITA's response on security matters discussed in our draft report and notes how CS is working with your office to help address our concerns. If you have any questions about our report, please call me at (202) 482-4661 or Jill Gross, Assistant Inspector General for Inspections and Program Evaluations, at (202) 482-2754.

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SUMMARY

The U.S. and Foreign Commercial Service (CS) of the International Trade Administration (ITA) works closely with American businesses as well as federal, state, local, and nongovernmental trade partners to make companies aware of export opportunities and increase U.S. sales abroad. With offices in more than 80 countries and 107 domestic cities, CS plays a major role in promoting U.S. exports to foreign markets.

The U.S. Department of Commerce's Office of Inspector General conducted an onsite inspection of CS Brazil's five offices in June 2006. The field inspection and subsequent follow-up review in Washington, D.C., conducted through October 2006, focused on the offices' management, program operations, and financial and administrative practices. This included a review of records, supporting documentation, and fiscal reports both in Washington and at each CS Brazil office. We also met with Commerce officials at the overseas offices and headquarters, representatives of other relevant U.S. government agencies, and ITA's key nongovernmental partners and business clients in the U.S. and Brazil.

We found that CS Brazil is a large, diverse post that provides valuable assistance to U.S. companies and collaborates well with most other relevant trade promotion agencies, key U.S. government offices, and nongovernmental organizations despite complications that make relationships difficult in some cases. The post has increased its export successes; however, we identified some questionable claims for this performance measure. CS Brazil's financial and administrative practices appear generally sound, but we found some reporting discrepancies and oversight concerns that warrant management attention. Specifically, we found:

CS Brazil's Management Structure Presents Special Challenges for a Diverse Post. CS Brazil's senior commercial officer (SCO), deputy senior commercial officer (DSCO), and seven commercial officers—including two principal commercial officers (PCO), a standards expert and a newly posted intellectual property rights (IPR) attaché—are responsible for a diverse portfolio of programs and services. We found the current officer structure, including the duty locations, presents many challenges in a geographically dispersed and diverse country such as Brazil. The SCO is stationed in Sao Paulo (Brazil's business hub) and the DSCO is in Brasilia (Brazil's capital and the location of the U.S. embassy in Brazil). As a result, the SCO is primarily performing outreach with the Sao Paulo business community, while the DSCO manages day-to-day relations with the ambassador and other U.S. embassy officials. The PCO in Sao Paulo oversees a majority of CS' core programs and services in Brazil, principally because Sao Paulo produces most of the products and services. In most posts, this is the responsibility of the SCO and DSCO. Another management challenge that we noted involves the regional standards and intellectual property experts. CS recently posted a new South American regional standards expert in Sao Paulo who is responsible for educating local stakeholders on U.S. standards and encouraging U.S. participation in the development of new South American standards. CS' new IPR attaché started in September 2006 and will provide expertise, training, and guidance to a number of U.S. agencies promoting effective IPR protection in Brazil and the region. However, the experts' roles in Brazil and the region were not fully developed at the time of our inspection. Finally, in Belo Horizonte, CS hired a local American instead of an officer to manage the CS

office. This is a viable management option that could be useful at other CS constituent posts (see page 6).

Allocation and Management of the Post's Office Resources Need Attention. CS Brazil is a large, dynamic post with operations servicing a country only slightly smaller than the continental United States. In 2004, the ambassador requested that CS place staff at the U.S. consulate in Recife—located in the northeast—however CS has not yet taken action on that request. Rather CS has traditionally relied on its Belo Horizonte office to serve northeastern Brazil. Reportedly, since our visit to post, a senior CS headquarters official has visited post to explore the Recife office option. We also found that CS' offices in Belo Horizonte, Brasilia, and Porto Alegre experience some difficulty attracting U.S. exporters and promoting commercial opportunities in these regions even though together they produce nearly one-third of Brazil's GDP.¹ In addition, CS Brazil's staff is responsible for 50 industry sectors and subsectors, which it manages through teams. However, we question the actual effectiveness of the post's industry teams and this many sectors because we found (1) poor coordination, (2) rivalry among team members combined with (3) a limited focus on specific sectors (see page 13).

CS Brazil Export Successes Require Increased Management Attention. CS' primary performance goal is to "expand [the] U.S. exporter base." Accuracy and integrity of the export success data reported toward this goal are paramount to assessing the effectiveness of CS' export promotion efforts, especially since this metric is reported to both Congress and the Office of Management and Budget as a performance measure. CS Brazil has reported fluctuating numbers of export successes over the past few years, starting with 593 in FY 2004, jumping to 659 in FY 2005 but dropping to 565 in FY 2006. We found that many claims are invalid or do not appear to meet CS guidelines for claiming an export success, and the post had inadequate verification procedures in place to support claimed export success results.² Specifically, we found at least 72 export successes out of a sample of 907 reported in FY 2005 and FY 2006 do not appear to fit the definition of a valid export success, as outlined in the *CS Operations Manual*, and an additional 162 export successes appear questionable as to whether they meet the intent of CS' mission. Specifically, CS Brazil claimed 137 export successes for renting booths to Brazilian companies at trade shows in the U.S., even though the firms primarily sought to sell their Brazilian products at the shows. The remaining 25 questionable export successes combined booth sales with training services or claimed airline ticket sales without any indication of CS value-added service, among others (see page 21).

CS Brazil Responded to Budget Cuts by Adjusting its Programmatic Priorities to Increase Collections. The post's operating and administrative budget has changed significantly over the last three years. CS reported that continuing reductions in its overall budget, forced it to reduce some aspects of CS Brazil's budget (as well that of some other posts) as other fixed expenditures increased, such as non-officer personnel costs and short-term leases at the post level.

¹ Brazil's Institute of Geography and Statistics states that the combined GDP of Minas Gerais, Distrito Federal, Goiás, Rio Grande do Sul, Santa Catarina, and Paraná states account for 32 percent of Brazil's GDP. <http://www.ibge.gov.br/home/estatistica/economia/pibmunicipios/2003/tab01.pdf>

² According to CS' *Operations Manual*, staff should maintain adequate support documentation for CS officers to review, and then CS officers must ascertain the veracity of those export successes to ensure that the post reports valid and justified export successes.

Specifically, from FY 2004 to 2006, CS Brazil's operating and administrative budget increased from \$2.3 million to \$2.8 million, due to rising fixed expenditures such as personnel costs and a fluctuating exchange rate. However, as a result of the large fixed cost increase, CS headquarters reduced the post's discretionary budget by 63 percent from \$689,496 to \$254,921 during the same period.³ This affected spending for direct program support (travel and supplies), furniture and equipment, and hospitality expenses. The post's travel budget alone was reduced from \$169,156 to approximately \$83,443 in FY 2006.⁴ However, only \$26,443 of the FY 2006 budget was actually available to fund travel for outreach and program support because the remaining amount was designated for the CS Brazil All-Hands Conference (\$42,800) and officer training expenses (\$14,200). As a result of these budget changes, the post's outreach to other regions in Brazil was limited so it is now emphasizing the need for trust fund collections to supplement its discretionary budget for travel and outreach. However, this push to increase collections may be affecting other CS priorities and the types of products and services the post is able to provide (see page 29).

CS Brazil's Products, Services, and Outreach Have Increased but Some Improvements Are Needed. The post is active and provides clients with many products and services. It also participates in numerous trade events. From FY 2005 to FY 2006, CS Brazil increased its overall performance of products and services from 241 to 267. Most notably, CS increased its business facilitation services by 126 percent (from 38 to 86). Despite CS Brazil's current level of productivity, we are concerned that its increased involvement in certain types of services may limit the post's ability to promote other CS products and services to U.S. exporters. We found that the staff performance goal system may be encouraging CS Brazil staff members to focus their efforts on trust fund collections rather than increasing the number of traditional products and services it provides. For example, customized market research, Gold Key services, and official and post-initiated events all decreased from FY 2005 to FY 2006 but collections increased 76 percent. In addition, while we found the post's market research reports are generally well-written, efforts to increase unplanned market research should be expanded. Generally, we found customers were satisfied with the post's products and services but some improvements in planning and executing catalog shows are needed (see page 34).

Some of the post's outreach efforts to attract U.S. exporters to the region are not very effective. The 2004-2005 pilot program "Retail in Rio" offered opportunities for numerous U.S. companies to display their products in local Brazilian retail stores and trade shows. However, the program's expanded country-wide version, "Retail Brazil," is not attracting similar numbers of U.S. exporters and may not see significant results. Similarly, the framework of the original Network U.S.A. program—a network of 49 Brazilian and Paraguayan partners and associations that electronically extends CS Brazil's presence in areas without CS representation—may not currently meet the needs of the local business environment and U.S. exporters, considering that most of the program's reported export successes relate to Brazilian companies selling their products in the U.S. (see page 34).

CS Brazil's Relationships with U.S. Trade Promotion Agencies and External Stakeholders Are Complex. The Brazilian market is challenging for U.S. exporters, but the post works with

³ As of April 2006.

⁴ As of October 2006.

at least 24 U.S. Export Assistance Centers to present webinars—virtual web-based counseling—on doing business in Brazil and coordinate logistics for international buyer delegations. The post also coordinates with CS headquarters to promote Brazil as a “featured” export market. In addition, the post generally works well with the other members of the U.S. mission in Brazil to foster bilateral trade. But despite these efforts, the post still faces some challenges in coordinating efforts with external stakeholders and some U.S. trade-related agencies, including the American Chamber of Commerce and the U.S. Department of Agriculture’s Foreign Agricultural Service (see page 43).

Financial and Administrative Operations Are Generally Sound, but a Few Areas Require Additional Attention. In general, CS Brazil’s financial and administrative operations appear sound, but some areas need improvements. The post closely monitors its use of State Department-provided International Cooperative Administrative Support Services (ICASS), tracks its obligations and liquidations in eMenu, uses funds and purchase cards appropriately, and uses CS vehicles only for official business. However, we had difficulty tracking the post’s financial data because of the many discrepancies between financial reports located on eMenu, accounting reports obtained from ITA, and various other supporting documentation. There is a need for a consolidated report that provides a clear financial picture of the post. We also found further steps could be taken to reduce ICASS costs, a Class B cashier may not be necessary in Sao Paulo, and minor issues were noted with subcashiers. In addition, gift and bequest and travel voucher and travel advance policies and practices need to be followed. For example, we found gift and bequest documentation⁵ (1) was not submitted within the required timeframe, (2) did not include all required information, and/or (3) was not approved by the appropriate manager. We also found that a uniform telephone reimbursement policy is needed, some unliquidated obligations should be examined for possible deobligation, and training records for purchase card holders were not available to enable managers to verify that all card holders and approving officials have received required acquisition training (see page 49).

The report also has two limited distribution (For Official Use Only) appendices that contain sensitive information. Appendix D discusses CS Brazil’s export license end-use checks in Brazil in support of the Department’s Bureau of Industry and Security (BIS). Appendix E addresses the post’s physical security controls and personnel security.

On page 61, we list a summary of our recommendations to ITA, CS, the National Institute of Standards and Technology (NIST), and the U.S. Patent and Trademark Office (USPTO). The two appendices also contain recommendations, on pages D-4 and E-2.



ITA, USPTO, NIST, and BIS Responses to OIG Draft Report and OIG Comments

In responding to our draft report recommendations, the Deputy Under Secretary for International Trade noted the numerous actions that ITA and CS have taken or plan to take to ensure a more effective CS Brazil operation. ITA concurred with nearly all of our recommendations and

⁵ This included the CD-210, *Record of Gift or Bequest*; SF-362, *Semiannual Report of Payments Accepted from a Non-Federal Source*; and letters of commitments from the company outlining the gift and bequest.

provided in its response detailed strategies, action plans, or program assessments to address our findings. With respect to our concern about export success claims for recruiting Brazilian companies to participate in U.S. trade shows to sell their foreign products, ITA stated that it will take this under advisement as CS considers U.S. trade show organizations as a legitimate part of the American services sector. ITA's response included an in-depth discussion of the new management structure to be implemented at post, including updated roles and responsibilities for the SCO, DSCO, and PCO. Many of the issues addressed in our report were discussed at the CS Brazil October 2006 All-Hands Conference, along with a list of draft recommendations that we provided for that meeting, the post continues to make improvements. Specifically, the post is working on a revised strategic plan to better leverage market presence around Brazil. It is also implementing a new industry team structure to enhance cooperation among staff and developing a system to clarify the trust fund collection and disbursement process. In addition, ITA's Office of Financial Management and CS are reviewing the Class B cashier's operation in Sao Paulo, and together with the State Department they are working to improve the reliability of eMenu and ITA accounting reports.

Based on recommendations in this report and previous OIG reports, ITA stated that it will continue to work on improving CS' export success program. One of our recommendations addressed the definition of an invalid export success as it relates to promoting U.S. trade show booth space to foreign companies. In response to the recommendation, ITA stated it will take our recommendation under advisement as it evaluates the entire export success program. The Office of Financial Management instituted an independent export success verification process in the domestic field and will implement the program at selected overseas posts in fiscal year 2007. In addition, ITA will conduct an in-depth program evaluation of export successes and the export success business process to assess the planning, collection, and reporting functions and evaluate the workload, costs, benefits, and contribution of export successes to CS' mission and function. We acknowledge ITA's efforts to examine the appropriateness of export success metrics as they relate to the current CS mission and ask that ITA provide additional information on this initiative in its action plan.

The USPTO also provided a response to our draft report. It has created a Latin America Regional Team to support the new IPR attaché and together with CS and the attaché, is developing an action plan for the region. In addition, it reported that funding for support staff and travel have already been approved. We appreciate USPTO's responsive efforts to help ensure an effective IPR attaché program in Brazil.

NIST concurred with the recommendations in our draft report addressing the standards attaché. Specifically, NIST stated that it is working with ITA's Office of the Standards Liaison and CS to develop long-term goals for the standards attaché and an action plan for a long-term standards strategy for South America. We also acknowledge NIST's and the Office of the Standards Liaison's active roles in the U.S.-Brazil Commercial Dialogue and their efforts to exchange information with Brazil on standards, conformity assessment, and technical regulations.

BIS responded to our recommendation made in the limited distribution report appendix on export controls (For Official Use Only). Its detailed response is attached to that section. (See appendix D.)

We discuss the ITA, USPTO, NIST, and BIS responses to our findings and recommendations in greater detail at the end of each chapter and in the appendices. Our final report also includes each bureau's entire response in appendices to this report.

BACKGROUND



Brazil has the largest economy in Latin America and is the 14th largest U.S. trading partner.^{6,7} In 2005 the U.S. exported a total of \$15.3 billion in products and services to Brazil while its imports from Brazil totaled \$24.4 billion.⁸ Brazil's expanding presence in world markets is supported by well developed agricultural, mining, manufacturing, and service industries. The country's economy continues to grow but still remains vulnerable to economic risks and international disputes over illegal activities in the tri-border area of Argentina, Brazil and Paraguay.⁹

The International Trade Administration's Commercial Service (CS)¹⁰ provides market research, trade event promotion, counseling, and customized products and services for U.S. companies, primarily small and medium-sized businesses. CS Brazil is one of the largest CS overseas posts, with offices in Belo Horizonte, Brasilia, Porto Alegre, Rio de Janeiro, and Sao Paulo. The post has 8 American foreign service officers and 48 local staff.

The senior commercial officer, a principal commercial officer, two commercial officers, the regional standards officer, an intellectual property rights officer (who started in September 2006), and 30 foreign service national employees are stationed in CS Brazil's largest office at the U.S. consulate in Sao Paulo, the hub for Brazil's business activity. The deputy senior commercial officer, a junior commercial officer and five FSNs are stationed at the U.S. embassy in the capital city of Brasilia. The Rio de Janeiro office has a PCO and seven local staff and is collocated in the U.S. consulate. The CS Belo Horizonte office is collocated with a local trade association and has a local hire American office director who manages four local staff. Porto Alegre is a single-person office run by an FSN.¹¹

Figure 1. Brazil's Economic Profile (2005)

Key Statistics for Brazil 2005	
GDP:	\$1.556 trillion
GDP per capita:	\$8,400
GDP growth:	2.4 percent
Population:	188,078,227
Unemployment:	9.8 percent
Leading exports:	transport equipment, iron ore, soybeans, footwear, coffee, and autos
Leading imports:	machinery, electrical and transport equipment, chemical products, and oil

Source: CIA World Fact Book (2006)

⁶ According to the CIA's *The World Factbook*, Brazil's GDP purchasing power parity is \$1.556 trillion.

⁷ U.S. Census Bureau, Top Trading Partners (Total Trade, Exports, Imports) as of June 2006, <http://www.census.gov/foreign-trade/statistics/highlights/toppartners.html>, August 31, 2006.

⁸ U.S. Census Bureau, Foreign Trade Statistics, Trade in Goods (Imports, Exports, and Trade Balance) with Brazil, <http://www.census.gov/foreign-trade/balance/c3510.html>, September 8, 2006.

⁹ CIA, *The World Factbook - Brazil*, <https://www.cia.gov/cia/publications/factbook/print/br.html>, August 31, 2006.

¹⁰ CS is also known as the U.S. Foreign and Commercial Service.

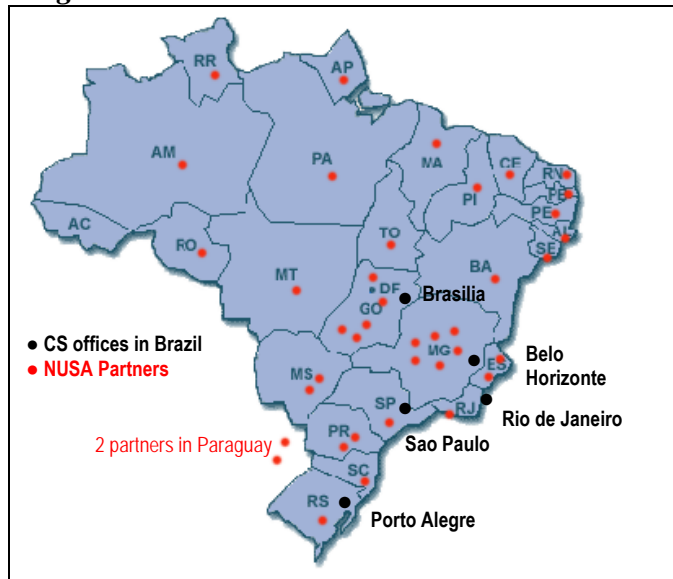
¹¹ After our onsite inspection, the Porto Alegre FSN resigned from the position and has not been replaced.

Network U.S.A.

In 1998 CS Brazil established the Network U.S.A. (NUSA) program to extend CS Brazil's presence through an electronic network to much of Brazil and Paraguay without CS officer or staff presence. The network is composed of 49 partner organizations, such as American Chambers of Commerce and Brazilian trade associations, in 38 Brazilian cities and 2 cities in Paraguay (see Figure 2).

CS Brazil sends a monthly electronic newsletter, called *NUSA Hot Mail*, to its NUSA partners for them to disseminate to their members. *NUSA Hot Mail* includes hyperlinks to the Portuguese version of CS Brazil's web site, *Focus Brazil*, where interested parties can find more detailed information on specific U.S. companies looking for partners to enter the Brazilian market, upcoming International Buyer Programs (IBPs) to the U.S. or trade shows in the U.S., and NUSA Road Shows (reverse industry trade missions to the U.S.).

Figure 2. Network U.S.A. Partners



Source: Commercial Service

The U.S. - Brazil Commercial Dialogue

In November 2005, President Bush and Brazilian President Luiz Inacio Lula da Silva met in Brazil and committed to strengthening commercial relationships between their two countries. On June 6, 2006, the Secretary of Commerce and Brazil's Minister of Development, Industry and Trade, formally launched the U.S.-Brazil Commercial Dialogue in Rio de Janeiro. The Secretary was accompanied by other Commerce officials, including the CS Brazil SCO, ITA's Assistant Secretary for Market Access and Compliance, the Deputy Director of the U.S. Patent and Trademark Office, and the then Deputy Director of the National Institute of Standards and Technology. They each participated in at least one of the four working committees—business facilitation, export and investment promotion, intellectual property protection, and standards—to develop action items to stimulate economic and business cooperation between the two countries.

The business facilitation group focused on the competitive advantage of moving goods efficiently across borders and sharing best practices, including regulatory and business facilitation efforts. The export and investment promotion group emphasized the importance of timely and accurate economic data and the exchange of technical and trade promotion best practices between the two nations.

The intellectual property group emphasized the importance of the intellectual property system to trade, innovation, and investment. In an effort to recognize its impact on the economies of both

countries, the Secretary and Minister agreed to enhance technical cooperation on patents and trademarks. Brazil is one of 13 countries listed on the U.S. Trade Representative's 2006 Special 301 priority watch list because it does not provide adequate levels of intellectual property rights protection, enforcement, or market access for entities relying on IPR protection in the country. The USPTO recently posted an IPR attaché in Sao Paulo who will be the point of contact between USPTO and its Brazilian counterpart, Instituto Nacional da Propriedade Industrial (INPI) and promote intellectual property protection in Brazil and regionally, where appropriate. In addition, Commerce is tentatively planning for a delegation from USPTO to visit INPI in 2007 to discuss trademark examination practices and new examiner training.

The standards group highlighted a commitment to innovation and growth. NIST and Brazil's National Institute of Metrology, Standardization, and Industrial Quality (INMETRO), in coordination with the private sector, will begin to exchange information and strengthen standards, conformity assessment and technical regulations in the coming year. Technical standards are one of the major barriers to trade that U.S. exporters face in the Brazilian market. NIST and ITA continue to partner to protect U.S. interests and help foster a better understanding of U.S. standards within the local business community and among Brazil's stakeholders. NIST's Global Standards Program is involved in many standards-related activities in the western hemisphere. However, one of its primary goals in the hemisphere is to provide coordination for the numerous standardization activities that are taking place. The CS regional standards attaché working in Sao Paulo will play a pivotal role in helping coordinate discussions between NIST, INMETRO, and various U.S. and Brazilian standards organizations to address standards development in Brazil and technical barriers for U.S. exporters.

In November 2006, the Secretary and Minister convened in Washington, D.C. for the second meeting of the Commercial Dialogue. They continue to work to improve bilateral economic and business relations, including encouraging the public and private sectors to increase and diversify the bilateral flow of goods and services. According to ITA officials, some of the commitments since the first meeting in June 2006 include enhanced technical cooperation on patents and trademarks, standards, conformity assessment, and technical regulations. In addition, they have reportedly made progress on best practice initiatives for business registration and entrepreneurial and venture development and hope to continue to deepen bilateral trade and investment ties in the future.

OBJECTIVES, SCOPE, AND METHODOLOGY

Our office conducted an inspection of CS operations in Brazil to assess the effectiveness of its management, programs, and financial and administrative practices. The inspection was conducted under the authority of the Inspector General Act of 1978, as amended, Departmental Organization Order 10-13, dated August 16, 2006, and in accordance with the 2005 *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency. Specifically, we sought to determine whether CS Brazil:

- Plans, organizes, and manages its work and resources effectively and efficiently;
- Meets the needs of U.S. exporters, including adequate follow-up with clients, and operates its programs efficiently;
- Maintains appropriate internal controls and financial management practices;
- Actively participates in trade compliance, intellectual property protection, and market access efforts, and collaborates with other Commerce and U.S. embassy components and trade partners, including USPTO and NIST;
- Performs export control/end-use check activities in cooperation with the Bureau of Industry and Security;
- Adequately addresses infrastructure issues at post, including information technology, security, and other issues concerning facilities; and
- Provides appropriate training and support for CS officers and foreign national staff.

To accomplish our objectives, we:

- Interviewed appropriate Commerce and CS headquarters personnel;
- Interviewed most Commerce staff at CS Brazil;
- Interviewed the U.S. Deputy Chief of Mission in Brazil¹², the Consul Generals in Rio de Janeiro and Sao Paulo, and other members of the U.S. mission in Brazil, including U.S. State Department consular, administrative, economic, and security officials and personnel, the U.S. Department of Agriculture's Foreign Agricultural Service, and U.S. Department of Defense officials in Brazil;
- Interviewed staff members at various U.S. export assistance centers (USEACs);
- Interviewed representatives of other federal agencies in Washington, D.C., trade partner associations and foreign companies, including staff and members of several American Chambers of Commerce in Brazil, the Federation of Industries in Brazil, and several CS Brazil clients;
- Contacted a number of clients that utilized different CS Brazil services;
- Reviewed appropriate documents containing FY 2005 and FY 2006 export success performance data;
- Examined pertinent files and records relating to the post's internal controls and financial and administrative management, including collections and deposits, imprest fund/petty cash, procurements, credit card usage, travel orders and vouchers, gifts and bequests, inventory, representation funds, international cooperative administrative support services

¹² There was no U.S. Ambassador to Brazil during our onsite inspection. The new U.S. Ambassador arrived in Brazil in November 2006.

(ICASS), and use of government property for fiscal years 2004 and 2005.

We conducted our review from May 3 to October 31, 2006, with onsite work in Brazil from June 12 to June 30, 2006.

During our review, we discussed our findings with the CS Brazil SCO, DSCO, and senior embassy officials. Upon our return to Washington, D.C., we also discussed our findings with ITA's Deputy Under Secretary, the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service, the Deputy Assistant Secretary for International Operations, and other CS and ITA staff members.

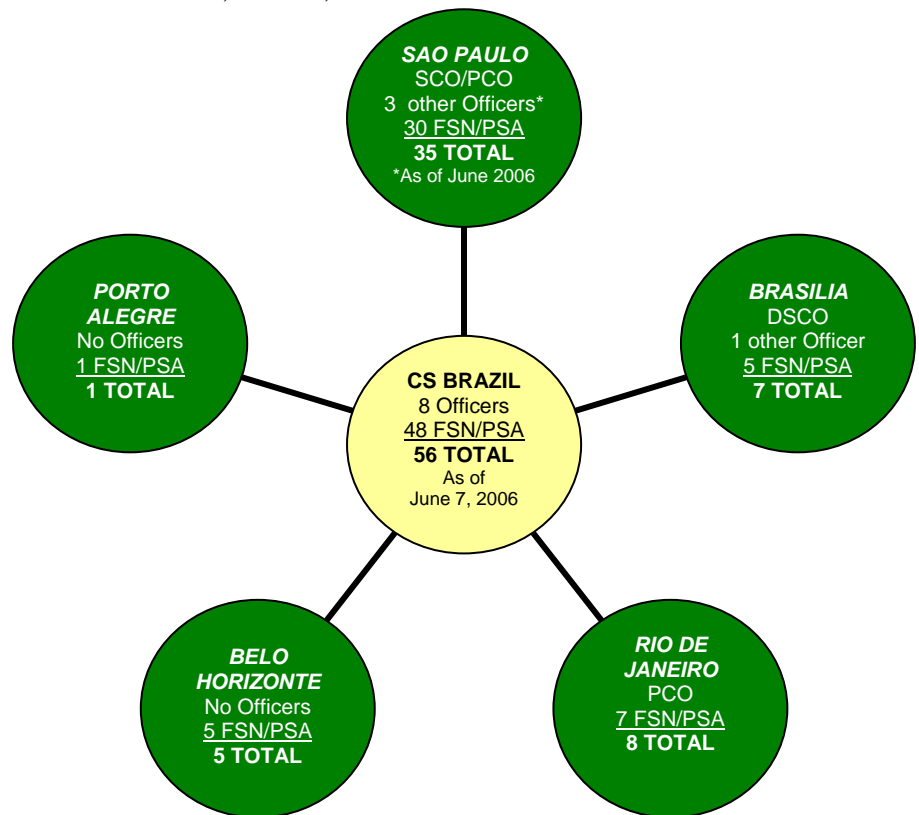
OBSERVATIONS AND CONCLUSIONS

I. CS Brazil's Management Structure Presents Special Challenges for a Diverse Post

Management of a large trade promotion program in such a geographically dispersed and diverse country as Brazil is a challenge that is made even more difficult by the current placement of CS' eight officers. Another management challenge is to fully develop the regional responsibilities of the new Sao Paulo-based South American regional standards attaché and the intellectual property rights attaché—a new position staffed by the U.S. Patent and Trademark Office. In addition, the successful operation of CS' Belo Horizonte office, which is managed by a local hire American who represents CS within the region, may be a model for other posts around the world.

A. *The placement and responsibilities of the SCO, DSCO, and Sao Paulo PCO need to be reevaluated*

CS posts are traditionally structured with an SCO, DSCO, and commercial officers in the embassy and a principal commercial officer managing CS operations at any U.S. consulate and/or constituent post. In countries with more than one CS office, the SCO is expected to coordinate the post's resources to benefit U.S. exporters and ensure teamwork among constituent posts. In addition, the SCO usually handles top level relations with the American and foreign business communities and is the primary CS contact with the U.S. Ambassador and the Deputy Chief of Mission. The DSCO ordinarily oversees the same activities and generally manages many of the post's country-wide program and administrative activities. A PCO is normally responsible for advancing U.S. commercial interests in a geographic region within a country, in addition to managing a local CS office and its work activities.



In Brazil we found that neither the SCO, nor the DSCO, who arrived in Brazil in July 2003 and April 2006 respectively, was fully engaged in the work being performed at each office or effectively managing the post's overall resources. Instead, the SCO focused much of his

attention on relationships with the business community. The Sao Paulo American Chamber of Commerce (AmCham)—one of CS' primary local partners—is one of the largest in the world, and the SCO believes it requires constant attention to support an effective relationship. However, most of the AmCham members are local Brazilian companies looking to export to the U.S. market—not to import U.S. products. As a result, the SCO faces considerable difficulties and challenges in his efforts to maximize export opportunities for U.S. small and medium-size enterprises in the Brazilian market, while at the same time maintaining excellent relations with the local business community.

In hopes of maximizing U.S. export opportunities, the SCO pays particular attention to the many Brazilian companies headquartered in Sao Paulo and tries to meet with them regularly. He stated that gaining access and building trust are key to an effective working relationship in Brazil. He said he has more than 2000 business contacts, regularly talks with 200 of them, and that he considers 50 to be close contacts. He also said that measuring the results of his outreach may be difficult, but the relationships are fruitful. For example, he cited an instance when a U.S. trade mission wanted to meet with a large Brazilian manufacturer. After several unsuccessful attempts by the trade mission organizers and CS' local staff, the SCO wrote a letter to the manufacturer and within 24 hours a visit was scheduled.

Given these external demands, the SCO leaves daily management of CS Brazil to his staff. With the SCO in Sao Paulo and the DSCO in Brasilia, neither the SCO nor DSCO actively coordinates countrywide trade promotion strategy or program activities among CS Brazil's five posts. Instead, the PCOs and office directors determine many post-specific policies and set varying performance standards. Additionally, CS Brazil generally suffers from low staff morale and a lack of teamwork among the five CS offices, although some industry teams did actively engage each other. These conditions can increase the potential for missed export opportunities for U.S. exporters.

One reason why the DSCO may not be fully engaged in day-to-day management of CS Brazil is because he is in Brasilia and spends most of his time managing CS' relationship with the U.S. embassy and responding to U.S. policy and advocacy matters. The SCO noted that because he is not in Brasilia, it is even more important that the DSCO be available and responsive to the Ambassador and DCM. For example, shortly after the DSCO arrived at post in April 2006, he was tasked with coordinating the Secretary's June 2006 visit to Brazil. The DSCO also manages one officer and five local hires. Given the size of CS Brazil's entire operation (five posts and 56 staff), the post needs a senior CS officer dedicating more time to CS Brazil's overall strategic direction.

However, having the DSCO located in Brasilia presents some additional challenges for strategic management of the entire post. Most of CS Brazil's products and services originate in Sao Paulo. Effective management and oversight of these programs requires day-to-day contact with the commercial specialists and commercial assistants performing these services, as well as onsite attendance at some of the events. With more of a hands-on role, the DSCO would be in a better position to suggest countrywide opportunities and promote improved coordination. In addition to the large volume of program activity in Sao Paulo, the post is responsible for CS Brazil's administrative and financial management. CS Brazil's administrative manager is in Sao Paulo

and is responsible for most non-program related activities. This includes overseeing budgets for the five CS offices, corresponding with the State Department's administrative and financial staff, and managing administrative policies. It would not be cost or time efficient to send all the documents to the DSCO in Brasilia for review.

Consequently, the SCO relies on the Sao Paulo PCO to run the operations and handle many mission-wide responsibilities normally assumed by the DSCO in other posts. The SCO spoke highly of the PCO's capability and said he is a good administrator, allowing the SCO to build an outreach network and manage at a high level. For example, the SCO liaisons with CS headquarters on post and Washington initiatives. Given the level of internal responsibility the PCO has at this post, combined with the SCO's external affairs portfolio in Sao Paulo, it appears the PCO is limited in his ability to perform more external activities, such as being the primary CS representative at the consulate or meeting more frequently with the business community, trade associations and local government officials. We recommend that CS evaluate the current roles and responsibilities of the SCO, DSCO and Sao Paulo PCO to ensure the most effective use of resources and management of country-wide programs.

B. *The regional responsibilities for Commerce's standards attaché and IPR attaché are not adequately defined*

CS Brazil plays an important role for the U.S. business community as countries in South America develop or refine technical standards and explore intellectual property rights. CS has a standards attaché in Sao Paulo who is responsible for educating local stakeholders on U.S. standards and encouraging U.S. participation in the development of new South American standards. In addition, USPTO recently assigned an intellectual property legal expert (IPR attaché) to CS Brazil-Sao Paulo for a 2-year rotation.

At the time of our review, the Brazil standards attaché position had been essentially vacant for more than 2 years. One attaché left in February 2004 and the next officer held only a brief appointment from mid-November 2004 to April 2005. CS eventually filled the position in April 2006 and began redeveloping the attaché's role.

Based on the post's previous standards work in Brazil and the Mercosul¹³ region, the SCO, DSCO, and the current standards attaché developed the attaché's work plan for 2006-2007. While the attaché has relatively little prior experience in standards-related issues, the SCO tasked him with gaining a solid background on standards and the influential standards organizations in Brazil, Europe, and the Mercosul region. To help prepare him for this assignment, he participated in approximately six weeks of training before

Figure 3. Mercosul Region



Source: www.mre.gov.br

¹³ Mercosul (also referred to as Mercosur in Spanish) was established in 1991 as a customs union between Brazil, Argentina, Uruguay and Paraguay.

going to post. This included consultations with NIST, ITA's standards liaison, and industry representatives.

The SCO plans to have the attaché focus his regional efforts on Mercosul and its leadership. The attaché will consult with Brazilian and Mercosul standards development organizations and regulatory agencies to learn how each functions from a technical and political perspective. He is also supposed to support Commerce's Western Hemisphere Regional Standards Program (WHRSP) and communicate the region's standards-related issues to Commerce headquarters and U.S. industry. However, the attaché told us at the time of our review that he does not consider his standards role to require full-time attention and plans to engage in more traditional commercial service work in the future. Given the SCO's emphasis on the position and the fact that it was vacant for over two years, the attaché will need to commit considerable effort and time to redeveloping the South American standards attaché program and fulfilling the duties of the position. We recommend CS headquarters and the SCO work with ITA's standards liaison and NIST to identify measurable long-term goals and resource commitments to support standards development in the Mercosul region and the WHRSP, given the priorities placed on the attaché position by ITA, CS headquarters, and the SCO.

Similarly, USPTO recently assigned an intellectual property legal expert to CS Brazil in September 2006 (he arrived at post in early October). This is a new commercial officer position and one of several IPR attachés posted around the world. As the Secretary recently reported,¹⁴ ensuring that America's creativity and innovations are protected from counterfeiting and piracy is a top priority. Intellectual property rights infringement costs U.S. companies billions of dollars each year and threatens the livelihood of our nation and the world economy. To address this priority, the attaché will provide expertise, training, advice, analysis, reporting, and guidance on technical IPR issues to a number of U.S. agencies promoting effective IPR protection in Brazil and the region, and will handle anti-piracy enforcement, patent protection, and international IPR issues.

At the time of our review, the exact nature of the IPR attaché's regional duties was yet to be decided. The regional role is at least one reason why the attaché will be located in Sao Paulo. According to a State Department policy, all U.S. government offices in Brazil that cover various countries in the region must be located at the consulate in Sao Paulo or the embassy in Brasilia. However, USPTO's Brazilian counterpart, the Instituto Nacional da Propriedade Industrial (INPI), is located in Rio de Janeiro, at least a one hour plane ride from Sao Paulo. According to USPTO, the regional attaché's duties will be developed "over the next couple of years," and the physical location of the attaché will require sufficient staff support and travel funds to travel to Rio de Janeiro for meetings with INPI and other regional locations. Thus, we recommend CS work with USPTO to develop achievable regional responsibilities and ensure the availability of adequate staff support and travel funds for the attaché. IPR protection is a serious issue in Brazil. The attaché will need a clear framework to further advance the department's IPR initiative and both USPTO's and CS' missions, including the need to educate U.S. companies on how to protect their IPR and work with the Brazilian and regional officials on the importance and implementation of IPR protection.

¹⁴ http://www.stopfakes.gov/pdf/DOC_STOP_Brochure_3.pdf

C. A local office director in Belo Horizonte provides an effective management alternative

CS considered closing its Belo Horizonte office when the commercial officer left in 2005 because of the expense associated with placing an officer in the position. To continue operating in the region and to avoid the high expense of posting an American officer, CS hired a local American as the Belo Horizonte office director. Educated in business and fluent in Portuguese, the current office director has numerous contacts in the Belo Horizonte business community.

The SCO, DSCO, and the CS Belo Horizonte staff lauded the director for his business acumen and ability to quickly learn CS programs. But the office director said an initial 3-day training course and subsequent on-the-job training were not enough for him to be completely comfortable in the role, even after a year in the position. He believes he needs junior officer training. In addition, he currently is not authorized to sign some administrative and financial documents, such as leave requests, time and attendance records, participation agreements, purchase orders, credit card invoices, and travel orders, but must forward them to CS Brasilia. CS Brazil staff said he is not authorized to sign financial documents because he is a local hire, but CS headquarters stated there is no policy against local hires signing leave and time and attendance documents. We recommend CS review and clarify with CS Brazil its current administrative document signatory policy for local hires.

There are financial gains for the post as a result of employing an office director in Belo Horizonte rather than a fully tenured commercial officer, particularly in terms of benefits.¹⁵ For example, the office director does not receive relocation and housing benefits, or an education allowance for family members. This may be a cost-effective management alternative for other CS posts, and we recommend CS explore the potential for greater use of local hire American office directors.

Recommendations

We recommend that the Assistant Secretary for Trade Promotion and Director General of the United States and Foreign and Commercial Service ensure that the following actions are taken to improve CS Brazil operations:

- Evaluate and clarify the roles and responsibilities of the CS Brazil SCO, DSCO and Sao Paulo PCO to ensure the most effective use of resources and coordination of country-wide programs.
- Work with the CS Brazil SCO, ITA's standards liaison and NIST to identify measurable long-term goals and resource commitments to support standards development in the Mercosul region and the Western Hemisphere Regional Standards Protocol.
- Work with USPTO to develop a work plan for and clarify the CS Brazil and regional responsibilities of the IPR attaché in Brazil and ensure that support staff are in place and adequate funds are available to the attaché to pursue his mission.
- Provide the local American hire office director in Belo Horizonte with new officer or other appropriate CS management training.

¹⁵ The office director position is a PSA-12, CS Brazil's highest locally engaged staff position.

- Review and clarify CS' current administrative document signatory policy for local hires and advise CS Brazil as to whether the CS Belo Horizonte office director is authorized to sign certain administrative and financial documents.
- Explore the potential for greater use of local hire American office directors, such as the one in Belo Horizonte, as a cost-effective management alternative for other CS posts around the world.

We recommend that the Director of the National Institute of Standards and Technology ensure that the following action is taken:

- Coordinate with the Commercial Service and ITA's standards liaison to identify measurable long-term goals and resource commitments for the CS standards attaché to support standards development in the Mercosul region and the Western Hemisphere Regional Standards Protocol.

We recommend that the Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office ensure that the following actions are taken:

- Work with the Commercial Service to develop a work plan for and clarify the CS Brazil and regional responsibilities of the new intellectual property rights attaché in Brazil.
- Collaborate with the Commercial Service to ensure that adequate support staff and travel funds are available to the attaché to pursue his mission.



ITA, NIST, and PTO Responses to OIG Draft Report and OIG Comments

In response to our recommendation that the Commercial Service evaluate and clarify the roles and responsibilities of the CS Brazil SCO, DSCO, and Sao Paulo PCO, ITA indicated that CS had undertaken such a comprehensive review and determined that changes were needed in the post's management structure. According to ITA's response, CS has determined that both the SCO and DSCO position must be located in Sao Paulo—Brazil's commercial capital—to enable it to effectively manage CS operations throughout Brazil. The DSCO position will be moved from Brasilia to Sao Paulo and the PCO position will be moved from Sao Paulo to Brasilia. In addition, ITA clarified the roles and responsibilities of the SCO, DSCO, and PCO once the moves take place.

ITA also concurred with our recommendation to coordinate standards development among the CS Brazil SCO, ITA standards liaison, and NIST. ITA stated that CS Brazil's SCO will work with the ITA standards liaison and NIST to develop measurable long-term goals and resource commitments to support standards development in South America. ITA also indicated that goals would be based on the Western Hemisphere Standards Action Plan, which was developed by the ITA standards liaison, standards attachés, and NIST. ITA's response notes that the CS Brazil

standards attaché will primarily focus on regional standards development. CS also clarified that ITA is already actively engaged in and leading some efforts to address technical regulations as part of the US-Brazil Commercial Dialogue. We encourage ITA to continue developing the regional standards attaché's role and provide us with an update in its action plan.

In its response ITA also indicated that CS Brazil is working with USPTO to develop an IPR Action Plan for Latin America. ITA stated that the plan will address the CS Brazil and regional responsibilities of the IPR attaché and further the missions of CS and USPTO. The regional IPR action plan will build on the Brazil IPR Work Plan created by the IPR Working Group under the U.S.-Brazil Commercial Dialogue. According to ITA, CS Brazil is in the process of hiring an IPR Commercial Specialist to support the IPR attaché. In addition, ITA reported that USPTO and CS have agreed on the regional attaché's FY 2007 budget, which contains sufficient funding for anticipated regional and in-country travel. We look forward to receiving more detail on the IPR action plan in ITA's action plan.

ITA's response stated that the Belo Horizonte office director will attend New SCO/PCO Training in Washington, D.C. during April 2007. The Western Hemisphere Office of CS' Office of International Operations (OIO) will also consider providing him with individual training at a local institute during his stay in Washington and will explore other training opportunities for him during the year. In response to our recommendation that CS clarify whether the CS Belo Horizonte office director can sign certain administrative and financial documents, ITA indicated that OIO will work with CS' Office of Strategic Planning and its Office of Foreign Service Human Resources to review the administrative and financial document signatory policy for local hires and ensure that CS Brazil is aware of and adheres to the policy. ITA also said that it will continue to explore the potential for greater use of local American office directors in posts around the world. ITA stated that this approach has been used with positive results in Dusseldorf and Hamburg, Germany, and in China.

In its written response to our draft report, NIST agreed that it must work together with ITA to develop a standards strategy for South America. It also agreed that there are some inconsistencies of perception about the standards attaché position. NIST's response affirms that the bureau is already working with the ITA Office of Standards Liaison and the Commercial Service to develop measurable, long-term goals for the standards attaché and an action plan for a long-term standards strategy for South America to benefit U.S. exports. For example, NIST and ITA are currently reviewing a regional standards program implementation plan. NIST also clarified that ITA's Office of the Standards Liaison is also actively involved with NIST in the design and delivery of the exchange of information with Brazil on standards, conformity assessments, and technical regulations.

USPTO's response to our draft report stated that USPTO has created a Latin America Regional Team to support the operation of the CS IPR attaché, and the team is working with CS and the IPR attaché in Brazil to develop an action plan for the region. In addition, USPTO has approved CS Brazil's budget for the IPR attaché and has fully obligated FY 2007 funds, including adequate travel funds. USPTO has also authorized the hiring of and budget for support staff for the attaché. We ask that USPTO include its regional action plan as part of the bureau's action plan prepared in response to our final report.

II. Allocation and Management of the Post’s Office Resources Need Attention

CS Brazil’s five officers all are located in the southern half of this large country where the population and economy also are primarily based. Sao Paulo is the area that draws the most attention from U.S. exporters. CS’ offices in Belo Horizonte, Brasilia, and Porto Alegre find it difficult to attract U.S. exporters and promote their commercial opportunities.

CS has been asked by the State Department to place staff at the U.S. consulate in Recife—located in the northeast. CS has relied on its Belo Horizonte office in the mid-east to service this area in the past, but is now evaluating the request. In addition, CS Brazil’s staff is responsible for 50 industry sectors and subsectors. However, we question the actual effectiveness of many of the post’s industry teams for CS Brazil’s operation because we found poor coordination and rivalry among team members combined with a limited focus on certain sectors.

A. CS management should develop a strong marketing plan to increase U.S. business awareness of CS Brazil offices and export opportunities in Belo Horizonte, Brasilia, and Porto Alegre

CS offices in Belo Horizonte, Brasilia and Porto Alegre have significantly less commercial activity than CS Sao Paulo and Rio de Janeiro even though these offices cover states that together comprise nearly one-third of Brazil’s GDP.¹⁶ As Brazil’s business hub, Sao Paulo is very attractive to many U.S. exporters. Rio de Janeiro also attracts a great deal of U.S. commercial interest. But CS Brazil could do more to fully market the business potential of other areas.

Table 2. Comparative Production Statistics for CS Brazil’s Offices

CS Brazil Post	Productivity Measure	FY 2004	FY 2005	FY 2006
Belo Horizonte	Export Successes	77	130	109
	Market Research Reports	N/A	71	26*
	Products and Services	13	9	17
	Products and Services (collections)	\$7,800	\$5,605	\$7,794
Brasilia	Export Successes	78	95	61
	Market Research Reports	4	14	5*
	Products and Services	20	22	17
	Products and Services (collections)	\$16,330	\$13,790	\$11,595
Porto Alegre	Export Successes	13	19	8
	Market Research Reports	n/a	1	2*
	Products and Services	3	1	3
	Products and Services (collections)	\$1,600	\$450	\$2,690
Rio de Janeiro	Export Successes	105	164	122
	Market Research Reports	8	67	48*
	Products and Services	47	38	57
	Products and Services (collections)	\$23,525	\$28,070	\$20,727
Sao Paulo	Export Successes	453	497	476
	Market Research Reports	27	193	156*
	Products and Services	119	146	158
	Products and Services (collections)	\$91,362	\$117,514	\$176,942

*This performance measure is as of July 2006. All others reflect the entire FY 2006.

Source: CS Brazil, eMenu, Export Successes and Trust Fund Management Reports

¹⁶ According to the Brazilian Geography and Statistics Institute (IGBE), the combined GDP of Minas Gerais, Distrito Federal, Goiás, Rio Grande do Sul, Santa Catarina, and Paraná states account for 32 percent of Brazil’s GDP.

CS Brazil should be highlighting opportunities for U.S. exporters in Belo Horizonte

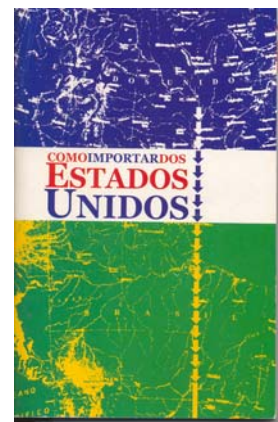
Belo Horizonte is the capital of Minas Gerais, Brazil's second most populous state and third largest state economy. In 2005 Minas Gerais imported \$770 million in goods and services from the United States,¹⁷ and with 46 percent of its GDP in the service sector and 45 percent in the industrial sector,¹⁸ it would appear that there are many more opportunities for U.S. companies to make further inroads into these markets. However, it appears CS Belo Horizonte also experiences some difficulty in attracting U.S. exporters as it is not one of Brazil's two primary business hubs. We found CS Brazil and the USEACs are not actively promoting the region's commercial opportunities with only 17 products and services performed in FY 2006. As a result, CS Belo Horizonte staff members look for alternative promotion opportunities, such as encouraging trade missions to Sao Paulo to also visit Belo Horizonte, participating in temporary detail assignments to USEACs, preparing detailed market reports, and collaborating with external partners.

Some USEACs are unaware of export opportunities available through the CS offices outside Sao Paulo and Rio de Janeiro. For example, U.S. companies are currently being recruited to participate in the 2007 CS Healthcare Technologies Trade Mission to Brazil and Chile. Although Belo Horizonte and the rest of Minas Gerais represent 12 percent of total medical equipment sales in Brazil,¹⁹ the trade mission itinerary did not initially include Belo Horizonte. To encourage companies participating in the mission to visit the area, CS Belo Horizonte staff took the initiative to provide participants with an overview of the sector and set-up a 1-day Gold Key counseling session there. CS is continuing its recruitment efforts and expects at least seven companies to participate in the trade mission.

In an effort to educate USEACs on the region, CS Belo Horizonte commercial specialists also took temporary detail assignments in Spring 2006 at the San Jose and Oakland USEACs. The post reported that such initiatives, when financially feasible, are very beneficial for introducing U.S. exporters to the Minas Gerais state and Belo Horizonte.

While CS Belo Horizonte collected fees for only 17 products and services in FY 2006, we found that it has been actively trying other methods to promote U.S.–Brazil trade. For example, Belo Horizonte staff members write detailed market research reports to highlight trade opportunities in Brazil with topics ranging from minerals mining in the region to conducting business in the country. In 2004 Belo Horizonte developed *Como Importar Dos Estados Unidos*, a Portuguese language brochure about importing from the U.S. It was written for Brazilians and distributed during trade events. Belo Horizonte staff also collaborate with external partners, such as the Export-Import Bank, the local AmCham, and the Inter-American Development Bank.

Figure 4. Import Guide for Brazilians



Source: CS Belo Horizonte

¹⁷ *Brazil: Medical Equipment, Minas Gerais & the Northeast*, Commercial Service, May 2006.

¹⁸ Fundacao Joao Pinheiro, Governo de Minas Gerais, *Produto Interno Bruto de Minas Gerais - 2005*, http://www.fjp.gov.br/produtos/cei/informativo_pib_2005.pdf, January 25, 2007.

¹⁹ *Brazil: Medical Equipment, Minas Gerais & the Northeast*, Commercial Service, May 2006.

Commercial opportunities in Brasilia should be better leveraged and marketed

The capital city of Brasilia has a population of more than 2.3 million inhabitants.²⁰ Commercial activities in Brasilia and the state of Goias, where it is located, grew on average 4.3 percent from 1999 to 2004, reaching an approximate GDP of \$14.85 billion in 2004.^{21,22} The farming, industrial, and services sectors are some of the primary economic drivers.²³ However, CS Brasilia struggles to attract U.S. exporters to the area. In FY 2005, CS Brasilia generated 95 export successes. By contrast, CS Belo Horizonte (with a similar population to Brasilia's entire state) had 130 export successes.

The embassy periodically sends teams to outlying areas in Brazil. This provides a valuable opportunity for outreach with local governments on economic and commercial affairs. As part of the embassy team, CS staff have been asked to travel with the DCM and other senior State Department officials to outlying areas of the state. CS Brasilia has only participated in outreach activities in a limited capacity due to budget constraints and may miss valuable contacts and opportunities for U.S. exporters. When we met with the U.S. Deputy Chief of Mission, he told us that he considers CS Brazil's financial situation to be a major impediment to Commerce's mission in Brazil.

CS Brasilia staff told us the other offices within CS Brazil do not regard CS Brasilia as important in the overall goal of trade promotion and they report of sometimes being snubbed by the larger operations. They reported that they receive only limited referrals from the other CS offices and are typically contacted only on an advocacy project or other embassy-related matters. We were told of one particularly telling example that involved a staffer from Sao Paulo who recently accompanied a group of business persons from the U.S. to meet with the Federation of Industry in Brasilia but never contacted CS Brasilia to participate. It was not until the group was actually in Brasilia that CS Brasilia became aware that the event was occurring in the city. CS Sao Paulo should have encouraged CS Brasilia to fully participate in the planning and execution of the event from the beginning.

CS needs to quickly decide how to handle the vacant Porto Alegre office to avoid losing business contacts

Porto Alegre is the capital of Rio Grande do Sul, one of three states in the southernmost part of Brazil. A major industrial and commercial center in Brazil, the state has a GDP of \$51 billion.²⁴ Rio Grande do Sul's leading imports include leather, transportation equipment, electrical material, and machinery.²⁵ However, CS Porto Alegre has had few export successes and a low number of trust fund collections for products and services. We were advised that several factors contribute to Porto Alegre's relatively poor performance, including low interest from U.S.

²⁰ State Government of Goias. *Statistical Yearbook of the State of Goias-2005*, <http://www.seplan.go.gov.br/sepin/>, (table 13).

²¹ The average exchange rate in the fourth quarter of 2004 was 2.78 Brazilian Reals per 1 US dollar.

²² State Government of Goias. <http://www.goias.go.gov.br/>, accessed December 27, 2006.

²³ State Government of Goias. *Statistical Yearbook of the State of Goias-2005*, <http://www.seplan.go.gov.br/sepin/>, (table 4).

²⁴ State Government of Rio Grande do Sul. <http://www.sedai.rs.gov.br/revistaingles.pdf> (page 3).

²⁵ State Government of Rio Grande do Sul. <http://www.sedai.rs.gov.br/revistaingles.pdf> (page 7).

exporters, confusion about the office's roles and responsibilities, and limited CS management and oversight.

In October 2006, after our visit to post, the Porto Alegre specialist resigned from his position. CS no longer has a presence in the area and told us that it does not intend to fill the vacancy in the short-term. Since then the Sao Paulo PCO has visited Porto Alegre twice since the closure of the CS Porto Alegre office and briefed officials and business associations on CS Brazil and Sao Paulo consulate activities. Prior to this personnel change, the Porto Alegre office consisted of one full-time FSN and two Brazilian interns that rotated in every six months.²⁶ Since few U.S. exporters expressed interest in Porto Alegre, the FSN spent approximately 70 percent of his time conducting outreach with the local business community and providing counseling to Brazilian companies seeking to import from the U.S. There also appears to be differing opinions between CS management and staff concerning Porto Alegre's role. According to the specialist, the Porto Alegre position was created to generate more Brazilian interest in NUSA. The specialist considered the office an extension of the Sao Paulo office. Senior management wanted Porto Alegre to show stronger performance in products, services, and trust fund collections, but we found limited managerial guidance and oversight to help the specialist meet that objective. In fact, the current SCO has attended AmCham meetings in Porto Alegre, but never visited the CS office.

We recommend CS develop a strategy to continue fostering the business contacts and opportunities developed by the specialist in Porto Alegre before CS loses contact with valuable partners in the area. In addition, to better leverage market opportunities in areas beyond Sao Paulo and Rio de Janeiro, CS should develop a strong marketing program to (1) increase awareness of its Belo Horizonte, Brasilia, and Porto Alegre offices, and (2) direct attention to export market opportunities in areas outside Sao Paulo and Rio de Janeiro. For example, its website should highlight sector opportunities in each region to encourage U.S. exporters and USEACs to view specific regions rather than just Brazil as a whole market.

B. CS Management should carefully consider whether to place staff in Recife

The 2003 CS Management Performance Review recommended that CS establish a presence in Recife, which is located in northeast Brazil. In 2004 the previous U.S. ambassador raised the issue with CS about placement of one locally employed CS staff member in the U.S. consulate in Recife. In addition, the DCM reportedly insisted that Commerce's presence in Recife be included as an explicit goal in a previous mission performance plan. The northeast region has an average GDP growth rate of 3.1 percent,²⁷ compared to Brazil's average of 2.4 percent,²⁸ and it offers new export opportunities for small and medium-sized U.S. businesses. CS staff from the Belo Horizonte office used to travel to Recife several times a year, but those trips have been stopped because of budget constraints. After the ambassadorial request in 2004, CS' Western

²⁶ The Porto Alegre specialist left the Commercial Service on October 20, 2006. The Porto Alegre office is currently closed, but our recommendations remain should the office reopen in the future.

²⁷ *Brazil: Medical Equipment, Minas Gerais & the Northeast*, Commercial Service, May 2006.

²⁸ CIA, *The World Factbook - Brazil*, <https://www.cia.gov/cia/publications/factbook/print/br.html>, August 31, 2006.

Hemisphere regional office sent a proposal to the then-assistant secretary and director general to open an office in Recife with one commercial specialist, but no decision was made.

At the time of our review, CS Brazil was reconsidering whether to place a locally employed staff member and an intern in Recife in response to the new ambassador, as well as the DCM. However, none of the possible options are low cost, and CS management clearly must weigh both the financial impacts and potential legal issues involved in the different staffing alternatives under consideration in deciding whether to place staff in Recife.

According to CS, it has four alternatives: (1) continue to manage the Northeast from CS Belo Horizonte; (2) transfer a CS Belo Horizonte position and person to Recife; (3) first eliminate CS Belo Horizonte position, then create a new one in Recife; or (4) first open a new position in Recife, then eliminate one position in Belo Horizonte. The last three alternatives assume that CS would collocate with other U.S. mission members in the consulate in Recife.

To place one commercial specialist and an intern in the Recife consulate, CS estimates its initial start-up costs at \$15,000. This includes moving costs if an FSN moves from Belo Horizonte, per diem for the first month, and airfare. In addition, CS estimates its FY 2007 operating and administrative (O&A) costs for the specialist and one intern would be \$73,500 if they were collocated in the consulate. If the State Department waives the first two years of costs for International Cooperative Administrative Support Services (ICASS), then O&A expenses would only be about \$46,500. According to CS Brazil, by 2009 Recife's total O&A budget will rise to approximately \$96,000 (including ICASS). However, if CS chooses to place staff in an independent office outside the consulate, the post estimates it could save \$13,000 per person in collocation costs but it would lose the benefits of proximity to other consulate officials who work on commercial matters. In this case, the post should also consider other cities in the northeast that may have greater business opportunities for U.S. companies. We also note that there are some employment law issues that CS must consider when considering all of these options.

CS management needs to carefully consider whether to place staff in the U.S. consulate in Recife. CS should also consider placing locally employed staff in a non-collocated office or possibly in another northeast city, which could be more cost effective. However, CS would need to obtain State Department's approval for the alternative placement options.

C. CS Brazil's industry distribution and team operations do not effectively foster staff cooperation and market opportunities

At the time of our review, CS Brazil staff teams covered 50 industry sectors and sub-sectors; however, we question the actual effectiveness of 50 teams. We found poor coordination among team members and a high level of tension between many commercial specialists and assistants. In addition, the Brazil Country Commercial Guide only identifies 21 out of the 50 sectors as best prospects for U.S. exporters, which raises questions about CS' need to staff this many sectors.

Table 3. Best U.S. Export Prospects for Brazil

Agriculture (USDA)	Computer Software	Highways	Medical Equipment	Pollution	Telecommunications
Agriculture Equipment	E-Commerce	Insurance	Mining	Ports	Travel and Tourism
Aircraft and Parts	Energy	Iron and Steel	Oil and Gas	Railroads	
Airports		IT Hardware	Pharmaceuticals	Safety/Security Equipment	

Source: CS Brazil Country Commercial Guide

Team leaders develop sectors through various activities including trade show attendance, counseling services, buyer delegations, and outreach efforts, and team members throughout Brazil assist the team leaders. Some teams work well together. For example, a CS Sao Paulo specialist and Brasilia commercial assistant coordinated efforts for a medical trade show, but, such teamwork is the exception rather than the rule.

Since Sao Paulo is Brazil’s business hub, most sector team leaders are Sao Paulo commercial specialists. As a result, team members reported that these leaders are primarily engaged with developing opportunities in the state of Sao Paulo instead of the rest of the country. Some team members also stated that their team leaders do not always share information with them regarding incoming Gold Key clients, trade missions, and other potential commercial opportunities. As a result, they are unable to capitalize on opportunities to promote their industries in other parts of the country. In addition, some team members have less incentive to actively recruit participants for international buyer delegations (IBP) because in most cases, only the team leader travels with the group.

We also found other underlying tensions between commercial specialists and assistants that hamper teamwork. Specialists tend to remain in their positions for a lengthy period of time. For example, some specialists began working for CS Brazil more than 10 years ago. Assistants who have been promoted up the ranks wait many years for specialist positions to open. Assistants informed us they feel frustrated by waiting. In response to this dynamic, CS Sao Paulo gave assistants responsibility to work other sectors. This approach reduced assistants’ dissatisfaction; however, it also had an unforeseen effect. Assistants began devoting more time, energy, and resources to working their sectors instead of completing tasks assigned by specialists.

Some CS Brazil officers are aware of the challenges posed by the team distribution and believe there is a need to decrease the number of teams. In 2005 a commercial officer recommended a new structure of 20 teams comprised of 12 original teams and 8 new, consolidated teams based on the number of export successes generated by each industry. However, at the time of our inspection, the team structure remained the same, while some staff noted that FSNs may react negatively to changes since they have traditionally held the same sectors for many years.

We recommend that CS Brazil assess the existing team structure and the number and assignment of industry sectors among CS Brazil staff and implement changes that will improve productivity and foster a spirit of cooperation among the team members. CS Brazil should consider assigning team leaders regional as well as country-wide goals to ensure they are held accountable for developing regional markets and require all team members to play an active role in developing assigned sectors within their regions. We note however that after we returned from Brazil we discussed this issue with CS, and following our discussions, a new industry teams program was developed during the All-Hands Conference in October 2006 and is being implemented. CS

Brazil should also consider rotating the opportunity to travel with International Buyer Program delegations among team members.

Recommendations

We recommend that the Assistant Secretary for Trade Promotion and Director General of the United States and Foreign and Commercial Service ensure that the following actions are taken to improve CS Brazil operations:

- Outline a strategy to continue fostering the business contacts and opportunities developed by the Porto Alegre specialist before CS loses contact with valuable partners in the area.
- Develop a stronger marketing plan to increase U.S. business awareness of CS Brazil operations and export opportunities in Belo Horizonte, Brasilia, and Porto Alegre and better leverage the market opportunities in areas outside Sao Paulo and Rio de Janeiro.
- Evaluate and make a decision among the varied options for CS' coverage of northeast Brazil, including collocation with the U.S. consulate in Recife, or opening a non-collocated office in Recife or in another city within the northeast as a more cost effective option.
- Assess the existing industry team structure, and the number and assignment of industry sectors among CS Brazil staff, and consider implementing changes that may improve productivity and foster a spirit of cooperation among the team members located throughout CS Brazil, including:
 - a. Assigning team leaders regional as well as country-wide goals,
 - b. Requiring all team members to play an active role in developing assigned sectors within their regions, and
 - c. Rotating the opportunity to travel with International Buyer Program delegations among team members.



ITA Response to OIG Draft Report and OIG Comments

The Deputy Under Secretary for International Trade concurred with our recommendations regarding allocation and management of the post's resources and indicated that CS has already begun implementing several of them. In response to our recommendation that CS Brazil outline a strategy to continue to foster its business contacts in Porto Alegre, ITA stated that the Sao Paulo PCO has visited Porto Alegre twice since the closure of the CS Porto Alegre office in October 2006. While there, the PCO briefed officials and business associations on CS Brazil and Sao Paulo consulate activities. ITA also indicated that these officials and business associations are already registered with CS Brazil's website and receive regular monthly updates on CS programs and activities. In addition, ITA reported that FIERGS, Porto Alegre's state Federation of Industry, will collaborate with CS Sao Paulo and Sao Paulo's Federation of Industry to host 2007's "Year of the USA." As part of this activity, CS Brazil will recruit Brazilian buyer delegations throughout Brazil including the states of Rio Grande do Sul and Santa Catarina, which are within the CS Porto Alegre coverage area. ITA also said the Network USA (NUSA) team leader will maintain contact with CS' local partner institutions in Porto Alegre until another

visit can be arranged by the new PCO who will arrive in country in March 2007. While ITA's response discusses short-term actions CS Brazil has taken or plans to take in Porto Alegre, it does not address a long-term strategy for the area. It appears that CS Sao Paulo will maintain business relations with Brazilian partners in Porto Alegre. However, we question Sao Paulo's ability to actively develop market opportunities for US exporters in Porto Alegre given the high volume of commercial activity in Sao Paulo and the local demands requiring staff involvement.

In response to our recommendation to develop a stronger marketing plan and better leverage market opportunities outside Sao Paulo and Rio de Janeiro, ITA stated CS Brazil is revising its strategic plan and will include a marketing plan. In addition, ITA stated that during the October 2006 CS Brazil All-Hands Conference, the post identified its plans to expand its Brazil market presence. Specifically, the post plans to (1) improve its webpage content and design to be more aligned with industry teams, (2) restructure the industry teams according to best prospects, (3) increase country-wide outreach efforts through NUSA, and (4) move the DSCO position to Sao Paulo to strengthen cooperation. In response to our recommendation that CS evaluate and make a decision about CS' coverage of northeast Brazil, ITA stated that CS will open a position in the northeast, located in the U.S. Consulate in Recife, and reported that it had sent a letter to the State Department accepting its offer to waive ICASS fees at that location. We encourage ITA to describe CS' marketing plan for each post in its action plan and look forward to an update on the progress of the position in Recife.

In response to our recommendation regarding CS Brazil's industry team structure, ITA stated that a new industry teams program was developed during the All-Hands Conference in October 2006 and is being implemented. According to ITA, the new team structure includes nine industry teams and a customs team for trade implementation. ITA indicated that CS Brazil's new team structure consolidates the number of teams for better alignment with ITA Global Teams and best prospects, clarifies roles and responsibilities of team leaders and members, creates a reward structure focused on team achievement through cooperation, and improves communication between offices. In addition, the new teams structure and strategy call for creation of team budgets and collection strategies to increase team member participation in trade events, and encourage proactive marketing and outreach for key industries. Finally, ITA's response provided a list of the duties of CS Brazil's industry team members. We request a status report on the implementation of the revised team structure in ITA's action plan.

III. CS Brazil Export Successes Require Increased Management Attention

The post uses its performance data to support distribution of its awards and recognition to its staff and to project new goals for the post's strategic plan, and CS' senior managers use export success data to compare posts' performance. Thus accuracy and accountability in the count of export success stories are critical. Since 2003 OIG has published five reports that have highlighted questions about the accuracy and integrity of CS' reporting of its export success statistics.²⁹ CS headquarters officials recognize that export success inflation has been a recurring problem for CS worldwide. Thus, CS has recently made some significant changes to its export success guidelines and its verification procedures, partly in response to problems cited in our recent reports. Many of the revisions and amendments found in CS' Export Success Guidelines were designed specifically to address this issue through the quality review process.

Our review of the CS Brazil performance data suggests that the guidelines need additional revisions to help prevent abuses or questionable reporting. CS Brazil's reported export success numbers increased dramatically over the past few years. However, we found that many claims were invalid or did not appear to meet CS guidelines, and the post had inadequate verification procedures in place to support claimed export success results.³⁰ Specifically, as of April 27, 2006, we found 72 export successes in FYs 2005-2006 that did not qualify under the criteria set forth in CS' *Operations Manual*. In addition, we found an additional 162 that appear questionable as to whether they meet the intent of CS' mission to promote U.S. exports and CS guidelines for an export success. Specifically, CS Brazil claimed its efforts to encourage Brazilians to rent booths at trade shows in the U.S. to sell their products as valid export successes.

A. CS Brazil's export successes were inflated

CS' primary performance measure is the verified number of export transactions, or export successes, facilitated by CS among new and existing U.S. exporters. CS tracks both the nature of the export assistance provided by CS and the dollar value of the export success. Accuracy and integrity of the data are paramount because this metric is reported to both Congress and the Office of Management and Budget.

CS Brazil increased its export success numbers by 161 percent in only 4 years, from 276 in FY 2001 to more than 720 in FY 2005. The post generated the second highest number of export success stories of all CS overseas posts for both FYs 2004 and 2005, claiming credit for an average of 5.5 percent of the total number of export success stories generated by CS worldwide (see Table 4).

²⁹ *The CS Needs to Improve Management of its Operations in Turkey*, March 2003, IPE-15370; *Generally Sound Operations at CS Greece Are Compromised by Key Weaknesses*, September 2003, IPE-15804; *CS India: Challenges Remain for Management of a Large and Economically Diverse Post*, September 2004, IPE-16808; *Pacific Northwest USEAC Network Generally Operates Well, but Export Success Reports Need More Management Scrutiny*, March 2004, IPE-16507; and *CS China Generally Performs Well But Opportunities Exist for Commerce to Better Coordinate Its Multiple China Operations*, March 2006, IPE-17546.

³⁰ According to the CS' *Operations Manual*, staff should maintain adequate support documentation for CS officers to review, and CS officers must ascertain the veracity of those export successes to ensure that the post reports valid export successes.

Table 4. CS Worldwide Export Success Rankings for FYs 2004 and 2005.

Rank	Country	# of success counts ^a	% of worldwide total	Rank	Country	# of success counts ^a	% of worldwide total
FY 2004				FY 2005			
1	India	680	6.0%	1	India	812	6.5%
2	Brazil	593	5.2%	2	Brazil	720 [659] ^b [523] ^c	5.8% [5.3%] ^b [4.2%] ^c
3	Mexico	480	4.2%	3	Germany	569	4.6%
4	Germany	461	4.0%	4	Mexico	541	4.4%
5	China	449	3.9%	5	China	531	4.3%
6	Japan	368	3.2%	6	Japan	396	3.2%
Worldwide Total		11,395		Worldwide Total		12,428	

^aTotal success counts for each country include export success stories initiated and approved by other offices. Both the initiating and participating offices receive the same credit for their involvement in an export success, but the worldwide total only counts it once.
^bThe revised figure reflects 61 export success stories CS Brazil removed, withdrew, or combined during our review or as a result of our review, as outlined on the next page in table 5.
^cThe revised figure reflects an additional 136 export success stories the OIG identified as invalid or questionable.

Source: eMenu, Commercial Service, December 22, 2006

However, our review found that the post was not really doing as well as it claimed. In our analysis of FY 2005 reporting, we identified 61 invalid and 136 questionable export successes, which drops the post's export successes from 720 to 523. This makes CS Brazil's performance less impressive and drops its ranking from second to fifth place among CS posts, as currently reported. By the end of FY 2006, CS Brazil had reported only 565 export successes, about 150 fewer than the 2005 level, although our questions about the validity of some claims could drive that total lower with close management scrutiny of the post's export successes to determine whether any other claims are invalid.

B. A number of CS Brazil's export successes appear invalid or questionable

CS Brazil reported 720 export successes in FY 2005. By April 2006, the cutoff date for our detailed analysis, CS Brazil was counting 187 export successes for FY 2006. However, we found that 61 export success stories reported in FY 2005 and 11 of those reported in the first half of FY 2006 did not meet CS' criteria.³¹

The invalid export success stories generally fell into three categories: (1) non-travel and tourism clients that received free publicity; (2) export successes not generated by CS Brazil; and (3) other noncompliance with CS' export success guidelines (see Table 5).

³¹ CS made several changes to the Export Success Guidelines chapter of the *CS Operations Manual* during 2005 and 2006, but those changes did not affect the validity of the CS Brazil export successes we reviewed.

Table 5. Invalid and Questionable ES for FYs 2005 and 2006 (through April).

Type of Export Success Claim	FY 2005			FY 2006		
	# of Success Stories	% of Total Success Stories	Removed by CS between 4/27/06 and 10/10/06	# of Success Stories	% of Total Success Stories	Removed by CS between 4/27/06 and 10/10/06
Total # of Export Successes for CS Brazil	720			187		
Invalid Export Successes						
Free advertisements for U.S. companies not in the travel & tourism industry	24	3%	23	5	3%	5
Not related to CS Brazil	25	3%	25	3	2%	3
Other	12	2%	12	3	2%	3
Total # of Invalid Export Successes	61	8%	60	11	7%	11
Questionable Export Successes						
Booth space rentals at U.S. trade shows (in U.S.)	131	18%	1	6	3%	5
Booth space rentals combined with "services" at U.S. trade shows	0	0%	0	20	11%	0
U.S. airline ticket sales	5	1%	0	0	0%	0
Total # of Questionable Export Successes	136	19%	1	26	14%	5
Total # of Invalid, Questionable, and CS Removed Export Successes	197	27%	61	37	21%	16

Source: eMenu (accessed April 27 and October 10, 2006)

Invalid export successes

We found CS Brazil claimed 24 export successes in FY 2005 and 5 in FY 2006 (as of April 27) for free foreign publicity obtained by U.S. companies in industries unrelated to travel and tourism, such as computer hardware and retail fashion. The *CS Operations Manual* explicitly states that "free foreign-country publicity via printed, electronic or web-based media for a U.S. *travel/tourism client* [emphasis added] . . . may be claimed as an export success." Such publicity may not be claimed for any other industry.

We also found in FYs 2005-2006, CS Brazil was incorrectly credited with 28 export successes resulting from the work of a commercial officer in Ukraine, who is now posted to CS Brazil. The *CS Operations Manual* says the office where the individual was posted at the time his/her contribution was made [emphasis added] is the office that will receive credit for the export success. CS told us the person(s) preparing these export successes selected the wrong CS post when giving credit to the CS officer and when we notified CS of the error, it removed these 28 export successes.

In addition to the above two categories of invalid export successes, we found CS Brazil claimed an additional 15 export successes for FYs 2005-2006 that were contrary to the *Export Success Guidelines*, including:

- A U.S. service export funded by a U.S. Trade and Development Agency grant³²
- Duplicate claims of the same export success
- Purchase of U.S. airline tickets by Brazilian entities traveling to the U.S. through the International Buyers Program
- Visa assistance given to Brazilian entities
- Anticipated sales of U.S. goods to Brazilians
- No direct linkage between CS assistance and the U.S. export
- An export that occurred more than 2 years before the date when the export success was claimed by CS Brazil

Questionable export successes

At the time of our review, CS Brazil claimed a total of 157 export successes in FYs 2005-2006 for Brazilian companies promoting their own products and services at U.S. trade shows.³³ In February 2006, CS changed the guidelines to state that an export success *may not* be claimed for trade show exhibition fees, booth rentals, or similar payments made by foreign entities to the U.S. government. However, those guidelines stated that export successes *can* be claimed for payments made to U.S. event organizers other than the U.S. government. In other words, this new category may sometimes facilitate foreign imports to the U.S. – an action that CS has normally deemed to be an unacceptable export success. Specifically, the *CS Operations Manual* does not permit export successes to be claimed for “assisting U.S. import or U.S. domestic sales activities.” Recruiting for buyer delegations to the U.S. may be an approved and laudable activity, but encouraging Brazilian companies to participate in U.S. trade shows to sell their foreign products seems to contradict CS’ mission to promote U.S. exports.

Assisting Brazilians to promote their products creates competition for U.S. companies and encourages the sale of foreign goods to U.S. consumers. We question whether CS should be approving the validity of any export success claimed for assisting foreign companies with renting booth spaces at U.S. trade shows. When we asked CS Brazil’s SCO about promoting foreign exports, he stated that CS must develop creative means to promote U.S. exports to Brazil. He referred to the U.S. trade show recruitment as similar to a buy-sell/sell-buy business relationship, asserting that Brazilians will go to the U.S. to export their products and eventually purchase U.S. products to support their own manufacturing and quality requirements, which would lead to U.S. exports to Brazil.

During the course of our review, CS Brazil removed at least 6 of 137 export successes it claimed in FYs 2005-2006 for booth space rentals—including all but one reported in the first half of FY 2006. The PCO told us that CS Brazil reduced its claims for booth sales because the February 2006 change to the *CS Operations Manual* no longer permits these types of export successes. However, it appears the post is misinterpreting the guidance and needs clarification on the revision to the *CS Operations Manual*, which seems to indicate that such booth sales can be

³² For FY 2007, CS revised its guidelines to now explicitly prohibit claiming an export success for purchases by foreign buyers using U.S. government grant funds. However, purchases using U.S. government loan funds may be claimed.

³³ This includes 137 ES for booth space rentals and 20 ES for booth space rentals combined with ‘services’ provided at the trade show.

claimed as long as they are consolidated into one sale per trade show. We recommend CS further revise the definition of an invalid export success in the *CS Operations Manual* to include an ES that directly fosters foreign exports to the U.S., such as renting booth space to foreign companies at U.S. trade shows.

We also found five export successes claimed in FY 2005 for Brazilians purchasing U.S. airline tickets through Brazilian travel agencies. We did not find that CS Brazil directly assisted the two U.S. airline companies. According to the export success guidelines, "...*direct, proactive* export assistance to airlines, hotels, and any other U.S. exporters...may always be claimed." However, CS did not provide any documentation or support that CS Brazil *directly* and *proactively* assisted the two U.S. airline companies or provided additional value-added assistance to the tour operator. We recommend CS Brazil remove all invalid and questionable export successes from CS' database.

C. CS Brazil is not fully complying with the established quality control process for export successes

At the time of our review, CS Brazil's staff was not maintaining adequate documentation to support its number of export successes and reviewers were not checking the validity of claims. We examined a sample of 162 of the post's export success stories.³⁴ The post provided some support documentation for 124 (77 percent) of these export successes (see Table 6). Most of the documentation did not confirm all the elements required by the *CS Operations Manual* to support the validity of an export success, including demonstrating that: (1) CS provided value-added assistance, (2) CS assistance occurred within 3 years, (3) CS assistance significantly contributed to the U.S. export, (4) CS assistance provided a firm benefit to the exporter, (5) the U.S. export occurred within 2 years, and (6) the claimed dollar value of the export was verified, if applicable.

Table 6. Statistics on support documentation for sampled export successes from CS Brazil for FYs 2005 and 2006 (as of April 27).

CS Brazil Office	Provided complete documentation	Percent of Total	Provided some documentation	Percent of Total	Provided no relevant documentation	Percent of Total	Total
Sao Paulo	20	33%	24	40%	16	27%	60
Belo Horizonte	22	69%	6	19%	4	13%	32
Brasilia	0	0%	0	0%	13	100%	13
Rio de Janeiro	47	87%	5	9%	2	4%	54
Porto Alegre	0	0%	0	0%	3	100%	3
CS Brazil Total	89	55%	35	22%	38	23%	162

Source: OIG Analysis

CS Sao Paulo, CS Belo Horizonte, and CS Rio de Janeiro were able to provide some type of support documentation for most of the export successes we sampled. Brasilia was unable to provide any documentation for its 13 export successes included in our sample. The DSCO—

³⁴ We chose 107 export successes (15 percent of 720) for FY 2005 and 55 (29 percent of 187) for FY 2006, as of April 27, for our sample.

who is the head of the Brasilia office but has only been in that position since April 2006—reported that several of the authors of the sampled export success stories were no longer employees of CS Brazil and the author of the remaining export success stories lost supporting documentation when the computer system permanently failed. Additionally, the local-hire staff member at the Porto Alegre office was not able to provide any support documentation for the 3 export successes in our sample.

The *CS Operations Manual* states that the author of the export success story is “responsible for ensuring the accuracy and integrity of all (export success) content, compliance with all (export success) Guidelines, [and] confirmation and clearance of the (export success) by the client, and maintenance of appropriate support documentation.”

Reviewers are not adhering to CS guidelines

The lack of adequate documentation also points to another problem—first-level reviewers are not checking the validity of export success stories before approving them, as required. Most officers said when reviewing export success stories, they are primarily concerned with determining whether the claimed successes are allowable and the narratives contain the required elements. Some CS Brazil officers were not even aware that first-level reviewers are required to do spot-checks.

Another factor that may impact the review of export successes is that CS Brazil submits most export successes in the fourth quarter. In FYs 2003 to 2005, the post recorded twice as many successes in the fourth quarter than in any preceding quarter (see Table 7). With such heavy fourth quarter reporting, officers have less than 3 months to review and approve hundreds of export successes.

Figure 5. Responsibilities of First-Level Reviewer

First-level Reviewer:
Responsible for checking ES Reports for compliance with ES Guidelines, clarity and consistency of the narrative, etc. Responsible for spot-checking the accuracy of ES content via calls to clients, review of background files, discussion with the ES Report author, etc. Also responsible for applying good judgment as to whether ES claims are reasonable (“red face” test).

Source: *Export Success Guidelines*, CS Operations Manual, U.S. Commercial Service, August 2005.

Table 7. Total Export Successes Generated per Quarter for FYs 2003-2006.

Fiscal year	1st Quarter	% of Total	2nd Quarter	% of Total	3rd Quarter	% of Total	4th Quarter	% of Total	Total for Fiscal Year
FY 2003	42	9%	49	11%	71	16%	293	64%	455
FY 2004	21	4%	98	17%	142	24%	332	56%	593
FY 2005	60	9%	125	19%	119	18%	355	54%	659
FY 2006	105	19%	57	10%	60	11%	343	61%	565

Source: eMenu, Commercial Service

In September 2006, CS’ acting deputy director general sent out a worldwide email informing all CS staff of new approval procedures for export success verification that would be included in CS’ revised guidance, both of which would be effective on October 1, 2006. The new guidance requires each first-level reviewer to independently confirm 10 percent of all export successes he or she reviews each quarter. Confirmation includes contacting the client, reviewing CMS records, and other actions and then filling out the new confirmation form to verify the first-level review. CS also provided a new export success learning module which is incorporated into the

CS Operations Manual so that all employees can learn about the new procedures. We recommend that CS management confirm with each post and USEAC that the new procedures are understood and being followed. CS also should encourage continuous export success recording throughout the year to allow more time for reviewers to scrutinize and validate them.

Recommendations:

We recommend that the Assistant Secretary for Trade Promotion and Director General of the United States and Foreign and Commercial Service ensure that the following actions are taken to improve CS Brazil operations:

- Revise the *CS Operations Manual's* definition of an invalid export success to include claims of export successes that directly foster foreign exports, such as the rental of booth spaces at U.S. trade shows for foreign companies to exhibit their products for sale in the United States.
- Remove all invalid and questionable CS Brazil export successes from CS' database.
- Review export success performance data for CS Brazil and all CS posts worldwide to identify erroneously awarded office credits based on relocated officers and adjust the reported numbers.
- Confirm that each post and USEAC understands and are following CS' October 2006 revised export success reporting guidance and verification procedures, including
 - Maintenance of export success documentation that can be used to verify all the necessary components of a valid export success story, and
 - Validation of export successes using CS' approved verification procedures for CS officers.
- Encourage CS Brazil staff to more regularly record export successes throughout the fiscal year to prevent a year-end overload.



ITA Response to OIG Draft Report and OIG Comments

In response to our draft report, the Deputy Under Secretary for International Trade concurred with most of our recommendations regarding export successes. However, ITA stated CS will take under advisement the recommendation to revise the *CS Operations Manual's* definition of an invalid export success to include claims of export successes that directly foster foreign exports, such as the rental of booth spaces at U.S. trade shows for foreign companies to sell their products. The response noted that U.S. trade show organizations are a legitimate part of the American services sector and CS works closely with these organizations to promote exports.

In response to the recommendation to remove all invalid and questionable CS Brazil export successes, ITA stated that CS Brazil will work with the CS Office of Strategic Planning to complete this task. ITA also said that the CS OIO Western Hemisphere Office will work with CS Brazil and the CS Office of Strategic Planning to review CS Brazil export successes and remove erroneously awarded office credits. In addition the CS OIO Western Hemisphere Office

will advise the Office of Strategic Planning on the broader CS scope of this recommendation. Furthermore, CS Brazil management will also reiterate CS' latest export success reporting guidance and verification procedures at its upcoming All Hands conference in April 2007, and will continue to emphasize the importance of preserving ES documentation and CS' approved verification procedures throughout FY 2007. ITA indicated that CS Brazil management will coach staff to routinely follow up with clients throughout the year in order to continuously mine export successes. First line managers will also perform quarterly checks of export successes and discuss performance with staff.

ITA concurred that this draft report along with previous IG inspection reports raised substantial issues regarding the export success metrics and the collection/reporting process. As a result, ITA will conduct an in-depth, detailed program evaluation of export successes and the ES business processes. This review will be designed and completed during the next two quarters of FY 2007. ITA also noted that its Office of Financial Management began an independent on-going export success verification process in the domestic field during FY 2006 and will expand the effort in FY 2007 at selected overseas posts. This will become a second level of independent verification in addition to CS' upgrades to its export success internal controls.

We appreciate the efforts ITA and CS have taken and plan to take to accurately report export successes. We look forward to a report on their progress in ITA's action plan prepared in response to our final report. In addition, we also request a copy of ITA's program evaluation of Export Successes and the ES business processes upon its completion.

IV. CS Brazil Responded to Budget Cuts by Adjusting Its Programmatic Priorities to Increase Collections

From FYs 2004-2006, CS Brazil’s fixed expenditures increased from \$1.6 million to \$2.4 million primarily because of increases in personnel costs and a fluctuating exchange rate. As a result of overall CS budget reductions and the post’s increased fixed costs, CS headquarters was forced to decrease the post’s discretionary budget by 63 percent—from \$689,496 to \$254,921 (see Table 8). However, CS headquarters increased the post’s discretionary budget by the end of the fiscal year. With these budget changes, the post is now placing greater emphasis on collections for products and services—trust fund collections—to supplement its discretionary budget and help pay for such items as travel and supplies. By focusing more of the post’s time and resources on activities that generate collections, the post may be limiting the types of products and services it provides to U.S. exporters.

Table 8. CS Brazil’s Operating and Administrative (O&A) Budget for FYs 2004-2006.

CS Brazil O&A Budget Figures (Authorized)	FY 2004	% of Total	FY 2005	% of Total	FY 2006	% of Total
Administrative Travel Expenses	\$ 11,340	0.5%	\$ 10,562	0.4%	\$ 13,366	0.5%
Personnel Expenses (non-officer)	\$1,308,350	56.5%	\$1,598,700	64.9%	\$2,163,000	76.6%
- Personnel Benefits ^a	\$ 242,930	10.5%	\$ 301,465	12.2%	\$ 701,000	24.8%
Short Term/GSA Leases	\$ 304,741	13.2%	\$ 457,800	18.6%	\$ 248,000	8.8%
Total Fixed Expenses	\$1,624,431	70.2%	\$2,067,062	83.9%	\$2,424,366	85.9%
Direct Program Support (DPS)						
- DPS Travel/Trans. of Persons ^a	\$ 169,156	7.3%	\$ 90,174	3.7%	\$ 83,443 ^b	2.9%
- Other DPS Expenses ^a	\$ 357,200	15.4%	\$ 269,374	10.9%	\$ 286,725	10.2%
Furniture and Equipment Expenses	\$ 154,040	6.7%	\$ 27,954	1.1%	\$ 20,197	0.7%
Representation/Hospitality Expenses	\$ 9,100	0.4%	\$ 9,100	0.4%	\$ 9,100	0.3%
Total Discretionary	\$ 689,496	29.8%	\$ 396,602	16.1%	\$ 399,465 ^c	14.1%
TOTAL O&A BUDGET	\$2,313,927		\$2,463,664		\$2,823,831	

^a These line items do not have separate authorizations. In order to break them out, we used the post's requested spending plans for these line items as the amount authorized by CS headquarters.
^b This includes \$27,254 that CS erroneously included in the budget figures provided to us during our inspection.
^c By the end of the fiscal year and after our onsite inspection, CS headquarters increased the post's discretionary budget.

Source: eMenu, Commercial Service, October 24, 2006

A. CS Brazil’s fixed costs for local staff have dramatically increased

At the time of our review, CS Brazil non-officer personnel expenses totaled more than \$2.1 million in FY 2006, a 76 percent increase over the \$1.3 million cost in FY 2004. CS officials told us the increases were caused by a number of factors, including the U.S. dollar depreciating against the Brazilian real, embassy-wide salary increases for local-hire staff, one full-year of expenses (FY 2006) for the new CS Belo Horizonte office director, and local hire benefits, which increased 132 percent in FY 2006 and 24 percent in FY 2005.

Beginning in FY 2006, CS Brazil paid the salary and benefits for the new office director in CS Belo Horizonte. This position had previously been filled by an officer and was not funded through the post’s operating and administrative budget. In addition, in FY 2006, several foreign

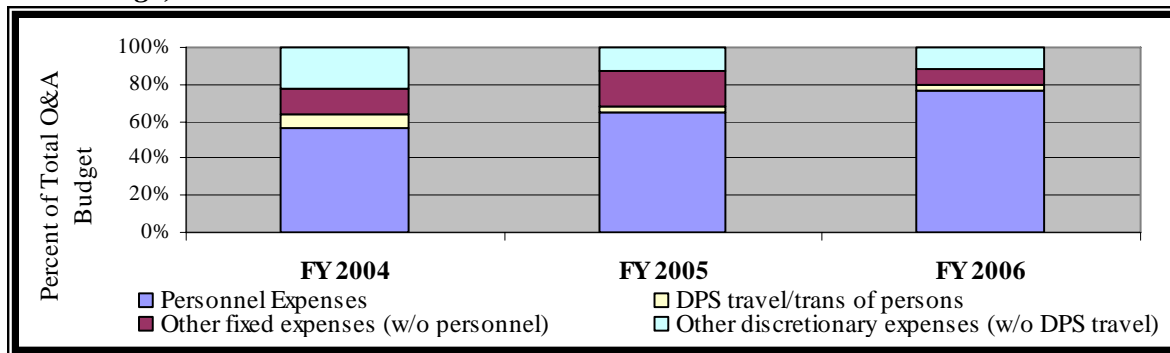
service national employees were moved up to the highest grade/pay level as a result of the State Department’s Computer-Aided Job Evaluation (CAJE) process.³⁵ Previously, these employees were salaried below the highest pay grade, so there was a significant pay adjustment for them in FY 2006. In addition, the post projected salary increases of 10 percent in FY 2006 for all local employees. CS Brazil also saw increases in health insurance costs from FY 2004 to FY 2006.

B. Travel budget reductions significantly limit CS Brazil’s outreach and staff travel to constituent posts

During our inspection, CS Brazil’s personnel expenses represented 76.6 percent of the post’s 2006 operating and administrative budget (see Figure 6). The post’s travel budget was reduced by CS headquarters below that of other posts of similar size, and with that change its discretionary budget was no longer able to supplement direct program support (DPS) such as travel, printing, supplies, and utilities. CS Brazil was required to find alternatives to continue operating at a reasonable level.

At the time of our review, CS reduced staff travel funds by 51 percent—from \$169,156 in FY 2004 to \$83,443 in FY 2006. However, only \$26,443 was actually available for travel expenses in FY 2006 because the remaining budget was added in during the last quarter and designated for the CS Brazil All-Hands Conference (\$42,800) and officer training expenses (\$14,200). With its available travel funds cut so dramatically, CS Brazil employees are limited in their ability to travel between offices and conduct outreach, including travel by the SCO and DSCO, who are not located in the same cities and must meet with other senior level embassy officials and oversee the post’s five offices.

Figure 6. Major Categories of CS Brazil’s Operating and Administrative Budget by Percentage, FYs 2004-2006



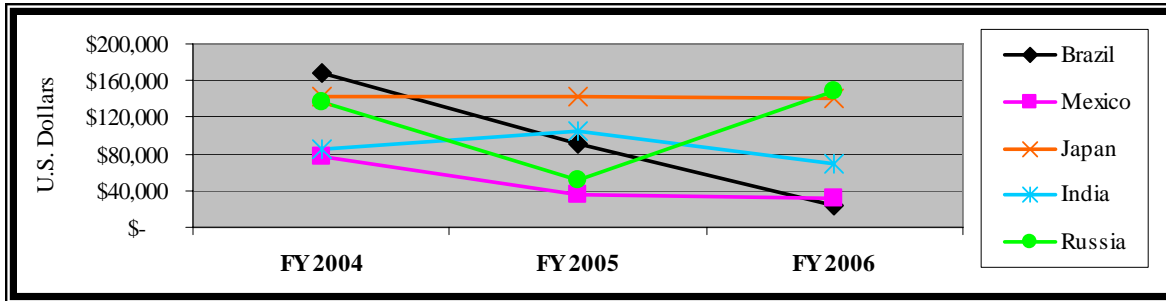
Source: Operating and administrative authorizations and plans, eMenu, Commercial Service, October 2006

We compared FY 2004 travel funds for other CS posts of comparable size (CS Mexico, CS Japan, CS Russia, and CS India) and found CS Brazil had the highest budget in U.S. dollars for

³⁵ CAJE is the interagency job evaluation for positions filled by overseas employees under the Chief of Mission authority.

discretionary staff travel (see Figure 7).³⁶ However, by FY 2006, CS Brazil had the lowest travel budget of any of those posts.

Figure 7. Travel Fund Comparison Among Select CS Posts, FYs 2004-2006.



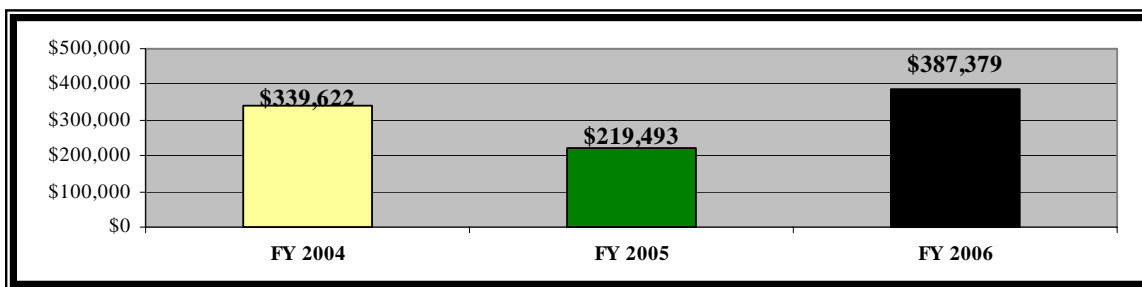
Source: DPS Travel Funds (Plans), eMenu, Commercial Service, July 2006

As a result of these budget constraints, post employees seek as many alternatives to traveling as possible. The post uses its digital video conferencing system to facilitate information sharing among CS staff and others. In one instance, an FSN employee paid her own expenses to attend an important trade event outside the area because CS Brazil could not fund her travel. We recommend CS headquarters evaluate CS Brazil’s discretionary travel budget to ensure it receives the necessary resources to complete its mission.

C. Increased emphasis on trust fund collections may impact the post’s overall performance

To continue operating at its current level, CS Brazil management has sought to increase the post’s cost recovery or trust fund collections from the products, services and trade events it provides to CS clients. The post had a 35 percent drop in collections from FY 2004 to FY 2005. But CS Brazil increased collections from \$219,493 in FY 2005 to \$387,379 in FY 2006 in order to recover more funds to cover its operating and administrative budget shortfall (see Figure 8). This increased pressure to bring in extra funds through trust fund collections affects other areas of performance.

Figure 8. CS Brazil’s Collections from Products and Services, FYs 2004-2006.



Source: eMenu, Commercial Service

³⁶ CS China was also included in our analysis, but we found that its discretionary travel budget was much higher than any of the other posts by a large margin so it was not an appropriate post to compare to. In FY 2004, CS China was given \$296,142. In FY 2005, that figure increased to \$574,564, and in FY 2006, CS China received \$424,846 for travel.

CS Brazil traditionally collected these funds to pay for products and services it provides and the post's seven trust fund employee positions, which are not covered by traditional O&A funding. When fully staffed, these positions account for approximately \$188,000 annually. However, without enough O&A money to cover outreach and travel, the post must divide its collections between paying for the trust fund employees and paying for expenses that exceed the available O&A funding.

We found this creates an additional level of pressure for CS Brazil's employees. First, many FSNs are displeased about working towards paying trust fund employees' salaries before most other expenses can be incurred, such as travel or support for a CS sponsored trade show. This appeared to create dissension among the employees. For example, one of the main points of contention is that CS Brazil wants to use trust fund collections first to pay the general trust fund salary expenses and then to support travel or program costs in the industry sector that generated the funds. According to CS, Brazil is one of the few posts with some employees paid entirely from trust funds. We understand that using trust funds to pay for additional staff is a useful way to increase staff without increasing the O&A budget. However it also creates a large burden on a post already experiencing severe budget constraints. Given its limited discretionary budget and the relatively high cost of employing trust fund employees, we recommend CS Brazil evaluate the cost effectiveness of trust fund employees and determine whether any alternatives, such as transferring some of the positions to the O&A budget or eliminating the positions completely, would be a better use of financial resources and might address some of the employee morale issues.

CS Brazil's focus on generating trust fund revenue to supplement the budget also seems to distract the post from focusing on critical core products that may better attract U.S. exports. For example, in FY 2006 CS Brazil performed significantly fewer Gold Key services (22 percent less) and less customized market research (30 percent less) than in FY 2005. A strong emphasis on trust fund collections may limit the post's involvement in such programs with more restricted pricing (see chapter V for more detail). The post should develop a more effective strategy to increase trust fund collections while also increasing the number of traditional products and services provided to U.S. clients, such as Gold Key services and customized market research.

Recommendations:

We recommend that the Assistant Secretary for Trade Promotion and Director General of the United States and Foreign and Commercial Service ensure that the following actions are taken to improve CS Brazil operations:

- Reevaluate CS Brazil's discretionary travel budget in an effort to ensure that the post has adequate resources to complete its mission.
- Assess the cost effectiveness of trust fund employees and determine whether any alternatives, such as transferring some of the positions to the operating and administrative budget or eliminating the positions completely, would be a better use of financial resources.

- Develop a more effective strategy to increase or maintain trust fund collections while also increasing the number of core products and services provided to U.S. clients, such as Gold Key services and customized market research.



ITA Response to OIG Draft Report and OIG Comments

The Deputy Under Secretary for International Trade, in responding to our draft report, mostly concurred with our recommendations. In response to our recommendation that CS reevaluate the post's discretionary travel budget, ITA reported that CS Brazil's discretionary travel budget was reviewed and would be increased in FY 2007 to a budgeted level of \$107,079. ITA reported that this will allow for more of CS Brazil's FSNs to attend industry trade shows, officers and FSNs to travel to important country-wide meetings, the SCO to participate in the U.S.-Brazil Commercial Dialogue meetings, and the standards attaché to travel on a regional basis. We also note that in its response, ITA stated that an eMenu tracking error incorrectly credited CS Brazil's FY 2006 discretionary travel budget with an additional \$27,254 for the hotel contract to support the CS Brazil All-Hands Conference. As a result, ITA noted the discrepancy between the \$83,443 cited in our draft report and the \$56,189 it stated as CS Brazil's total discretionary travel budget for FY 2006.

In response to our recommendation to review the cost effectiveness of trust fund employees, ITA noted that CS is reviewing the management, budget, and operations in Brazil, including staffing levels. With regard to our recommendation that CS develop a more effective trust fund collections strategy that includes increasing its core products and services, ITA stated that CS Brazil is already taking action. Specifically, ITA reported that collections issues and use of trust funds were discussed during the October 2006 CS Brazil All-Hands Conference and a team of CS Brazil officers has been formed to review these issues and develop possible solutions. The post is also developing a system to ensure that all officers and employees understand the process of collection and disbursement of trust funds. ITA's response also asserted that CS Brazil's collections are generated by the post's "balanced and aggressive trade promotion program that provides U.S. firms with CS products and services that are appropriate for the Brazilian market." While we agree that CS Brazil has taken an aggressive role to increase trust funds, we reiterate our recommendation that the post needs to develop a strategy that also increases the number of core products and services provided to U.S. exporters.

V. CS Brazil’s Products, Services, and Outreach Have Increased but Some Improvements Are Needed

From FY 2005 to FY 2006, CS Brazil increased the number of products and services involving collections from 241 to 268. But its increased involvement in certain types of services combined with the current design of its performance goal system may be limiting the post’s ability to promote other traditional or core CS products and services to U.S. exporters. In addition, we found the post’s market research reports are generally well written, but efforts to increase unplanned market research should be expanded. CS Brazil customers were generally satisfied with most of the post’s products and services but the practice of presenting catalog shows should be reevaluated.

We also learned that some of the post’s efforts to promote bilateral trade may not be the most effective at attracting U.S. exporters to the region. One successful pilot program, Retail in Rio, has not had the same results since it was expanded, and the once-innovative Network U.S.A. program does not seem to be meeting the current needs of U.S. exporters.

A. Products and services are not increasing at the same rate as collections

As noted in the previous chapter, a heavy emphasis on trust fund collections may be driving CS Brazil’s production to services that allow flexible pricing, such as Platinum Key services and official events, and limiting the post’s involvement in other programs with more restricted pricing, such as Gold Key services and market research. From FY 2005 to FY 2006, the post increased its collections from \$219,493 to \$387,379 (76 percent); however, the total number of services performed in the same period only increased 11 percent, from 241 to 268 (see Table 9).³⁷

Table 9. Number of Products & Services Offered vs. Collections, FYs 2004-2006.

Name of Product/Service		FY 2004	FY 2005	FY 2006
Business Facilitation Service	Number	29	38	86
	Collections	\$40,692	\$28,565	\$35,722
BuyUSA.gov Business Service Provider	Number	0	18	24
	Collections	\$ -	\$3,600	\$4,700
Customized Market Research	Number	30	20	14
	Collections	\$14,450	\$15,655	\$16,000
Gold Key Matching Service	Number	103	96	75
	Collections	\$59,575	\$74,350	\$66,515
International Company Profile	Number	17	18	21
	Collections	\$8,500	\$9,180	\$11,000
International Partner Search	Number	22	23	24
	Collections	\$11,500	\$13,800	\$13,400
Platinum Key Service	Number	1	3	8
	Collections	\$5,900	\$20,280	\$72,410
Official Events	Number	15	16	13
	Collections	\$189,747	\$46,951	\$157,194
Post Initiated Events	Number	28	9	3
	Collections	\$9,248	\$7,112	\$10,438
TOTAL	Number	245	241	268
	Collections	\$339,612	\$219,493	\$387,379

Source: eMenu, Trust Fund Management Report, Commercial Service, October 26, 2006

³⁷ These totals are based on eMenu’s trust fund management reports.

In FY 2006 the post generated more revenue per service for official events and Platinum Key service. CS collected \$46,951 for 16 official events in FY 2005 compared to more than \$157,194 for only 13 official events in FY 2006. We note, however, that official event collections include \$67,000 for a multi-country event because eMenu—CS' internal financial management system—does not separate funds for events by country, so official event collections for CS Brazil may be inflated. In this instance, Brazil was credited with at least \$20,000 more than it actually collected. CS Brazil also increased its Platinum Key service collections by nearly 260 percent for only eight services. The Platinum Key service does provide pricing flexibility; however, generating this type of revenue may not always be the most effective tool for reaching the maximum number of small- and medium-sized U.S. exporters.

Post increased buyer delegations while other products and services declined

CS Brazil promoted or accompanied nine International Buyer Program delegations in FY 2005, 25 between March 2006 and September 2006, and, according to its preliminary FY 2007 events schedule, intends to promote at least 15 U.S. trade events this coming fiscal year. International buyer delegations function as a way for CS staff to travel to the U.S. more often, because each time a CS staffer recruits 15 buyers, he or she gets a free trip to accompany Brazilian clients to U.S. trade events. While we recognize that CS Brazil is engaged in trade facilitation by accompanying Brazilian clients to the U.S. trade events, we are concerned that not being engaged with U.S. clients may diminish the post's ability to also provide its traditional products and services to U.S. exporters.

In fact, we noted that CS Brazil provided fewer of its three top customary products and services last year, namely the Gold Key service, customized market research, and local trade events. From FY 2005 to FY 2006, Gold Key services dropped from 96 to 75 and the number of customized market research reports fell from 20 to 14. The post promoted only 3 of at least 27 trade events that we found were held in Brazil between August and November 2006 and promoted by other countries' international trade websites. In addition, CS Brazil planned to host catalog shows at these 3 events rather than encourage U.S. companies to physically exhibit at the show, despite the limited success of catalog shows. According to CS specialists, the Brazilian buyer has become more sophisticated and wants to inspect the actual product at the booth rather than browse a catalog. Another reason these events are less productive is that CS Brazil sometimes organizes catalog shows at multi-sector trade events that target many industry sectors. According to CS' Global Trade Program staff, catalog shows are more successful when they target a specific sector, because the attendees are looking for a particular product. We recommend CS Brazil increase its goals for promotion of local trade events to U.S. exporters and increase their involvement in these shows. Further, it should examine the effectiveness of catalog shows and determine whether it should continue to offer this product or replace it with another that better meets client needs and better promotes U.S. exports.

Varied performance goals and expectations challenge the post's efforts and cooperation

We found that different production and collection goals at each office are influencing what is produced, and impacting cooperation among FSNs within Brazil. The SCO told us that each PCO devises his or her own strategy when developing the post-specific goals.

CS Sao Paulo implemented a performance goal system in FYs 2005 and 2006 for commercial assistants (grades 6/7/8/9/10) and commercial specialists (grades 9/10). In FY 2006, CS Brasilia only set export success goals for its FSNs—20 export successes for its commercial assistants and 40 for its specialist. CS Rio de Janeiro has an office-wide export success goal, but trust fund collections and market research goals are customized for each FSN. CS Belo Horizonte is “team oriented” and thus does not foster specific goals (except for market research). CS Porto Alegre has the same goals as Sao Paulo commercial specialists.

Table 10. Sao Paulo Performance Goals, FY 2006

FSN Grade	Gold Key or Partner Search	Export Successes	Trust Funds	Market Research
Grade 6-8	None	15	\$15,000	13
Grade 9-10	8	30	\$15,000	15

Source: CS Brazil

Some FSNs at the Sao Paulo office said they found the use of performance goals, including goals for export successes, invigorating and effective in motivating them to perform. However, several others stated that a strong emphasis is placed on generating trust fund collections. Combined with export success goals, we found a high level of competition among many FSNs which is not necessarily fostering country-wide cooperation. The local staff at other CS offices in Brazil said they found some of their performance goals to be unrealistic because most U.S. companies only want to explore commercial opportunities in and around Sao Paulo, and they also have to spend a great deal of time on non-export promotion activities. For example, a CS Brasilia FSN noted that the local staff spend much more time on resolving trade advocacy issues and supporting CS Brazil’s embassy relations. Thus, they have less time and resources to produce as many export successes as do the Sao Paulo staff. Performance appraisals can be negatively impacted if the staff do not meet their goals, which may encourage some staff to inflate their performance numbers. For example, we found FSNs reported individual export successes for claims that should be combined into one record. In Sao Paulo, the SCO did state that if an FSN does not achieve satisfactory goals over an average of 2 consecutive years, the employee does not receive a satisfactory rating and a within-grade step increase. Similarly, the Rio de Janeiro PCO stated that she plans to follow this policy. However she is prepared to set lower goals based on FY 2006 performance in accordance with current policy, which allows each manager to determine office and FSN goals at his or her own discretion.

Overall, we commend CS Brazil for its aggressive effort to set goals for some of its staff. While the performance goals are fairly new, it appears they are not emphasizing the traditional products and services that directly support U.S. exporters. Based on the post’s recent experience with its performance goal system, we recommend CS Brazil reevaluate its goal system given the other constraints on the post’s resources, to determine what may be achievable to help ensure balanced priorities and greater exports, and make any necessary adjustments to its performance goals.

B. Market research reports are professional and very informative

CS Brazil produces planned market research reports that contain sector-level market information to help U.S. companies assess market opportunities for their products and services, unplanned market research reports to inform U.S. exporters of international market trends and unique

business opportunities, and customized market research reports that discuss market conditions for client-specific products and services. We reviewed a sample of these market research reports for calendar years 2005 and 2006. Overall, we found that the reports contained detailed market information and were written in a professional manner.

The planned market research reports we reviewed discussed several sectors including agriculture, mining, telecommunications, and medical equipment. We found older reports varied greatly in their format and content. For example, some older reports contained incorrect contact information and lacked dates, market access details, and upcoming trade show information. In February 2006, CS headquarters revised its market research guidelines and issued a standard template with instructions. CS Brazil's recent market research reports reflect the current changes.

CS Brazil produced 85 unplanned market research reports in the first nine months of calendar year 2006 compared to 125 reports during the same time in 2005, approximately 32 percent fewer.³⁸ CS Brazil staff told us that several factors contributed to the decline. Due to budget constraints, the post canceled a \$10,000 subscription to a bilingual news service that provides information on 11 sectors in Latin America including telecommunications, banking, information technology, oil and gas, and electrical power (this was used by the post to write reports about development and changes in specific sectors or industries.) In addition, the Secretary's June 2006 visit combined with other VIP delegations reportedly slowed CS Brazil's production of unplanned market research. In fact, Belo Horizonte reviewed Brasilia's market research reports during the time Brasilia was preparing for the Secretary's visit. We recommend CS Brazil increase production of unplanned market research reports, because they inform U.S. exporters of recent developments in Brazil's markets.

CS Brazil completed 18 customized market research reports in FY 2005 and 15 in FY 2006. Some of the reports were produced by outside market research firms, while others were written by CS specialists. We reviewed a sample of the CMR reports and found them to be very comprehensive and well-written.

C. CS Brazil's English web site could be improved

We reviewed CS Brazil's English web site to determine its effectiveness in informing interested parties of U.S. export opportunities in Brazil and compared the English web site to CS Brazil's Portuguese version. CS Brazil's English web site lists office contact information for each post, contains a guide of CS Brazil services, and identifies upcoming Brazil events. In addition, the web site includes contact information for Brazilian business service providers such as attorneys, interpreters, and consultants who can provide further assistance to U.S. exporters. Industry reports, the Country Commercial Guide, the U.S. Export Finance Guide, and other useful business information are also featured on the web site. However, we found the English web site difficult to navigate at times, and we could not readily find office or regional market information except for basic contact information. For example, the Country Commercial Guide provides best industry prospects for Brazil, however we were unable to identify best industry prospects in each

³⁸ Calculations are based on the number of unplanned market research reports issued between January 1 and September 30 of each year.

region and unable to find market research by city. Furthermore, even though standards and IPR are important issues in Brazil, this information was not prominently displayed on the web site. In contrast, CS Brazil’s Portuguese web site designed for a totally different audience—the Brazilian importer—prominently featured CS Brazil’s trade event calendar and discussed trade events in Brazil.

We also reviewed web sites from four other CS posts and identified a number of best practices that could provide ideas for further improving CS Brazil’s English web site (see Table 11).

Table 11: CS Posts’ Web Site Best Practices

CS Post Website	Features/Best Practices	Benefits
India	India at A Glance	Provides information on the government, workweek, entry/exit requirements, and key economic indicators.
	(Consolidated) India Market Overview	Consolidates market information including best prospects, market entry strategy, doing business in India, and market research.
	Industry List by Post	Identifies industry sectors according to each CS India post.
China	Contact U.S. by Region	Offers user a regional overview for the each of the 6 posts in China and an email contact by industry for each region.
	China Information by Industry	Consolidates market information by industry sector such as market overview, market research, trade events, testimonials, and CS China industry contact at each post.
	Visitor’s Guide	Includes basic Chinese phrases, and cultural and money usage tips.
Mexico	Find Opportunities by Industry	Consolidates market information by industry sector such as market overview, market research, trade events, testimonials, and CS Mexico contact.
	Find Logistics Solutions in Mexico	Discusses customs issues in Mexico.
	Find Regulations and Standards in Mexico	Provides information on Mexico’s standards, regulations, and regulatory changes.
Russia	(Interactive) Trade Event Calendar	Lists CS Russia’s participation in all local and U.S. trade events and email address for the FSN responsible for the event.
	Special Projects	Highlights CS Russia special projects such as Business Information Services for Newly Independent States.
	Russian Trade Leads	Identifies trade opportunities with Russian companies seeking to import specific products and services. FSN contact information is included for interested parties.

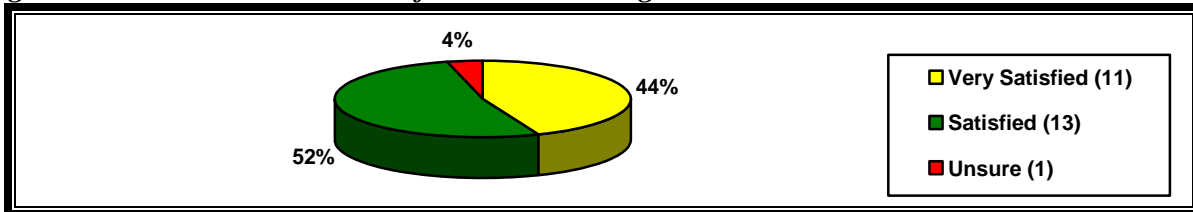
Source: Commercial Service

We recommend that CS Brazil include a regional orientation to its web site so users can also search best industry prospects, market research, and trade events at each post. Standards, intellectual property rights, and customs information should also be included on the web site.

D. CS Brazil clients are generally satisfied with the post’s products and services, but indicate some dissatisfaction with post-sponsored events

During our review, we sought feedback from 150 of CS Brazil’s clients who received a product or service between October 1, 2004 and April 28, 2006, and we received 25 responses (17 percent).³⁹ Most of the respondents were satisfied with their product or service (see Figure 9). For example, 92 percent of the respondents indicated that the product or service was delivered in a timely manner and 96 percent would recommend the product or service to others.

Figure 9. CS Brazil's Client Satisfaction According to Feedback Provided to OIG



Source: Feedback provided to OIG (June 2006)

CS’ Customer Relationship Management unit, which administers surveys to determine client satisfaction, received 61 out of 141 surveys (a 43 percent response rate). According to CS’ survey data, 85 percent of CS Brazil’s clients indicated they are generally satisfied with their products and services.⁴⁰ CS Brazil either increased or maintained the same levels of customer satisfaction between FYs 2005 and 2006 (see Figure 10 below).

Figure 10. Customer Satisfaction for CS Brazil’s Products and Services



Source: eMenu

Despite these favorable ratings, some clients expressed concerns about the quality of several products and services. Complaints included: little or no follow-up by CS Brazil staff, poor contact lists, and irrelevant information that did not meet client’s criteria. One dissatisfied customer from 2005 stated that his initial instructions were not followed, and he only received the revised information a day before his trip. However, CS Brazil appears to be improving its

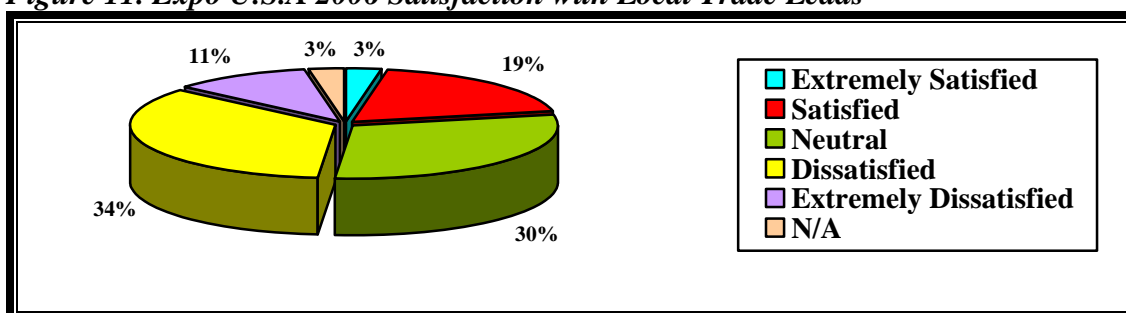
³⁹ OIG sought feedback from clients who did not respond to the CS Customer Relationship Management unit’s surveys.

⁴⁰ Performance Measure for Customer Service: CS Brazil End-of-Year Report FY 2005.

client satisfaction, since we note that at the time of our review it had not received a “dissatisfied” rating for any of its FY 2006 products and services.⁴¹

The same cannot be said for client satisfaction levels for CS Brazil’s events.⁴² Specifically, during the same timeframe (FY 2005 to FY2006), the customer satisfaction level for CS Brazil events has decreased significantly. For FY 2005, event customer satisfaction levels averaged 74 percent, but fell to 68 percent in FY 2006. Clients were particularly dissatisfied with the Expo U.S.A 2006-Region Mercosur catalog show (see Figure 11), reporting that (1) limited event promotion, (2) conflicting set-up instructions, and (3) misplaced catalogs ultimately affected the event’s success. According to the customer surveys, factors that also contributed to high levels of dissatisfaction, included inappropriate trade leads, unscreened lists of attendees, and inaccurate contact lists.

Figure 11. Expo U.S.A 2006 Satisfaction with Local Trade Leads



Source: eMenu

As a result, CS Brazil offered Expo U.S.A. dissatisfied clients discounted rates or fee waivers to participate in future sector-specific catalog shows. In addition, CS Brazil provided all companies with 6 months of free advertising on the web site and distributed company profiles to its NUSA partners. We commend CS Brazil for its efforts to resolve customer service problems after they occur, but we recommend that it do a better job in the event planning and execution stages to meet or exceed client expectations.

E. “Retail Brazil” falters following a moderately successful pilot program

In 2004-2005, CS Rio de Janeiro joined with the United States Department of Agriculture’s Foreign Agricultural Service (FAS) in a pilot program for the retail consumer goods industry dubbed “Retail in Rio.” The program offered U.S. companies the opportunity to test the Brazilian market by displaying sample products in four Brazilian airport duty-free stores, at a local trade show, and a catalog/products display at a commercial association. CS recruited 164 U.S. companies to participate. Of these companies, Brazilian retailers chose 33 new-to-market and 27 companies already exporting to Brazil to display and sell products in high-traffic areas of their stores or trade shows.

⁴¹ Information based on CS Customer Relationship Management survey results as of December 11, 2006.

⁴² During FY 2006, CS Brazil event surveys reported 13 “dissatisfied” and 4 “extremely dissatisfied” ratings.

To support the pilot program, the two agencies created a major marketing campaign that included recruiting U.S. airlines to distribute promotional materials to passengers on Brazil-bound flights, and advertising materials in Portuguese and English. The four duty-free stores distributed banners, totes and flyers. The U.S. ambassador participated in the opening ceremony at one of the stores, which attracted media attention for the event from a local television station and newspapers. Overall, it appears that the Retail in Rio pilot helped market some U.S. products in Brazil's international airports and at local trade events. CS Brazil reported a total of 64 export successes, including 38 at the duty-free stores. But the campaign was expensive and the two agencies incurred significant financial losses. The in-store marketing campaign required a \$5,000 investment; telephone expenses to recruit companies totaled \$2,500; and the CS officer, FSN, interns, and USEAC participation combined for over 2,300 hours of non-recovered costs.

The post then developed a "Retail Brazil" program based on the Retail in Rio concept, but with the caveat that it had to be based on full cost recovery. The new program's initial results were encouraging, with approximately 117 U.S. companies indicating interest. But only 12 companies actually paid a participation fee. That included 6 participants for Retail Brazil and 6 participants for the Beauty Fair market test program, a Retail Brazil event specific to the cosmetics industry. We found that the post targeted some clients in the cosmetics industry despite regulatory hurdles to import products from the U.S. While CS was still able to meet their needs and showcase these products at Brazil's largest Beauty Show instead of an in-store promotion, the post ended up incurring additional costs.

We also found CS Brazil provided use of the Army/Air Post Office (APO) service for companies to export their product literature and samples to CS Brazil for the retail program and other client programs, e.g. Platinum Key services. According to Retail Brazil marketing materials, CS Brazil requested that the participating U.S. companies ship their product literature and non-returnable samples to CS Rio de Janeiro through the APO. In emails between the PCOs in Sao Paulo and Rio de Janeiro, they discuss the use of the APO and diplomatic mail for client programs. The Rio de Janeiro PCO stated that she plans to continue using the APO for Retail Brazil since there was not a problem using it for the pilot Retail in Rio program. However, the Sao Paulo PCO stated that his post will not accept any packages sent through the APO for the retail program. The Sao Paulo PCO stated that the consulate's management officer does not allow the APO to be used for business client services.

To follow up on this issue, we asked CS Brazil about the mission's policy for client use of the APO. CS Rio de Janeiro did not provide any additional information on its use of the APO or the consulate's policy. CS Sao Paulo, in its response to our inquiry, stated that it follows the "Consulate and Brasilia's policy on pouch and APO mail..." which does not address "specifically [...] Business-FCS Program client use of APO mail." CS Sao Paulo's PCO, as noted above, also told us that the consulate's management officer has made it clear that CS should not use the APO for transporting client catalogs and temporary imports for CS events and programs.

The pilot program achieved some success with U.S. companies selling products to Brazilian retail outlets, but there is only limited interest in the program currently. CS Brazil should evaluate whether Retail Brazil is a program worth continuing. The post should also establish a

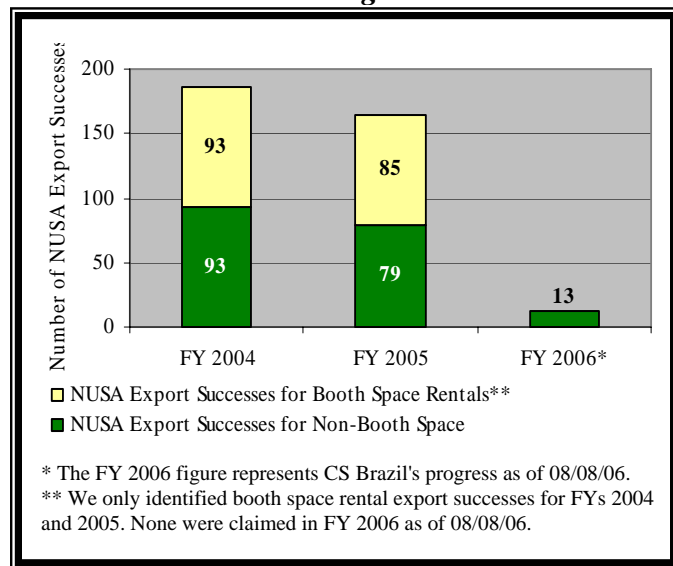
country-wide policy for use of the APO, including its use to transport CS client materials to Brazil.

F. The Network U.S.A. program's effectiveness is declining

Since its inception in 1998, CS Brazil's Network U.S.A (NUSA) efforts have yielded an average of 102 export successes per year. Many of these export successes were reported as results from Brazilian International Buyer Programs or reverse trade missions to the U.S., when participants purchased U.S. goods and services or identified and contracted with Brazilian agents and distributors to represent U.S. companies.

However, 93 (50 percent) of the export successes for FY 2004 and 85 (52 percent) of the export successes for FY 2005 were claimed for NUSA assistance in recruiting Brazilians to rent booth spaces to exhibit Brazilian products at U.S. trade shows (see Figure 12). Such an export success claim does not appear to meet the intent of CS' mission. While the booth rentals may generate some limited sales—approximately \$1,000 to \$5,000 per booth—for U.S. trade show organizers, assisting Brazilians to rent booth spaces to sell their products at U.S. trade shows is primarily promoting Brazilian exports, not U.S. exports. Hence, such activities appear to run counter to CS' mission. We discussed this issue with CS Brazil staff while at post. Subsequently, we found, well into the fourth quarter of FY 2006, that CS Brazil had claimed only 13 export successes for the NUSA program, far below its previous average.

Figure 12: Booth Space Rentals Reported as Export Successes Generated through NUSA



Source: eMenu, Commercial Service, August 8, 2006

Overall, we question how much value-added assistance NUSA currently provides to U.S. and Brazilian companies. The program began during the early stages of the Internet age when few Brazilian companies had regular access to the Internet. That is no longer the case—Brazilians now have much greater access to the Internet, and many Brazilian companies can actively conduct Internet research.⁴³ U.S. trade show organizers actively promote their trade events through the Internet and often register participants via their web sites. And CS Brazil's web site provides much of the same information provided by NUSA, including information on upcoming Brazil and U.S. trade events, trade missions, buyer delegations, U.S. exporters looking for Brazilian partners, and other trade-related information.

⁴³ The Central Intelligence Agency's 2005 *World Factbook* reports that 25.9 million of Brazil's 188 million people (14%) have regular access to the Internet.

In response to our concerns about the effectiveness of catalog shows, ITA noted that in FY 2007 the CS Product Enhancement Team initiated a formal, worldwide review to improve catalog events' marketing and effectiveness. In addition, ITA reported that the CS Customer Relationship Management Unit recommended that catalog events be marketed as an inexpensive way to test a country's market and CS should prepare a market exposure report for the client. This report would provide responses to the client's product and lead to discussion about market entry, if appropriate. We appreciate CS' efforts to study catalog events, but we reiterate the importance of CS Brazil meeting or clarifying clients' expectations prior to catalog event participation to help ensure client satisfaction.

In response to our recommendation to reevaluate CS Brazil's goal system, ITA maintained that CS Brazil management believes it is necessary to allow flexibility in setting performance goals at each office based on CS Brazil's resources and local market conditions and allow each manager to employ all available tools to properly motivate the staff. For example, Sao Paulo's performance goals will continue to target trade promotion activities while CS Brasilia's goals will reflect the commercial diplomacy activity with government agencies in the capital city. ITA stated that commercial diplomacy is a new performance measure and export successes will continue to measure traditional CS products and services. We understand CS Brazil's need for flexibility in setting goals, but reemphasize the importance of setting realistic, achievable goals to help ensure balanced priorities and enhance cooperation among staff.

ITA restated in its response that the post's unprecedented number of VIP visits and congressional delegations and budget cuts in FY 2006, which forced it to cancel its industry periodical subscriptions, contributed to the drop in CS Brazil's unplanned market research reports. However, ITA's response noted that CS Brazil still led other Latin America posts in the number of unplanned market research reports. In addition, ITA stated that CS has included increased unplanned market research in its FY 2007 strategic plan and will provide funding, if available, to renew industrial periodical subscriptions. ITA's response also discussed CS Brazil's plan to redesign its English language website to include a regional dimension, beyond the current sector/industry orientation. In addition, pages on standards regulations, IPR, and customs information will be added to the website.

In response to our recommendation to evaluate the Retail Brazil program, ITA stated that CS Brazil reviewed the program and decided against formalizing it due to the unsuccessful pilot. CS Brazil believes the Retail Brazil concept could work at select posts where purchasing power is stronger and tariff regulations are less onerous than in Brazil. As a result, CS Rio has provided extensive feedback and lessons learned to Central American posts, which are considering their own retail initiative. ITA also clarified that CS Brazil used the U.S. military's APO mail service, not the diplomatic pouch, for the transport of client materials. However, based on information obtained from CS Brazil and ITA's response, it still appears that there is no uniform policy for an appropriate shipping mode for client materials. According to ITA's response, CS Brazil is working with the Military Liaison Office in Brasilia to determine a policy for client materials that will be used by all CS offices in Brazil. We have updated our report to distinguish between the use of the APO and the diplomatic pouch.

ITA also discussed the conclusions of a CS Brazil “NUSA Team” that was established at the October 2006 All Hands Conference to identify the best ways for NUSA and CS Brazil to collaborate to increase U.S. exports. The NUSA Team concluded that NUSA is a highly effective outreach marketing and recruitment tool that will be most effective serving as the marketing arm of the nine industry teams and ensuring country-wide outreach. ITA’s response also stated that NUSA multipliers support CS Brazil when U.S. companies and USG delegations visit their regions and provide CS Brazil with contacts for Gold Key Services and potential Brazilian importers of U.S. goods. ITA’s response emphasized that NUSA is a low-cost method for CS to counter the well-financed European Union’s program that grants significant funds to Brazilian multipliers. We recognize that CS Brazil benefits from its NUSA partnerships. However, CS should determine how to better leverage this resource to benefit U.S. exporters looking to enter the Brazilian market. We ask that ITA include in its action plan the specific steps CS Brazil has taken or plans to take to improve NUSA’s value to U.S. exporters.

VI. CS Brazil's Relationships with U.S. Trade Promotion Agencies and External Stakeholders Are Complex

The Brazilian market is challenging for U.S. exporters but CS Brazil works well for the most part with its partners and stakeholders to facilitate trade for U.S. exporters. During the last two years, the post worked with at least 24 USEACs to present “webinars” on doing business in Brazil and coordinate logistics for international buyer delegations. The post also coordinated with the CS headquarters’ marketing team to promote Brazil as a featured export market. In addition, CS works well with the other members of the U.S. mission in Brazil to foster bilateral trade. But despite these efforts, the post still faces some challenges in coordinating efforts with external stakeholders and some U.S. trade promotion agencies.

A. CS Brazil's external stakeholders form a challenging environment for U.S. exporters

While CS coordinates well with its partners, it must remain cognizant of its own objectives to promote U.S. exports. We found that most of CS Brazil’s partners think highly of the post and its operations. The American Chamber of Commerce (AmCham) has major offices in Sao Paulo⁴⁴ and Rio de Janeiro⁴⁵ and satellite offices around the country, including in Belo Horizonte, Brasilia and Porto Alegre. AmCham representatives, as well as those we met with from the Federation of Industries and other trade partners, agreed that CS plays an important role in fostering U.S. – Brazil trade. However, the fact is most AmCham members are actually local Brazilian companies looking for opportunities to export their products to the U.S. rather than U.S. firms looking to foster local Brazilian business relations. Specifically, we found the Brazilian AmChams are primarily engaged in bilateral trade with an emphasis on selling Brazilian goods. The SCO described the relationship as buy/sell – sell/buy. In other words, AmCham members are looking for opportunities to sell their products in the U.S. but may also need to purchase U.S. products to influence their position in the U.S. market. The SCO and his staff are well aware of this business environment and understand the delicacy of this relationship with the AmCham.

During our review, we found CS leverages opportunities where possible. We saw this in particular in Belo Horizonte, where CS is collocated with the Federation of Industries (FIE). CS has access to FIE’s meeting rooms and reception halls for events. On many occasions, FIE will host CS events. In Belo Horizonte, we met with the local FIE president, who spoke highly of the CS staff and emphasized that collocation was a benefit to CS and also to FIE’s members.

By contrast, CS Rio de Janeiro has a challenging relationship with AmCham Brazil - Rio. The PCO told us that relations between the previous PCO and AmCham were strained, partly because the PCO attempted to establish a U.S. business council outside of the AmCham. The new PCO is attempting to revitalize the relationship and improve coordination with the AmCham.

⁴⁴ AmCham Sao Paulo is a non-profit organization whose mission is to constructively influence Brazilian and U.S. public policy and promote trade, investment, and corporate citizenship. With seven branches located in Brasilia, Campinas, Curitiba, Recife, Goiania, Belo Horizonte, and Porto Alegre, AmCham Sao Paulo represents more than 5,000 companies.

⁴⁵ AmCham Brazil - Rio was the first AmCham established in Brazil and is located in Rio de Janeiro with a membership of 500 Brazilian and foreign companies and over 2,000 corporate executives.

CS Brazil should reconsider the NUSA program. For example, the post might use the NUSA network to attract U.S. companies to Brazil rather than being primarily focused on bringing international buyers to the U.S. In addition, the NUSA program needs to be revised to provide information beyond what is already available on CS' web site.

Recommendations

We recommend that the Assistant Secretary for Trade Promotion and Director General of the United States and Foreign and Commercial Service ensure that the following actions are taken to improve CS Brazil operations:

- Increase CS Brazil's promotion of local trade events to U.S. exporters and increase staff involvement in these shows.
- Examine the effectiveness of catalog shows and determine whether the post should discontinue them. If CS Brazil continues to promote catalog shows, take appropriate steps to provide better value to participants.
- Reevaluate CS Brazil's goal system given the other constraints on the post's resources, including:
 - Determine what goals may be achievable while helping to ensure balanced priorities and greater exports, and
 - Make any necessary adjustments to its performance goals.
- Increase CS Brazil's production of more unplanned market research reports, since they inform U.S. exporters of recent developments in the Brazil marketplace.
- Reorganize and expand CS Brazil's web site to include (a) best industry prospects, market research, and trade events by region, and (b) standards regulations, IPR and customs information.
- Evaluate the Retail Brazil program to determine whether the program should be continued.
- Establish a country-wide CS Brazil policy on the use of the APO mail delivery service, including the appropriateness of the use of the APO for the transport of client materials and temporary exports to Brazil for CS-sponsored events.
- Revise the post's NUSA program to provide more value to both U.S. and Brazilian companies.



ITA Response to OIG Draft Report and OIG Comments

In response to our recommendation for CS Brazil to increase its involvement in local trade events, ITA said that the implementation of the post's revised industry team structure will encourage increased promotion of trade events and provide a funding mechanism that will allow for greater trade event participation by team members. ITA also identified increased promotion of and participation in trade events as a major goal for the Export Promotion Working Group within the on-going U.S.-Brazil Commercial Dialogue. We look forward to a status report on CS Brazil's involvement in local trade events in ITA's action plan.

B. CS Brazil continues to improve its coordination with U.S. government agencies

Our review found CS Brazil coordinates well with most of the U.S. embassy and consulate sections in Brazil. The post also continues to foster its relationship with CS and ITA headquarters offices, including Manufacturing and Services' (MAS) Offices of Travel and Tourism, Technology and Electronic Commerce, and Health and Consumer Goods. While some staff of ITA's Market Access and Compliance unit hoped for greater support from the post on some policy and compliance issues, most U.S. officials in Brazil and ITA and State Department headquarters, reported strong coordination with CS on trade facilitation, advocacy, and embassy-wide initiatives. The Deputy Chief of Mission (DCM) praised CS and its SCO for their commitment to trade promotion and emphasized the SCO's important role in facilitating bilateral trade with the local business community.

We found that some of CS' mission-wide outreach activities could improve. For example, the embassy periodically sends teams to areas in Brazil not immediately accessible to the embassy or consulates. This provides a valuable opportunity for outreach with local governments on economic and commercial affairs. However, the DCM reported that CS appears to face more financial restrictions than other sections in the embassy and considers this a major hurdle to Commerce's outreach in Brazil. Similarly, the Consul General in Rio de Janeiro noted that Brazil is a large country and this requires CS to travel to more outlying areas. However, he stated that CS' travel budget often restricts CS staff from visiting these areas. As a result, CS may miss valuable contacts and opportunities for U.S. exporters, given its diminished travel budget.

CS Brazil could also improve its cooperation with the Foreign Agricultural Service (FAS) at post. As an example, in 2006 the Oakland USEAC arranged a virtual wine tasting with CS Belo Horizonte and local industry representatives to promote U.S. wine in Brazil. In a positive effort to coordinate across agencies, CS Brazil invited the Sao Paulo FAS to participate in the digital video conference and provide additional expertise on the local Brazilian agricultural market. However, the USEAC did not have the technical capabilities to connect all three parties—CS Brazil, FAS, and the USEAC—via the digital video equipment. According to CS Brazil, FAS insisted wine exports are under its jurisdiction and it should take priority for participating in the video conference. So despite months of planning and coordination, CS Belo Horizonte withdrew from participating in the conference, and FAS made the presentation. CS Brazil planned to expand the virtual wine tasting to Sao Paulo and Rio de Janeiro. However, the post reports the program made little progress due to lack of cooperation. We recommend CS Brazil work to improve its cooperative efforts with FAS to help ensure the success of future collaborative projects.

Recommendation

We recommend that the Assistant Secretary for Trade Promotion and Director General of the United States and Foreign and Commercial Service ensure that the following action is taken to improve CS Brazil operations:

- Improve CS Brazil's cooperative efforts with the U.S. Department of Agriculture's Foreign Agricultural Service to help ensure the success of future collaborative projects.



ITA Response to OIG Draft Report and OIG Comments

In response to our recommendation, ITA stated that CS Brazil will continue to foster its strong relationship with FAS at post, and will continue to share information and consult with FAS colleagues on issues of mutual interest and overlapping responsibilities. ITA further added that CS Brazil will redouble its efforts to keep lines of communication open when collaborating with FAS on future trade events, particularly in locations where CS does not have face-to-face contact with its FAS colleagues.

VII. Financial and Administrative Operations Are Generally Sound, but a Few Areas Require Additional Attention

In general, CS Brazil's financial and administrative operations are sound. We found that CS headquarters, as well as CS Brazil's SCO, DSCO, PCOs and administrative manager, have done a good job in managing the administrative staff and overseeing the financial operations of the post. We also found that in general the financial and administrative FSN staff are experienced, conscientious, and dedicated. But despite having generally good financial and administrative operations, we did find some issues that warrant review and action.

A. Discrepancies in post and headquarters accounting reports and inventory records should be reconciled

Both CS Brazil and CS and ITA officials in Washington, D.C. need a complete understanding of the financial operations of the post to properly manage and oversee operations. As part of our review, we analyzed financial reports in CS' eMenu internal financial computer system, ITA accounting reports, and other supporting documentation and found several discrepancies between the different reports.

EMenu and ITA accounting reports could not be reconciled

Obligations, liquidations, and collections for transactions at CS overseas posts are processed through the State Department's accounting system. However, not all CS personnel have access to the State Department's system, so all CS posts, including CS Brazil, use the internal eMenu system to track funds. CS Brazil enters all transaction information into the eMenu system and routinely reconciles the State Department accounting reports to eMenu. Any inconsistencies identified are to be reviewed and corrected. Once all financial information is recorded in the State Department's accounting system, it is transferred electronically to the ITA accounting system, which is the official accounting record for CS Brazil.

We examined ITA's accounting reports, which identify all expenditures, collections, and open obligations, and compared them against financial reports from the eMenu system and various supporting documentation. The ITA accounting reports are not easy to follow and do not reflect a precise financial picture of CS Brazil's operations. For example, when the collections are summarized based on the job code number assigned to a specific product or service, the ITA accounting report indicates negative collections for both FY 2004 and 2005 (see Table 12).

Table 12. Product and Services Expenditures and Collections for FY 2004 and FY 2005

Product or Service	Job No.	FY 2005		FY 2004	
		Expenditures	Collections	Expenditures	Collections
Commercial News U.S.A	1ACN	\$14,147	-	-	-
International Company Profile	1ACP	\$13,534	(\$8,480)	\$12,835	(\$9,500)
International Partner Search	1ADS	\$16,467	(\$10,600)	\$10,803	(\$7,600)
Business Facilitation Service	1BFS	\$29,735	(\$6,593)	\$40,806	\$13,502
Customized Market Research	1CFM	\$12,666	(\$295)	\$17,000	(\$9,900)
Platinum Key Service	1CPK	\$22,879	\$9,219	\$34,411	(\$12,400)
BuyUSA.gov Business Service Provider	1ECV	\$1,105	\$3,600	-	-
Gold Key Matching Service	1GKY	\$58,968	(\$27,575)	\$55,577	(\$28,750)
Post Initiated Event-Under \$5K	1PIE	\$7,095	\$5,413	\$6,006	\$9,248
Trade Shows/Events	Misc. Job Nos.	\$50,202	(\$3,611)	\$44,081	\$44,902
Total P & S Expenses/Collections		\$226,798	(\$38,922)	\$221,519	(\$498)

Source: ITA Accounting Reports, dated March 31, 2006

However, eMenu reports indicate that trust fund collections totaled \$339,612 for FY 2004 and \$219,492 for FY 2005. CS Brazil officials explained that some of these transactions were not for collections but were for obligations and liquidations funded through trust fund accounts for salaries and overtime expenditures. In addition, we know that some monies are not collected at the post and would not be included in the ITA accounting reports but would appear in eMenu. Consequently, the ITA accounting reports conflict with data reported in eMenu.

We selected a sample of 36 product and service-related collections from the ITA collections report and attempted to match them to entries in eMenu. We could not find six transactions in our sample (totaling \$11,468) in eMenu. In addition, we found many of the transaction amounts on the ITA accounting reports did not match the amounts reported in eMenu. CS Brazil officials could not explain why these collections could not be located on eMenu, and stated that it is possible these collections could have been processed either through headquarters or a USEAC partner.

CS Brazil and ITA should examine the collections recorded in eMenu and the ITA accounting collections reports to determine whether there are errors and, if so, make corrections to accurately report the post's actual finances.

EMenu reports do not provide a clear financial picture of post operations

Various eMenu trust fund collection reports for CS Brazil give inconsistent information and may not be reliable for management decision-making. We compared five different eMenu reports available to CS management and found various collection amounts on each report (see Table 13).⁴⁶ For example, the trust fund aggregate report for FY 2005 indicates there were total collections of \$161,729, but the trust fund management report indicates that total collections for the same fiscal year were \$165,430, a \$3,701 difference. CS officials said the difference might be due to a collection received in one fiscal year that was later refunded in a different fiscal year. Such discrepancies make it difficult for users of the eMenu system to determine the true financial picture of the post.

⁴⁶ Some of these reports do not include collections for official and post-initiated events. As a result, we could not include these products and services in our comparison.

Table 13. CS Brazil FY 2005 Product and Services Collections Reported in eMenu

Product or Service	Product Fulfillment	P&S Qtrly Collections	Trust Fund Aggregate	Trust Fund Management	Participation Agreement
Business Facilitation Service	\$24,173	\$24,173	\$24,173	\$28,565	\$28,122
Business Service Provider	\$3,600	\$3,600	\$3,600	\$3,600	\$3,600
Customized Market Research	\$15,655	\$15,655	\$15,655	\$15,655	\$10,705
Gold Key Service	\$71,216	\$75,041	\$75,041	\$74,350	\$61,151
International Company Profile	\$9,180	\$9,180	\$9,180	\$9,180	\$11,660
International Partner Search	\$13,800	\$13,800	\$13,800	\$13,800	\$12,300
Platinum Key Service	\$20,280	\$20,280	\$20,280	\$20,280	\$40,075
	\$157,904	\$161,729	\$161,729	\$165,430	\$167,613

Source: EMenu, October 19, 2006

CS Brazil’s methods of tracking collections and expenses in eMenu may not be accurate. For example, the 2005 and 2004 trust fund aggregate reports listed a 2003 event—*Growth Industry 2003*—when all of the transactions associated with the event occurred during FY 2003. Similarly, we found a fiscal year 2000 event posted to the 2005 trust fund aggregate report because it appears that excess funds from the event were carried over to pay for a 2005 event. We also found the post does not track Porto Alegre costs separately from Sao Paulo costs, because Sao Paulo processes Porto Alegre transactions. Thus, there is no report available that shows an aggregate picture of Porto Alegre’s authorized expenditures, obligations, and liquidations. Since nothing was tracked under the Porto Alegre cost center, CS Brazil began tracking costs associated with the standards attaché under the Porto Alegre office. According to the post, when the position was funded by NIST, it seemed easiest to use a separate cost center to track the standards attaché’s costs. The post continues to use the Porto Alegre cost center for the attaché even though the position is now funded internally. However, it would seem to make more sense to use the Porto Alegre cost center to track all Porto Alegre funds and to track the standards attaché’s funds in Sao Paulo where the position is located. Another alternative would be to create a cost center separate from each post to track only the attaché’s funds.

EMenu should be an effective management tool providing reliable, accurate and up-to-date information. We found, however, that it would be very difficult to quickly obtain an accurate financial snapshot of CS operations from any eMenu report. We recommend that CS and ITA examine the eMenu system and rectify all errors and discrepancies. In addition, CS should design a report for the eMenu system that provides an accurate, complete financial picture of the post so all managers, at the post and headquarters, will review the same figures.

Accounting records for CS Brazil show inactive obligations

We also found that ITA’s official accounting report for open obligations (as of March 31, 2006), which is maintained at headquarters, contained 10 unliquidated obligations for inactive CS Brazil accounting transactions from FY 2000 through FY 2004. The value of the unliquidated obligations totaled \$30,162. However, when we asked CS Brazil about these open obligations in late Summer 2006, the administrative manager indicated that the open obligations had been closed. Old obligations should be deobligated in the ITA official accounting records. ITA should require CS to examine open obligations on a regular basis and work with ITA to deobligate any that are no longer needed.

Inventory records are incomplete

During our review, we found that CS Brazil’s inventory records were not complete or accurate and that CS Brazil was not timely in its disposal of obsolete or surplus property. We performed a spot check of the inventory in each office and found equipment, including copiers, typewriters, desktop computers and monitors, and a fax machine, that either was not on the inventory list and did not have a bar code or had a bar code but was not on the inventory list. We also found old, unused computers and copiers that should be sold, donated, or transferred through the embassy or consulate General Services Office. CS Brazil should ensure that all applicable items are included on its property lists and dispose of any excess inventory.

B. CS Brazil could further decrease its ICASS charges

Over the past few years, CS Brazil has worked diligently to reduce its costs for International Cooperative Administrative Support Services (ICASS) provided by the State Department at post. ICASS costs are invoiced based on specific cost centers and a workload count, such as the number of fiscal strip codes processed. The workload count is based on the previous year’s count. While CS Brazil has closely monitored its ICASS charges to reduce its costs, we believe that the post’s workload counts could be reduced to further lower its ICASS charges.

ICASS was established to eliminate duplicative administrative services at U.S. overseas missions and to charge agencies for services provided by the State Department (State). State and the U.S. Agency for International Development (USAID) provide administrative services to other U.S. government agencies operating overseas, including the Department of Commerce. Agencies reimburse State and USAID a prorated portion of the costs incurred for services, which are divided into 32 separate cost centers at large posts and 16 cost centers at smaller posts. Each cost center has a specific workload factor used to allocate the service costs among all participating overseas agencies. Agencies are also charged overhead and some staff costs (known as ICASS distribution charges) not allocated to specific cost centers.

Source: CS and State Department staff; *Foreign Affairs Manual*

We questioned the workload counts for the Information Management Technical Support (IMTS), International Voice Gateway (IVG), and the Reception and Switchboard cost centers. Specifically, we found the post has more telephonic and other communications devices and instruments than may be needed and therefore may be paying higher ICASS costs than is necessary. For example, we found the number of network server work stations serviced for IMTS does not correlate to the number of employees (see Table 14).

Table 14. ICASS Cost Center Workload Allocation Summary

COST CENTER	ALLOCATION METHOD	BRASILIA 7 staff	RIO 8 staff	SAO PAULO 35 staff	TOTAL 50 staff
Information Management Technical Support (IMTS)	No. of Devices Serviced	3	2	1	6
International Voice Gateway Lines (IVG)	No. of Instruments Serviced	n/a	5	10	15
Reception & Switchboard	No. of Instruments Serviced	14	15	62	91

Source: ICASS FY 2006 Cost Center by Agency report

For example, Brasilia has three work stations and seven current employees, while Sao Paulo, with 35 employees, has only one work station. Our analysis of the IVG cost center, which is a

network that relays overseas calls through a switchboard located at a State Department annex in Maryland, found CS Rio averages one IVG line for every two employees, while CS Sao Paulo averages one IVG line for every four employees. Based on these numbers, it appears that the IVG workload count for the Rio office is excessive. CS Brazil should review the workload count to determine whether it should be reduced. Similarly, we found the Reception & Switchboard cost center (the number of telephones serviced by ICASS), totaled 62 for Sao Paulo, an office with only 35 current employees. Even taking into account that Sao Paulo may need extra telephones for interns, 62 serviced instruments still seems high for a staff of that size. Additionally, the Brasilia office only has seven employees but is charged for 14 telephone instruments, and Rio, with only eight employees is charged for 15 telephone instruments. We suggest that CS Brazil review its workload count for the IMTS, IVG, and Reception and Switchboard cost centers to identify possible reductions. The post should not be paying for telephones and lines that it does not need.

C. Class B cashier and subcashiers may not be necessary at collocated posts

At the time of our review, CS Brazil had a Class B cashier and two alternates in Sao Paulo and subcashiers in the Brasilia, Belo Horizonte and Porto Alegre offices. Class B cashiers are accountable officers who are personally accountable for official funds designated to them or to subcashiers under their supervision. CS Brazil's Class B cashier currently has an advance of \$, and the three subcashiers have various advances ranging from approximately \$ to \$, depending on the fluctuating exchange rate.

We question whether maintaining a Class B cashier on staff is cost effective and necessary for CS Brazil since it is now collocated with the State Department's financial management office and its cashiers. CS Brazil is one of only two posts worldwide with a Class B cashier, a position initially established because the post was not in the consulate. CS Brazil moved into the new consulate in FY 2004. Now CS Brazil's ICASS costs for cashiering services are comparable to those of CS' six largest CS posts, none of which has a Class B cashier (see Table 15). The post is charged the same amount for cashiering services whether the transaction is processed through the State Department Class B cashier or the CS Brazil Class B cashier. CS also must pay a Class B cashier a higher salary and bonus than a non-Class B cashier at the same grade level.

It does not appear that the added salary, fringe benefits and security-related costs, as well as the added risk associated with the handling of an imprest fund, are worth the convenience of having a Class B cashier at this post.

⁴⁷ An imprest fund is a fixed-cash or petty cash fund, in the form of currency, coin, or Government checks, which has been advanced overseas by the State Department without charge to a Government appropriation or fund account, or domestically charged against a bureau's funds and advances, to an appropriately designated cashier for cash payments or other cash purposes.

Table 15. ICASS Cashiering Costs at CS' Six Largest Posts

Country	2004 – Cashiering Services		2005 – Cashiering Services	
	ICASS Cashiering Costs	Percentage of Direct Program Budget ^a	ICASS Cashiering Costs	Percentage of Direct Program Budget
Brazil	\$12,614.00	1.89%	\$17,139.00	3.90%
Mexico	\$24,181.00	5.45%	\$18,563.00	7.43%
China	\$22,327.00	2.02%	\$25,376.00	2.29%
Japan	\$18,967.00	4.49%	\$22,740.00	5.09%
India	\$9,738.00	2.61%	\$10,422.00	2.69%
Russia	\$12,257.00	3.43%	\$8,260.00	4.67%

^a Direct program support (DPS) funding levels affect the number of cashier-related transactions and the corresponding amount of ICASS charges.

Source: eMenu, August 31, 2006; ITA ICASS Cost Summary

At the time of our review, CS Brazil also had a local-hire personal service agreement employee who served as a subcashier at the Porto Alegre office. According to the *OIO Administrative Manual*, subcashiers must be direct hire employees. CS headquarters should determine whether this is appropriate and if so, revise the manual to permit use of a PSA employee as a subcashier.

CS Brazil should also evaluate the advance limits given to the CS Brazil subcashiers to determine if advances are above what is needed. The *Foreign Affairs Handbook* states that the advance given to a cashier should not exceed the amount of funds the cashier requires for 1 week's activity, plus an amount sufficient to cover replenishment turn-around time.⁴⁸ We found CS Brazil subcashiers replenish their advances on average once every 3 to 4 weeks, which suggests that the advances for two of the offices are above that needed for 1 week (see Table 16).

Table 16. CS Brazil Subcashiers' 2006 Designated and Actual Cash Advances

Location	Cashier's Advance		Designated Advance	Difference
	Real	U.S.\$ ^a		
Belo Horizonte	R	\$	\$	617.82
Brasilia	R	\$	\$	\$614.39
Porto Alegre	R	\$	\$	(\$196.43)

^a An exchange rate of 2.1805 Real to the U.S. dollar was used to determine the actual cashier advance in U.S. dollars.

Source: Cashier Reimbursement Voucher and/or Accountability Reports and FMO Designation Letters

The ITA *OIO Administrative Manual* states that all petty cash payments must be supported by receipts and that all receipts must be original, show the date of purchase, be written or translated in English, approved and signed by an officer and by the person receiving the payment. However, we found some petty cash documentation did not contain all of the required information. CS Brazil should ensure that receipts for petty cash payments include all of the required information, approval signatures, and date and paid stamps.

⁴⁸ 4 FAH-3 H-393.4-2

D. Federal and local policies for gifts and bequests and travel vouchers and advances should be followed

During our inspection, we reviewed a sample of gift and bequest documents and travel vouchers. We found instances where appropriate gift and bequest documentation⁴⁹ (1) was not submitted within the required timeframe, (2) did not include required information, and/or (3) was not approved by the appropriate manager. We also found CS Brazil is not applying a consistent travel voucher and travel advance policy.

The *OIO Administrative Manual* states that for travel and related gifts valued between \$251 and \$3,500, the letter of commitment, travel order, CD-210, and SF-326 must be approved by the SCO (for staff) and the OIO regional director (for the SCO), and submitted to the ITA Office of Organization and Management Support (OOMS) at least 2 weeks prior to travel. Our review found many instances when these documents were not approved and submitted 2 weeks prior to travel, and two instances when the documents were not approved and submitted until after the travel had commenced or been completed. We also found two instances where the documentation was not approved by the SCO, and instead approved by the PCO at post.

In addition, we found several gift and bequest documents in our sample that did not contain all of the required documentation, so we were unable to determine if they had been submitted properly or approved by the appropriate manager. We also found other instances where proper documentation could have clarified whether some gifts were appropriate. In one case, we could not determine whether or not an employee had received an inappropriate gift of tickets to an entertainment event because no documentation had been filed, although the employee had alluded to complimentary tickets on a travel voucher.

We also found two instances in which a CS Brazil employee received a gift of first-class airfare. The *OIO Administrative Manual* specifically states that CS employees are prohibited from accepting first-class travel. The letter of commitment, CD-210, and SF-326 accompanying the gift and bequest documentation for this travel, valued the airfare at \$1,200, the price of this ticket had it been coach airfare. However, during our fieldwork we obtained a copy of an e-mail correspondence between CS employees and embassy personnel that indicated that the company who donated this airfare was contacted by a CS employee and confirmed that the ticket had an actual value of \$6,000.

CS should train CS Brazil employees on the guidelines for what gifts may be accepted and the requirements for reporting gifts, and managers should closely review all gift and bequest documentation submitted by employees to prevent acceptance of unallowable gifts.

Travel voucher and travel advance processes need revisions

Our review of a sample of CS Brazil travel vouchers identified instances dating back to FY 2003 of travel vouchers not submitted within the required timeframe, travel advances granted in excess of the 80 percent limit, and some excess funds not being returned by the employee at the

⁴⁹ This included CD-210, *Record of Gift or Bequest*; SF-362, *Semiannual Report of Payments Accepted from a Non-Federal Source*; and letters of commitments from the company outlining the gift and bequest.

completion of the trip. As outlined in the *OIO Administrative Manual*, travel vouchers must be submitted by the employee for processing within 5 working days following the completion of travel. We found at least 10 instances where employees did not submit their travel vouchers within the 5-day required time frame, and 2 vouchers were submitted by employees more than 80 days after the trip.

We also found inconsistent compliance with travel advance policies. According to the *Foreign Affairs Manual*, a travel advance should only be issued to non-travel card holders in conjunction with a travel authorization and should be limited to 80 percent of the out-of-pocket expenses that the employee is expected to incur prior to reimbursement.⁵⁰ We identified 13 instances in our sample where employees received travel advances in excess of the limit without explanation or appropriate approval. We found advances ranging from 103 percent to 128 percent of the employee's expected out-of-pocket travel expenditures. Additionally, we found three instances where excessive travel advances were not repaid by employees in a timely manner, including two that date back to fiscal year 2003, and which still had not been repaid to the government as of October 2006. CS should ensure that CS Brazil staff members comply with applicable travel voucher and advance request requirements, including submission of travel vouchers within five working days after the completion of travel, limiting travel advances to 80 percent of estimated out-of-pocket expenses and only to non-travel card holders, and timely repayment of excessive travel advances.

E. CS Brazil should establish a uniform telephone reimbursement policy

CS Brazil offices each have their own reimbursement policy for employees' personal use of telephones, cell phones, or fax machines. The *OIO Administrative Manual* requires use of U.S. government telephone systems, equipment and related property be restricted for official business and authorized calls only. Unauthorized personal calls are prohibited, even when the caller intends to reimburse the government. Employees are required to charge personal calls using government telephone systems or equipment that involve toll costs to their home telephone, personal calling card, credit card, or to the receiving party. However, if the employee does use the government telephone, the employee must maintain a personal monthly log to track long distance calls and faxes, reconcile this log with the monthly phone bill, identify personal calls and costs, including taxes, and pay the cashier for any personal long distance calls and faxes. However, we found CS Brazil employees are not keeping adequate telephone logs, or reimbursing the government for taxes applicable to personal phone calls and local expenses for personal calls.

Sao Paulo and Belo Horizonte office employees receive a monthly telephone record from the State Department and are supposed to review it and reimburse CS Brazil for any local and long distance personal calls if the total charge exceeds 15 Reais, or approximately \$7.50 U.S. dollars. CS Brasilia employees must reimburse the government for all personal calls that exceed 5 Reais, approximately \$2.50 U.S. dollars. Rio de Janeiro staff only reimburse for personal long distance calls, not personal local calls, even though the toll charges are almost as costly for local as long distance calls. Rio de Janeiro employees must sign the telephone invoice as an indication that they have reviewed it for personal calls. However, we found not all employees were consistently

⁵⁰ 4 FAM, Section 463.3

reviewing the telephone bills for personal calls. And in some cases, the amount reimbursed by the employee was only a few cents, so the ICASS cost to process the payment exceeded the actual reimbursement amount. For example, in one instance, ICASS charges were more than 27 times the reimbursement: a Brasilia employee reimbursed CS Brazil .93 Reais, or 35 cents, for personal calls. ICASS charged \$9.59 to process the reimbursement.

CS Brazil needs to establish a comprehensive and fair telephone usage and reimbursement policy that all CS Brazil employees must follow. CS Brazil also should revise the telephone bill reviewing policy so reimbursements are paid every quarter instead of monthly, when appropriate, to lower ICASS costs to process the payments.

F. CS Brazil and ITA officials are not adequately tracking acquisition training for government purchase card holders

The *Commerce Acquisition Manual* (CAM) requires all purchase card holders and authorizing officials to complete a web-based General Services Administration (GSA) Purchase Card training course. Purchase card holders and authorizing officials must also complete a 40-hour Simplified Acquisition training course prior to issuance of a purchase card or establishment as an approving official. Purchase card holders and authorizing officials with single purchase limits above \$2,500 also must complete a minimum 24-hour refresher Simplified Acquisition training course once every 5 years. CS Brazil and ITA officials were not able to provide us with documentation to confirm that all CS Brazil purchase card holders and purchase card approving officials had received the required training.

We did not find any problems with CS Brazil's use of purchase cards, but without required training, purchase card holders may not be fulfilling all the responsibilities and duties associated with holding a purchase card, and approving officials may not be exercising the oversight necessary to ensure proper use. CS Brazil should ensure that all purchase card holders and approving officials have completed and passed all required training courses, including the refresher training course.

Recommendations

We recommend that the Assistant Secretary for Trade Promotion and Director General of the United States and Foreign and Commercial Service ensure that the following actions are taken to improve CS Brazil operations:

- Examine the collections recorded in eMenu and the ITA accounting collections reports to determine whether there are errors and discrepancies and, if so, make corrections to accurately reflect the post's actual finances.
- Design a report for the eMenu system that provides an accurate, complete financial picture of the post so all managers, at the post and headquarters, will review the same figures.
- Examine open obligations on a regular basis and work with ITA to deobligate any that are no longer needed.

- Dispose of excess or obsolete inventory and ensure that all applicable items are included on all CS and ITA property lists.
- Review the post's ICASS workload count for the IMTS, IVG and Reception and Switchboard cost centers to identify possible reductions.
- Evaluate and make appropriate changes in CS Brazil's cashiering and petty cash activities by:
 - Examining the cost effectiveness and potential risk of having a Class B cashier, and determine if CS could eliminate this function and use the State Department cashier.
 - Determining whether it is appropriate to have a local-hire personal service agreement employee as a subcashier and, if so, revise the manual to reflect this.
 - Evaluating the advance limits given to the CS Brazil subcashiers to determine if advances are above what is needed.
 - Ensuring that receipts for petty cash payments include all of the required information, approval signatures, and date and paid stamps.
- Improve post's management of its gifts and bequests by:
 - Training CS Brazil employees on the guidelines for what gifts may be accepted and the requirements for reporting gifts.
 - Ensuring that managers closely review all gift and bequest documentation submitted by employees to prevent acceptance of unallowable gifts.
- Ensure that CS Brazil staff members comply with applicable travel voucher and advance request requirements, including submission of travel vouchers within five working days after the completion of travel, limiting travel advances to 80 percent of estimated out-of-pocket expenses and to non-travel card holders only, and timely repayment of excessive travel advances.
- Establish a comprehensive and fair telephone usage and reimbursement policy that all CS Brazil employees must follow, including revising the telephone bill reviewing policy so reimbursements are paid every quarter instead of monthly, when appropriate, to lower ICASS costs to process the payments.
- Ensure that all purchase card holders and approving officials have completed and passed all required acquisition training courses, including the refresher training course

We recommend that the Under Secretary for International Trade ensure that the following actions are taken:

- Work with CS to examine CS Brazil's eMenu financial records and ITA accounting reports to correct any errors and discrepancies and ensure that these reports accurately reflect the post's actual finances.
- Work with CS to examine open obligations on a regular basis and deobligate any that are no longer needed.
- Work with CS to evaluate the cost effectiveness and potential risk of CS Brazil having a Class B cashier and determine if CS could eliminate this function and use the State Department cashier.



ITA Response to OIG Draft Report and OIG Comments

ITA's response indicated that both ITA and CS were taking aggressive action to address our concerns regarding CS Brazil's and ITA headquarters' financial and administrative operations. ITA stated that it will develop reporting procedures to help address and reconcile any accounting discrepancies that might occur between the eMenu and ITA accounting reports. Additionally, CS will continue to work with ITA to improve the functionalities of eMenu accounting and the financial reports that are provided to management in Washington and at CS posts. ITA assured us that all nonpending open obligations through FY 2005 have been identified and closed and that CS Brazil will examine obligations on a monthly basis and close them as soon as these obligations have been liquidated. ITA also reported that it will be implementing a new accounting system in FY 2008 and is working with the new vendor to make accounting reports available at post. We commend ITA and CS Brazil for the actions they are taking and ask that a copy of the new reporting procedures be provided in its action plan or when they are completed.

ITA indicated CS Brazil has completely reviewed all inventory records, including those located at headquarters, and reconciled any discrepancies. In ITA's response, CS confirmed that Brazil does in fact have seven vehicles, which reflects the total in the CS OIO Western Hemisphere Office inventory records. As a result, we recounted the number of vehicles on both lists and concur that there are seven vehicles. We have removed this example in the final report. ITA's response also acknowledged some of the other discrepancies. ITA stated that the Office of Organization and Management Support will work with CS to assure that all accountable items are properly bar-coded and included in the ITA property inventory by the next quarterly inventory which was to be completed by the end of February 2007. CS Brazil is also currently in the process of requesting disposal of certain inventory items, including one vehicle located at the Brasilia office, and adding others items to the inventory listing that were not previously included.

ITA commented that CS Brazil took several steps to decrease its ICASS costs in 2005 and 2006, resulting in a decrease of five percent for CS Brazil, while total ICASS costs for the U.S. mission in Brazil increased by 15 percent. In response to our recommendation, CS Brazil verified the number of computers and telephone lines counted for ICASS to ensure that those counts are accurate. CS Brazil will modify the number of telephone lines required for its current operations, given staff deductions. Additionally, CS Brazil has reviewed the IVG lines used for the ICASS count and determined that that IVG lines will not result in any ICASS charges beginning in FY 07. CS Brazil will also verify the number of State computers and telephone lines used by the ICASS service providers to ensure that these counts are accurate as well. If the counts in the ICASS cost center are overstated, CS Brazil said it would correct them, resulting in lower costs accumulated at the ICASS cost center and redistributed to CS Brazil. We would appreciate inclusion of a cost savings analysis for all of these items in ITA's action plan.

While CS Brazil's review of the effectiveness and potential risk of having a Class B cashier is not yet completed, ITA noted that it would continue to work with CS to reevaluate the use of cashiers system-wide. ITA said that OFM endorses the elimination of CS Class B cashiers and

sub-cashiers where the need for their operation is not thoroughly substantiated, and it will assist CS with its review of the Class B cashier's operation in Sao Paulo. In addition, CS Brazil stated that it felt it was appropriate to have a local-hire personal service agreement (PSA) employee as a subcashier for its Belo Horizonte office and that it obtained proper approval for this decision from management. While our report was actually referencing the position in Porto Alegre, ITA did not address whether the *OIO Administrative Manual* would be revised to reflect that the use of a PSA employee as a subcashier was an approved method. Meanwhile, ITA did state that it reviewed the advance limits given to the subcashiers to determine if they were appropriate and found that the advance given to the CS Belo Horizonte cashier was appropriate but agreed to lower the advance given to the Brasilia subcashier. However, ITA's response failed to mention the CS Sao Paulo and CS Rio de Janeiro cashiers. Additionally, ITA assured us that they will make certain that all required approval signatures, dates, and paid stamps are included on all petty cash receipts.

ITA also stated that CS Brazil will provide comprehensive training to all American officers and FSNs to ensure that they know the rules and their roles for the requirements related to the gift and bequests process, and for travel advances and travel vouchers. With respect to CS Brazil's management of its gifts and bequests, ITA did not specifically address the numerous and questionable incidents we identified in our draft report. However, in response to our recommendation, ITA stated that CS Brazil were scheduled to provide comprehensive training to all officers and FSNs in February 2007. The training would reportedly ensure that all CS Brazil staff know the rules and their roles in the gifts and bequests process. CS Brazil will also, in writing, remind travelers upon return to post of the requirement to submit travel vouchers within five working days. While ITA agreed that CS Brazil staff need training in these areas, it stated that the State Department's mission-wide policy in Brazil authorizes travel advance limits of 100 percent when FSN employees travel to the United States because employees are not always reimbursed the appropriate amounts, due to exchange rate differences and additional taxes they must pay when they use their personal credit cards. ITA's response did not address the issue that excessive travel advances were not repaid by employees in a timely manner, and that travel advances were sometimes approved in excess of 100 percent of the out-of-pocket expenses that the employee is expected to incur. We feel that CS Brazil should limit any travel advance to 100 percent of expected out-of-pocket expenses, routinely review any travel advances that are outstanding, and require employees to reimburse the government for any excess travel advances.

Finally, ITA stated that CS Brazil will work with the OIO Western Hemisphere Office and the Office of Organization and Management Support to ensure that all purchase card holders are properly trained and that all training documentation is retained at post. In addition, CS Brazil will develop a country-wide telephone usage and bill reviewing policy, including a reimbursement timetable, in order to reduce ICASS vouchering costs. When this policy is developed we ask that ITA provide us with a copy.

SUMMARY OF RECOMMENDATIONS

We recommend that the Assistant Secretary for Trade Promotion and Director General of the United States and Foreign and Commercial Service ensure that the following actions are taken to improve CS Brazil operations:

1. Evaluate and clarify the roles and responsibilities of the CS Brazil SCO, DSCO and Sao Paulo PCO to ensure the most effective use of resources and coordination of country-wide programs (see page 6).
2. Work with the CS Brazil SCO, ITA's standards liaison and NIST to identify measurable long-term goals and resource commitments to support standards development in the Mercosul and the Western Hemisphere Regional Standards Protocol and the standards attaché's regional activities (see page 6).
3. Work with USPTO to develop a work plan for and clarify the CS Brazil and regional responsibilities of the IPR attaché in Brazil. In addition, ensure that support staff is in place and adequate funds are available to the attaché to pursue his mission (see page 6).
4. Provide the local American hire office director in Belo Horizonte with new officer or other appropriate CS management training (see page 6).
5. Review and clarify CS' current administrative document signatory policy for local hires and advise CS Brazil as to whether the CS Belo Horizonte office director is authorized to sign certain administrative and financial documents (see page 6).
6. Explore the potential for greater use of local hire American office directors, such as the one in Belo Horizonte, as a cost-effective management alternative for other CS posts around the world (see page 6).
7. Outline a strategy to continue fostering the business contacts and opportunities developed by the Porto Alegre specialist before CS loses contact with valuable partners in the area (see page 13).
8. Develop a stronger marketing plan to increase U.S. business awareness of CS Brazil operations and export opportunities in Belo Horizonte, Brasilia, and Porto Alegre and better leverage the market opportunities in areas outside Sao Paulo and Rio de Janeiro (see page 13).
9. Evaluate and make a decision among the varied options for CS' coverage of northeast Brazil, including collocation with the U.S. consulate in Recife, or opening a non-collocated office in Recife or in another city within the northeast as a more cost effective option (see page 13).
10. Assess the existing industry team structure, and the number and assignment of industry sectors among CS Brazil staff, and consider implementing changes that may improve productivity and foster a spirit of cooperation among the team members located throughout CS Brazil, including:
 - a. Assigning team leaders regional as well as country-wide goals,

- b. Requiring all team members to play an active role in developing assigned sectors within their regions, and
 - c. Rotating the opportunity to travel with International Buyer Program delegations among team members (see page 13).
11. Revise the *CS Operations Manual's* definition of an invalid export success to include claims of export successes that directly foster foreign exports, such as the rental of booth spaces at U.S. trade shows for foreign companies to exhibit their products for sale in the United States (see page 21).
12. Remove all invalid and questionable CS Brazil export successes from CS' database (see page 21).
13. Review export success performance data for CS Brazil and all CS posts worldwide to identify erroneously awarded office credits based on relocated officers and adjust the reported numbers (see page 21).
14. Confirm that each post and USEAC understands and are following CS' October 2006 revised export success reporting guidance and verification procedures, including:
 - a. Maintenance of export success documentation that can be used to verify all the necessary components of a valid export success story, and
 - b. Validation of export successes using CS' approved verification procedures for CS officers (see page 21).
15. Encourage CS Brazil staff to more regularly record export successes throughout the fiscal year to prevent a year-end overload (see page 21).
16. Reevaluate CS Brazil's discretionary travel budget in an effort to ensure that the post has adequate resources to complete its mission (see page 29).
17. Assess the cost effectiveness of trust fund employees and determine whether any alternatives, such as transferring some of the positions to the operating and administrative budget or eliminating the positions completely, would be a better use of financial resources (see page 29).
18. Develop a more effective strategy to increase or maintain trust fund collections while also increasing the number of core products and services provided to U.S. clients, such as Gold Key services and customized market research (see page 29).
19. Increase CS Brazil's promotion of local trade events to U.S. exporters and increase staff involvement in these shows (see page 34).
20. Examine the effectiveness of catalog shows and determine whether the post should discontinue them. If CS Brazil continues to promote catalog shows, take appropriate steps to provide value to participants (see page 34).
21. Reevaluate CS Brazil's goal system given the other constraints on the post's resources, including:
 - a. Determine what goals may be achievable while helping to ensure balanced priorities and greater exports, and
 - b. Make any necessary adjustments to its performance goals (see page 34).

22. Increase CS Brazil staff's completion of more unplanned market research reports, since they inform U.S. exporters of recent developments in the Brazil marketplace (see page 34).
23. Reorganize and expand CS Brazil's web site to include (a) a regional orientation to enable users to search best industry prospects, market research, and trade events by region, and (b) standards regulations, IPR and customs information (see page 34).
24. Evaluate the Retail Brazil program to determine whether the program should be continued (see page 34).
25. Establish a country-wide CS Brazil policy on the use of the APO mail delivery service, including the appropriateness of the use of the APO for the transport of client materials and temporary exports to Brazil for CS-sponsored events (see page 34).
26. Revise the post's NUSA program to provide more value to both U.S. and Brazilian companies (see page 34).
27. Improve CS Brazil's cooperative efforts with the U.S. Department of Agriculture's Foreign Agricultural Service to help ensure the success of future collaborative projects (see page 43).
28. Examine the collections recorded in eMenu and the ITA accounting collections reports to determine whether there are errors and discrepancies and, if so, make corrections to accurately reflect the post's actual finances (see page 49).
29. Design a report for the eMenu system that provides an accurate, complete financial picture of the post so all managers, at the post and headquarters, will review the same figures (see page 49).
30. Examine open obligations on a regular basis and work with ITA to deobligate any that are no longer needed (see page 49).
31. Dispose of excess or obsolete inventory and ensure that all applicable items are included on all CS and ITA property lists (see page 49).
32. Review the post's ICASS workload count for the IMTS, IVG and Reception and Switchboard cost centers to identify possible reductions (see page 49).
33. Evaluate and make appropriate changes in CS Brazil's cashing and petty cash activities by:
 - a. Examining the cost effectiveness and potential risk of CS Brazil having a Class B cashier, and determine if CS could eliminate this function and use the State Department cashier.
 - b. Determining whether it is appropriate to have a local-hire personal service agreement employee as a subcashier and, if so, revise the manual to reflect this.
 - c. Evaluating the advance limits given to the CS Brazil subcashiers to determine if advances are above what is needed.
 - d. Ensuring that receipts for petty cash payments include all of the required information, approval signatures, and date and paid stamps (see page 49).
34. Improve CS Brazil's management of its gifts and bequests by:

- a. Training CS Brazil employees on the guidelines for what gifts may be accepted and the requirements for reporting gifts.
 - b. Ensuring that managers closely review all gift and bequest documentation submitted by employees to prevent acceptance of unallowable gifts (see page 49).
35. Ensure that CS Brazil staff members comply with applicable travel voucher and advance request requirements, including submission of travel vouchers within five working days after the completion of travel, limiting travel advances to 80 percent of estimated out-of-pocket expenses and to non-travel card holders only, and timely repayment of excessive travel advances (see page 49).
 36. Establish a comprehensive and fair telephone usage and reimbursement policy that all CS Brazil employees must follow, including revising the telephone bill reviewing policy so reimbursements are paid every quarter instead of monthly, when appropriate, to lower ICASS costs to process the payments (see page 49).
 37. Ensure that all purchase card holders and approving officials have completed and passed all required acquisition training courses, including the refresher training course (see page 49).

We recommend that the Under Secretary for International Trade ensure that the following actions are taken:

38. Work with CS to examine CS Brazil's eMenu financial records and ITA accounting reports to correct any errors and discrepancies and ensure that these reports accurately reflect the post's actual finances (see page 49).
39. Work with CS to examine open obligations on a regular basis and deobligate any that are no longer needed (see page 49).
40. Work with CS to evaluate the cost effectiveness and potential risk of CS Brazil having a Class B cashier and determine if CS could eliminate this function and use the State Department cashier (see page 49).

We recommend that the Director of the National Institute of Standards and Technology ensure that the following action is taken:

41. Coordinate with the Commercial Service and ITA's standards liaison to identify measurable long-term goals and resource commitments for the CS standards attaché to support standards development in the Mercosul region and the Western Hemisphere Regional Standards Protocol (see page 6).

We recommend that the Under Secretary of Commerce for Intellectual Property and Director of the U.S. Patent and Trademark Office ensure that the following actions are taken:

42. Work with the Commercial Service to develop a work plan for and clarify the CS Brazil and regional responsibilities of the new intellectual property rights attaché in Brazil (see page 6).
43. Collaborate with the Commercial Service to ensure that adequate support staff and travel funds are available to the attaché to pursue his mission (see page 6).

APPENDIX A. ITA's Response to OIG Draft Report



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

FEB 5 2007

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

FROM: Michelle O'Neill *M O'Neill*

SUBJECT: Response to Draft OIG Report – CS Brazil is
Operating Well Overall But Needs Management
Attention In Some Areas

Thank you for your thorough review of CS Brazil operations. ITA's response is attached.

If you have questions about our response, please contact me or Director General Israel Hernandez.

Attachment



**Response to the Office of Inspector General's Report on the United States and Foreign
Commercial Service ("CS") Brazil**

We recommend that the Assistant Secretary for Trade Promotion and Director General of the United States and Foreign and Commercial Service ensure that the following actions are taken to improve CS Brazil operations:

- 1. Evaluate and clarify the roles and responsibilities of the CS Brazil SCO, DSCO, and Sao Paulo PCO to ensure the most effective use of resources and coordination of country-wide programs.**

Response: Based on its comprehensive review of CS Brazil operations, the CS has determined that both the SCO and DSCO positions must be located in the commercial capital in Sao Paulo in order to effectively manage CS operations throughout Brazil.

The Deputy Senior Commercial Officer (DSCO) position is currently located in Brasilia, at a significant distance from the SCO, as well as from the largest operation for which the DSCO has oversight. Additionally, the primary focus of work in Brasilia is government-to-government commercial relations, while the other CS offices in Brazil focus on the full range of CS activities, including export promotion, commercial diplomacy, advocacy, standards, and IPR. Further, as the majority of the DSCO's time is dedicated to policy and supporting the Ambassador, he has less time to focus on country-wide management.

To implement this new management structure, the DSCO position will be moved from Brasilia to Sao Paulo, and the Principal Commercial Officer (PCO) position will be moved to Brasilia. The CS formalized these changes through State Department's NSDD-38 process. The roles and responsibilities will be as follows:

- a) The SCO's primary responsibilities include:
 - Implementing the Administration's goals and objectives to outline CS Brazil's country commercial goals and objectives,
 - Providing overall direction of commercial operations,
 - Overseeing the commercial activities at commercial offices throughout CS Brazil,
 - Providing advice and counsel to the U.S. Ambassador,
 - Advancing U.S. Government policy agenda.
- b) The DSCO's primary responsibilities include:
 - Supervising day-to-day operations of all CS offices in Brazil to ensure optimum performance of CS Brazil as a whole through the most effective use of its personnel and available resources,
 - Assisting the SCO with CS Brazil's goals and objectives,
 - Keeping the SCO informed of the status of CS operations country-wide,
 - Making decisions in consultation with the SCO,
 - Serving as SCO in the absence of the SCO.
- c) The Brasilia PCO's primary responsibilities include:
 - Managing the commercial section in Brasilia,
 - Providing direction to the export promotion functions of the office,
 - Advancing the Administration's policy agenda in Brazil's capital,
 - Representing the SCO on the Embassy Country Team when the SCO is unable to attend.

The PCO will report to and receive general guidance from the SCO and DSCO, located in Sao Paulo, and will keep them fully informed of activity in Brasilia. The PCO will receive local guidance from the DCM and Ambassador in Brasilia.

2. **Work with the CS Brazil SCO, ITA standards liaison and NIST to identify long-term goals and resource commitments to support standards development in the Mercosul and the Western Hemisphere Regional Standards Protocol and the standards attaché's regional activities.**

Response: The CS notes that the Director of the National Institute of Standards and Technology (NIST) also received this draft recommendation. The CS Brazil SCO will work with the ITA standards liaison and NIST to develop measurable long-term goals and resource commitments to support standards development in South America. These goals will be based on the Western Hemisphere Standards Action Plan, which was prepared by the ITA standards liaison, standard attachés, and NIST.

The CS notes that the standards attaché will primarily focus on regional standards development, but that occasionally, he may be assigned responsibilities supporting Administration high level visits, e.g. Secretarial visits.

The CS also notes that the draft IG report states that NIST and INMETRO will work together in the U.S.-Brazil Commercial Dialogue standards group to address technical regulations in the coming year. The CS would like to note that ITA is actively engaged in and leading some portions of this effort.

3. **Work with USPTO to develop a work plan for and clarify the CS Brazil and regional responsibilities of the new IPR attaché in Brazil. In addition, ensure that support staff is in place and adequate funds are available to the attaché to pursue his mission.**

Response: CS Brazil is working with USPTO to develop an IPR Action Plan for Latin America. The plan will address the CS Brazil and regional responsibilities of the IPR attaché, while furthering the missions of the CS and USPTO. This regional action plan will build on the Brazil IPR Workplan created by the IPR Working Group under the U.S.-Brazil Commercial Dialogue the Secretary of Commerce launched in Rio de Janeiro in June 2006.

With respect to staffing, CS Brazil is in the process of hiring an IPR Commercial Specialist to support the IPR attaché. CS Brazil anticipates the position will be filled in the coming months after the State HR office has reviewed the position description, classified the position, and advertised it.

USPTO and the CS have agreed on this FY07 budget for the Regional IPR attaché. The latter has confirmed that his FY07 budget includes sufficient funding for anticipated regional and in-country travel requirements.

4. **Ensure that the local American hire office director in Belo Horizonte attends new officer and other appropriate CS management training.**

Response: CS Belo Horizonte Director John Mueller is scheduled to attend the April 16-20, 2007, New SCO/PCO Training in Washington, D.C. The CS OIO Western Hemisphere

Office will also consider providing him individual training at a local institute when he is in Washington, D.C., and explore other training opportunities for him throughout 2007.

- 5. Review and clarify CS' current administrative document signatory policy for local hires and advise CS Brazil as to whether the CS Belo Horizonte office director is authorized to sign certain administrative and financial documents.**

Response: The CS OIO Western Hemisphere Office will work with the CS Office of Strategic Planning and the CS Office of Foreign Service Human Resources to review the administrative and financial document signatory policy for local hires and to ensure that CS Brazil is aware of and adheres to the policy.

- 6. Explore the potential for greater use of local hire American office directors, such as the one in Belo Horizonte, as a cost-effective management alternative for other CS posts around the world.**

Response: This approach has been used in several instances in the CS Europe and East Asia Pacific regions with positive results. Specifically, the CS has employed local hire American officers in Dusseldorf and Hamburg for the past ten years, and in China for the past two years. The CS hired Americans as PSCs (personal services contracts) who in effect run the day-to-day operations in the cities where they reside. This approach allows other CS officers to be placed in other markets and reduces CS costs considerably. The CS will continue to explore greater use of this approach around the world.

- 7. Outline a strategy to continue fostering the business contacts and opportunities developed by the Porto Alegre specialist before the CS loses contact with valuable partners in the area.**

Response: The Sao Paulo PCO has visited Porto Alegre twice since the closure of the CS Porto Alegre office in October 2006, when our local employee resigned. The purpose of these visits was to meet with officials and business associations to brief them on CS Brazil and Sao Paulo Consulate activities, and CS contacts and programs. These Porto Alegre officials and associations are registered with the CS Brazil website, and receive regular monthly updates on all programs and activities. Registered associations include the local AmCham, the state's Federation of Industry (FIERGS), two commerce federations, the local small business association, and travel and tourism operators.

FIERGS will collaborate with CS Sao Paulo and the Sao Paulo Federation of Industry to host 2007's "Year of the USA." As part of this program, CS Brazil will organize Brazilian buyer delegations to visit large shows in the U.S. and actively recruit throughout Brazil, including the states of Rio Grande do Sul and Santa Catarina, which are within the CS Porto Alegre coverage area. This recruitment will keep CS Brazil teams in touch with our partners in these states. In addition, the NetworkUSA (NUSA) Team leader will maintain contact with these institutions until another visit can be arranged by the new PCO who should arrive in country in March 2007.

- 8. Develop a stronger marketing plan to increase U.S. business awareness of CS Brazil operations and export opportunities in Belo Horizonte, Brasilia, and Porto Alegre and better leverage the market opportunities in areas outside Sao Paulo and Rio de Janeiro.**

Response: CS Brazil is working on a revised strategic plan, which includes a marketing plan. During the October 2006, All-Hands meeting, CS Brazil identified the following ways to expand market presence across Brazil, which it will implement during the current fiscal year:

- Improve its webpage content and design along industry teams,
- Revamp its industry team structure to encourage proactive approaches for best prospect sectors,
- Increase country-wide outreach efforts through the Network USA (NUSA) program. NUSA Team works as the marketing team for all of CS Brazil and, in FY07, will focus outreach to Northeast, Midwest, South, and Southeast Brazil, with a focus on establishing new multiplier contacts for those areas where CS Brazil does not have offices, or where new FSN-managed offices can benefit from increased NUSA Team contact development assistance,
- Move the DSCO position to Sao Paulo to strengthen coordination.

- 9. Evaluate and make a decision among the varied options for CS' coverage of northeast Brazil, including collocation with the U.S. consulate in Recife, or opening a noncollocated office in Recife or in another city within the northeast as a more cost effective option.**

Response: In October 2006, CS/OIO/Deputy Assistant Secretary Dan Harris traveled to Brazil to conduct a management review. He visited three cities, including Recife. CS coverage of the northeast was among the issues he discussed with CS and State Department officers, including DCM Phil Chicola. After evaluating several options – namely 1) a standalone office in the region with a single employee, 2) an office collocated with an AMCHAM, and 3) location in the Consulate in Recife – CS management selected the third as the best approach at this time.

Subsequently, DAS Harris sent a letter to DCM Chicola to accept his offer of support to locate a CS employee in Recife and to formalize the State Department's offer to waive ICASS fees at this location. SCO John Harris will follow up with the DCM for a status update. Once we receive State Department's concurrence, we will move forward in opening the position in Recife.

- 10. Assess the existing industry team structure, and the number and assignment of industry sectors among CS Brazil staff, and consider implementing changes that may improve productivity and foster a spirit of cooperation among the team members located throughout CS Brazil, including:**
- a. Assigning team leaders regional as well as country-wide goals,
 - b. Requiring all team members to play an active role in developing assigned sectors within their regions, and
 - c. Rotating the opportunity to travel with the International Buyer Program delegations among team members.

Response: CS Brazil spent a full day during its October 2006, All-Hands meeting to discuss and develop a new industry teams program. Concrete steps to implement the new team

structure began immediately after the All-Hands meeting. As a result, CS Brazil identified many of the underlying issues and concerns that limited effective cooperation, developed a new system utilizing input from all stakeholders, and is currently implementing the new structure. Specifically, the new structure employs several strategies such as:

- Consolidating the number of teams for better alignment with ITA Global Teams and best prospects,
- Clarifying roles and responsibilities of team leaders and members,
- Creating a reward structure focused on team achievement through cooperation, rather than individual competition,
- Improving communication between offices,
- Creating team budget and collection strategies to increase team member participation in trade events, and
- Encouraging proactive marketing and outreach for key industries utilizing the website and other mechanisms.

Nine industry teams have been developed plus a customs team for trade facilitation. All Teams provide the SCO an annual plan of activities and budget for collections and expenses. Teams are expected to carry out the following:

- Respond to client inquiries with copies to Team Members and Coordinators,
- Respond to general Team Coordinator requests,
- Volunteer to participate on client conference calls or in other client counseling sessions,
- Participate in Team's outreach agenda,
- Propose, market and participate in DVCs/Webinars with ODO, Trade Americas, Global Teams, and U.S. based partners promoting business opportunities in the team's industry,
- Recruit participants for Team IBPs, Trade Missions, and other buyer delegations, participate in/volunteer for key industry trade shows in Brazil and the U.S., respect Team Coordinators for their Leadership Position,
- Proactively participate in Team's annual planning and workplan reviews, and
- Respect the Team Coordinator's role as the Team's facilitator.

11. **Revise the *CS Operations Manual's* definition of an invalid export success to include claims of export success that directly foster foreign exports, such as the rental of booth spaces at U.S. trade shows for foreign companies to exhibit their products for sale in the United States.**

Response: The CS will take this recommendation under advisement. U.S. trade show organizations are a legitimate part of the American services sector. The CS works closely with trade fair organizations to promote exports.

12. **Remove all invalid and questionable CS Brazil export successes from CS' database.**

Response: CS Brazil will work with the CS Office of Strategic Planning to remove all invalid and questionable CS Brazil export successes from the CS export success repository.

13. Review export success performance data for CS Brazil and all CS posts worldwide to identify erroneously awarded office credits based on relocated officers and adjust the report numbers:

Response: The CS OIO Western Hemisphere Office will work with CS Brazil and the CS Office of Strategic Planning to conduct a review of CS Brazil export successes and remove erroneously awarded office credits. The CS OIO Western Hemisphere Office will also advise the Office of Strategic Planning on the broader CS scope of this recommendation.

14. Confirm that each post and USEAC understands and are following CS' October 2006 revised export success reporting guidance and verification procedures, including:

- a. Maintenance of export success documentation that can be used to verify all the necessary components of a valid export success story, and
- b. Validation of export successes using CS' approved verification procedures for CS officers.

Response: CS Brazil management will reiterate the CS' latest export success reporting guidance and verification procedures at the CS Brazil All-Hands meeting that will be held in April 2007. During the April 2007, meeting and throughout FY07, CS Brazil management will also stress the importance of preserving export success documentation and the CS' approved verification procedures. The CS OIO Western Hemisphere Office will also advise the Office of Strategic Planning on the broader CS scope of this recommendation.

CS, with support from the Planning and Performance Management Staff in the Office of Financial Management, works to ensure effective implementation of export success verifications. ITA supports the need to improve documentation of export successes as identified in the IG recommendations for CS Brazil as well as adherence to the October ES guidelines.

OFM has most recently instituted an independent on-going export success verification process in the domestic field during the fourth quarter of FY 2006. This effort will be expanded in FY 2007 to address export success verification at selected overseas posts. This review will become a second level of independent verification to further enhance CS upgrades to its export success internal controls.

ITA also concurs that the IG has raised substantial issues in this draft report as well as several previous inspection reports regarding the Export Success metrics and the collection/reporting process. This has lead ITA senior management to the conclusion that ITA will lead and conduct an in-depth and detailed program evaluation of Export Successes and the ES business processes. This review will be designed and completed during the next two quarters of FY 2007 and will be conducted by the Planning and Performance Management Staff with involvement from the Office of Organization and Management Support and CS.

The purpose of this review is to assess the export success planning, collection and reporting functions performed by the Commercial Service and to evaluate the workload, costs, benefits, and contribution to the CS mission and functions. The review will examine existing background information and will build on data collected from IG reports and through interviews with domestic field staff and overseas contributors to export successes.

The review will obtain opinions from CS staff to benchmark the performance metrics against other public and private organizations involved in export promotion and assistance. This study will provide ITA and CS management with a detailed analysis of ES functions and examine the appropriateness of these ES metrics to demonstrate results and outcomes that relate to the DOC support for each key function. The study will also furnish a candid and timely assessment of costs and functions at post and in domestic locations to assess how representative ES is to the current CS mission.

15. Encourage CS Brazil staff to more regularly record export successes throughout the fiscal year to prevent a year-end overload

Response: CS Brazil management will coach staff to follow-up with clients routinely after providing a service in order to mine for export successes continuously throughout the year. First line managers will check each quarter to see how many export successes have been recorded and discuss performance with Commercial Specialists and Commercial Assistants.

16. Reevaluate CS Brazil's discretionary travel budget in an effort to ensure that the post has adequate resources to complete its mission.

Response: CS Brazil's total discretionary travel budget for FY06 was \$56,189. This is different than the \$83,443 number as noted in the draft OIG report. The reason for this discrepancy is because the hotel contract (total cost: \$27,254) for the CS Brazil All-Hands October 2006 meeting was listed under the incorrect category in eMenu. CS Brazil corrected this error in eMenu subsequent to the IG's visit.

CS Brazil's discretionary travel budget was reviewed during the FY07 budgeting process. For FY07, \$107,079 has been proposed and budgeted for travel, an increase of \$50,890 from FY06. This will allow for:

- More FSNs to attend industry trade shows,
- FSOs and FSNs to travel to important country-wide meetings,
- The SCO to participate in the U.S.-Brazil Commercial Dialogue meetings,
- The regional travel for the standards attaché.

17. Assess the cost effectiveness of trust fund employees and determine whether any alternatives, such as transferring some of the positions to the operating and administrative budget or eliminating the positions completely, would be a better use of financial resources.

Response: The CS is reviewing the management, budget, and operations in Brazil, which includes staffing levels.

18. Develop a more effective strategy to increase or maintain trust fund collections while also increasing the number of core products and services provided to U.S. clients, such as Gold Key services and customized market research.

Response: The issues of collection and use of trust funds were raised numerous times during the October 2006 CS Brazil All-Hands meeting. At that time, CS Brazil officers formed a team to review these issues and to develop possible solutions. As a first step, CS Brazil is developing a system so that all officers and employees understand the process of collection and disbursement of trust funds.

Relative to the CS worldwide, CS Brazil's collections are substantial and have consistently increased over the past couple of years. These funds are generated by CS Brazil's balanced and aggressive trade promotion program that provides U.S. firms with CS products and services that are appropriate for the Brazilian market. The total amount of trust funds available for discretionary use is considerably lower after covering the direct costs of services and several PSA salaries.

19. Increase CS Brazil's promotion of local trade events to U.S. exporters and increase staff involvement in these shows.

Response: The implementation of CS Brazil's revised industry teams structure will encourage increased promotion of trade events, as well as provide a funding mechanism that will allow for greater participation by industry team members in these events. On a general policy level, increased promotion and participation in trade events has been identified as a major goal for the Export Promotion Working Group (chaired by CS) within the ongoing U.S.-Brazil Commercial Dialogue.

20. Examine the effectiveness of catalog shows and determine whether the post should discontinue them. If CS Brazil continues to promote catalog shows, take appropriate steps to provide value to participants.

Response: The CS Product Enhancement Team initiated a formal review of catalog events worldwide during FY07 to analyze ways to improve their marketing and effectiveness. That said, the CS Customer Relationship Management Unit (CRMU) tracks customer trends with catalog events through surveys and analyzes the results. The CRMU recommends that catalog events be marketed as an inexpensive way to test the market in a specific country and that, instead of trade leads, a market exposure report is prepared for the client. This report would provide responses to the client's product, lead to further discussion with the client regarding entry into a particular country, and help identify the next steps.

21. Reevaluate CS Brazil's goal system given the other constraints on the post's resources, including:

- a. Determine what goals may be achievable while helping to ensure balanced priorities and greater exports, and
- b. Make any necessary adjustments to its performance goals.

Response: CS Brazil constantly reevaluates its goal system in the context of its resources and local market conditions. Given the size of the country and variety of markets in which each office is located, CS Brazil management believes it is necessary to allow for flexibility in setting performance goals at each office, and to allow each manager to employ all the tools at their disposal to properly motivate their individual staffs. For example, the performance goals for Sao Paulo are targeted to trade promotion activities, whereas Brasilia's goals reflect the commercial diplomacy activity with government agencies in the capital city. The Balanced Scorecard (BSC) system will help us to capture commercial diplomacy as a new performance measure, while export successes will still measure the traditional CS products and services that directly support U.S. exporters.

22. Increase CS Brazil staff's completion of more unplanned market research reports, since they inform U.S. exporters of recent developments in the Brazil marketplace.

Response: CS Brazil will include increased unplanned market research in its FY07 strategic plan and provide funding, if available, to renew subscriptions to key industrial periodicals that local staff uses as sources for timely market research. It is worth noting that although production numbers have dropped, CS Brazil still leads Latin America's CS posts in the number of unplanned market research reports. We believe that the number of unplanned market research reports dropped in FY06 due to the unprecedented number of VIP visits and Congressional Delegations to Brazil in FY06, along with the cancellation of industry periodical subscriptions as a result of budget cuts.

23. Reorganize and expand CS Brazil's website to include (a) regional orientation to enable users to search best industry prospects, market research, and trade events by region, and (b) standards regulations, IPR, and customs information.

Response: CS Brazil will redesign its English language website to include a regional dimension, beyond the current sector / industry orientation. The regional coverage will provide U.S. exporters with a broader understanding of opportunities in Brazil. Additionally, pages on standards regulations, IPR, and customs information will also be added to enhance the value of the site for U.S. exporters.

24. Evaluate the Retail Brazil program to determine whether the program should be continued.

Response: Based upon a recent review, CS Brazil has decided against formalizing this program. The pilot was unsuccessful for several reasons:

- Although U.S. firms initially demonstrated strong interest, client demand dropped off significantly once the price was finalized to reflect full costs,
- The sectors included in this program, namely cosmetics and retail consumer goods, faced numerous regulatory challenges.

CS Brazil is currently sharing lessons learned and expertise with other posts that have expressed an interest in doing something similar in their countries. The concept could work in select posts where purchasing power is stronger, and tariff structures are less onerous than in Brazil. CS Rio has already provided extensive feedback and lessons learned to Central American posts, which are considering their own retail initiative.

25. Establish a country-wide CS Brazil policy, in accordance with State Department policy, on the use of the diplomatic pouch service, including the appropriateness of pouch use for the transport of client materials to Brazil for CS-sponsored events.

Response: As discussed during the IG team's visit to Brazil, there is a distinction between the APO and the diplomatic pouch. The U.S. military operates the APO and services U.S. embassies throughout the world under an agreement with the State Department. (Note: State Department is starting a Diplomatic Postal Office next fiscal year and will discontinue use of APO.)

CS Brazil has not used the Diplomatic Pouch for the transport of client materials. CS Brazil is working with the Military Liaison Office in Brasilia to determine a policy that will be used throughout CS offices in Brazil.

26. Revise the post's NUSA program to provide more value to both U.S. and Brazilian companies.

Response: During the October 2006 All-Hands meeting, CS Brazil decided to form a "NUSA Team" that would identify the best ways for NUSA and CS Brazil to collaborate to increase U.S. exports. The Team concluded that:

- NUSA Program is a highly effective outreach, marketing, and recruitment tool that allows post to reach audiences outside the scope of the internet.
- NUSA will be most effective by serving as the marketing arm for the nine industry teams and ensuring country-wide outreach.
- NUSA is a low cost method for the CS to counter the well-financed European Union's AL-Invest Program that grants significant funds to Brazilian multipliers. By making multipliers NUSA Partners, CS Brazil gains their support without granting them funds. It should be noted that most of these multipliers are hundreds – and some thousands – of miles from the nearest CS office in Brazil. While the linkages created through NUSA are not as strong a link as the EU creates by granting funds, CS Brazil's NUSA program is a more cost-effective method.
- NUSA multipliers provide CS Brazil with support when U.S. companies and USG delegations visit their regions. They also provide CS Brazil with contacts when we set up Gold Key Services and when we work to identify potential Brazilian representatives and importers of U.S. manufactured goods.

27. Improve CS Brazil's cooperative efforts with the U.S. Department of Agriculture's Foreign Agricultural Service to help ensure the success of future collaborative projects.

Response: CS Brazil will continue to foster its strong relationship with FAS at post, and will continue to share information and consult with FAS colleagues on issues of mutual interest and overlapping responsibilities. When collaborating on future trade events, CS Brazil will redouble efforts toward keeping lines of communication open, particularly in locations where we do not enjoy face-to-face contact with our colleagues.

28. Examine the collections recorded in eMenu and the ITA accounting collections reports to determine whether there are errors and discrepancies and, if so, make corrections to accurately reflect the post's actual finances.

Response: The CS will work with ITA Accounting to develop reporting procedures in order to provide post with a tool to address and reconcile any discrepancies. Currently, overseas posts do not have access to the ITA accounting records. They reconcile to the Department of State records. The ITA is implementing a new accounting system in FY08 and is working with the new vendor to make the accounting reports available at post.

29. Design a report for the eMenu system that provides an accurate, complete financial picture of the post so all managers, at the post and headquarters, will review the same figure.

Response: The CS will continue working with ITA finance and information technology staff to improve the functionalities of eMenu finance. CS Brazil's eMenu report entitled "Trust Fund Management Report" provides an accurate and timely report of trust collections, expenditures and ending balances. The O&A "Spending Report" provides the same snapshot for O&A funds. With accurate and timely input and upkeep of all accounts, eMenu has existing reports that can provide financial information to managers at post and in Washington. However, CS Management always welcomes improvements in reports to help managers make timely decisions.

30. Examine open obligations on a regular basis and work with ITA to deobligate any that are no longer needed.

Response: The Department of State is working with the CS to develop online access to State Department records, which will enable post to monitor daily obligations, expenses, collections, and ending balances. CS Brazil has reviewed all its open obligations through FY 2006 and closed all obligations through 2005 except for a FY2004 obligation that we found to be a 477 Transaction. This specific 477 Transaction was a procurement of residential furniture made through the GSA who paid the contractors but has not yet charged CS Brazil. FMC at the Embassy informed CS Brazil that they (State Department's Financial Management) cannot close this obligation because it "normally takes several years until Washington will actually charge CS Brazil against this obligation and we must keep it open until that charge arrives." After that, CS Brazil will close the obligation and deobligate the balance, if any. We will continue to review FY06 and FY07 obligations on a monthly basis and close them as soon as all the liquidations for those obligations have been processed.

31. Dispose of excess of obsolete inventory and ensure that all applicable items are included on all CS and ITA property lists.

Response: CS Brazil has completely reviewed inventory records. CS Brazil is now in the process of requesting disposal of certain items and adding other items to CS Brazil's inventory. CS Brazil added four typewriters and four printers to inventory. The GX560 desktops are located in the server room where they are kept as spares. CS Brazil accounted for all fax machines, which now have bar coded labels. Additionally, in regard to monitors, prior to FY04, CRT monitors were not separately inventoried but were included on the same bar code as the CPU. Finally, in the case of automobiles, CS Brazil's inventory records properly reflected seven vehicles (five in the Sao Paulo ledger, and one each in Brasilia and Belo Horizonte), which matches the actual automobile inventory in Brazil, and reflects the total in the CS OIO Western Hemisphere Office's inventory records. The CS OIO Western Hemisphere Office will reconcile this item with the ITA accounting records. CS Brazil has been working to divest itself of the van in Brasilia for some time. Unfortunately, it encountered significant delays in receiving the necessary approval from the Brazilian government to dispose of the vehicle. This GOB permission has been obtained and the vehicle will be sold at the next Embassy auction. ITA's Office of Organization and Management Support (OOMS) will work with CS to assure that all accountable items are properly bar-coded and included in the ITA property inventory by the time of the next quarterly inventory scheduled for completion the end of February. OOMS will also assist the CS to properly document all surplus items and remove them from inventory.

32. Review the post's ICASS workload count for the IMTS, IVG and Reception and Switchboard cost centers to identify possible reductions.

Response: CS Brazil is making concerted efforts to reduce CS Brazil's ICASS costs. In fact, between 2005 and 2006, when total ICASS charges in Brazil increased by 15 percent, CS Brazil cut its ICASS costs by five percent. CS Brazil has reviewed ICASS and learned that IVG lines will result in no ICASS charges beginning in FY07.

CS Brazil reviewed the way in which computers are counted under ICASS, and learned there are not three computers in Brasilia, but rather a CPU and monitor (counted as one computer under ICASS), a UPS (counted as another computer under ICASS), and a printer (counted as a third computer under ICASS). We were told that these are three different pieces of computer equipment that are counted separately under ICASS for maintenance purposes. CS Brazil recounted CS Brazil's telephone lines to ensure accuracy. It will now rightsize to the proper number required for CS Brazil's ongoing operations, given staff reductions.

Additionally, CS Brazil will verify the number of State computers and telephone lines used by the ICASS service providers to ensure that those counts are accurate as well. If the work counts in the ICASS cost center are overstated, CS Brazil will correct them, resulting in lower costs accumulated at the ICASS cost center. This action will result in lower costs later being redistributed to CS Brazil (9.28 percent of ICASS total in Sao Paulo, 3.30 percent in Rio and 2.29 percent in Brasilia) from that ICASS cost center.

33. Evaluate and make appropriate changes in CS Brazil's cashiering and petty cash activities by:

- a. **Examining the cost effectiveness and potential risk of CS Brazil having a Class B cashier, and determine if CS could eliminate this function and use the State Department cashier.**
- b. **Determining whether it is appropriate to have a local-hire personal service agreement employee as a subcashier and, if so, revise the manual to reflect this.**
- c. **Evaluating the advance limits given to the CS Brazil subcashiers to determine if advances are above what is needed.**
- d. **Ensuring that receipts for petty case payments include all of the required information, approval signatures, and date and paid stamps.**

Response:

- a. With ITA's Office of Financial Management, the CS is currently reevaluating the use of cashiers system-wide. The analysis is not yet complete.
- b. CS Brazil went through proper management channels in headquarters to get formal approval to have a local-hire personal service agreement employee to serve as subcashier in Belo Horizonte due to the special circumstances of that office.
- c. During FY06, the Belo Horizonte cashier incurred R\$ 33,407.87 of petty cash expenses, which amounts to a weekly average of approximately R\$ 642 (\$302). Their advance was adjusted to USD 999.00 in April 2006, and CS Brazil will leave it at that level, since there are times when they need more than the weekly average, and because (as the only USG presence in Belo Horizonte) they have no means to obtain a quick replenishment. Regarding the Brasilia subcashier, for FY2005 and FY06 the subcashiers average weekly cash expenses were \$500, therefore, we will lower that subcashiers cash advance to \$600.
- d. CS Brazil will make certain that all required approval signatures, the date, and paid stamps are included on petty cash receipts.

34. Improve SC Brazil's management of its gifts and bequests by:

- a. Training CS Brazil employees on the guidance for what gifts may be accepted and the requirements for reporting gifts.
- b. Ensuring that managers closely review all gift and bequest documentation submitted by employees to prevent acceptance of unallowable gifts.

Response: In February 2007, CS Brazil will provide comprehensive training to all American Officers and FSNs to ensure that they all know the rules and their roles in the gifts and bequest process. CS Brazil will also exercise management authority to ensure that the rules are strictly followed and that only appropriate gifts and bequests are approved or accepted.

35. Ensure that CS Brazil staff members comply with applicable travel voucher and advance request requirements, including submission of travel vouchers within five working days after the completion of travel, limiting travel advances to 80 percent of estimated out-of-pocket expenses and to non-travel card holders only, and timely repayment of excessive travel advances.

Response: In February 2007, CS Brazil will provide comprehensive training to all American officers and FSNs to ensure that they all know the rules and their responsibilities regarding travel and the timely submission of Travel Vouchers. In addition to training, CS Brazil will, in writing, remind the traveler upon return to post of the requirement to submit the travel claim voucher within five working days after returning to post.

Regarding the travel advance, State Department's mission-wide policy authorizes 100 percent travel advance entitlement to FSNs, provided the FMO approves it. The FMC Officer at Embassy Brasilia wrote the following justification for this mission-wide policy:

"This is one of those rare instances that the practical answer and the general practice in the field are different than what the regulations state. I feel very comfortable stating that the large majority of posts have some form of policy that advances 100 percent of authorized per diem funds to FSNs when they are traveling to the U.S. I have contacted Travel and Allowances in Washington and spoken to numerous colleagues who have been told that it is up to FMO and post to decide whether they want to adopt the 100 percent advance policy for FSNs traveling to the States. I concur with this approach."

The following are reasons why the mission established this policy in Brazil:

- When FSNs use their personal credit card overseas to pay for official travel expenses they are charged various taxes and the exchange rate used by the bank card is punitive and different from the one used by the Embassy,
- Many FSNs have lost money when receiving their travel reimbursement for official travel.

By establishing this post policy, FSNs can pay the hotel expenses and meals by having sufficient cash advance to cover official travel expenses.

- 36. Establish a comprehensive and fair telephone usage and reimbursement policy that all CS Brazil employees must follow, including revising the telephone bill reviewing policy so reimbursements are paid every quarter instead of monthly, when appropriate, to lower ICASS costs to process the payments.**

Response: CS Brazil is investigating this item further, in order to develop country-wide telephone usage and telephone bill reviewing policies, which will be discussed during the All Hands meeting in April 2007. CS Brazil will also adopt reimbursement timetables, as appropriate for each office, in order to reduce ICASS vouchering costs.

- 37. Ensure that all purchase card holders and approving officials have completed and passed all required acquisition training courses, including the refresher course.**

Response: CS Brazil will work with the CS OIO Western Hemisphere Office to ensure that all FSNs and officers, who have any role with the procurement cards, are properly trained. CS Brazil will also retain the documentation at post to demonstrate their dates of training. The Office of Organization and Management Support will assure that all employees with procurement card roles complete required training.

- 38. Work with CS to examine CS Brazil's eMenu financial records and ITA accounting reports to correct any errors and discrepancies and ensure that these reports accurately reflect the post's actual finances.**

Response: The draft report states: "Once all financial information is recorded in the State Department's accounting system, it is transferred electronically to the ITA accounting system, which is the official accounting record for CS Brazil." Should the situation occur where the CS financial staff in Brazil either posts transactions to eMenu but not to the State Department accounting system, or to the State Department system but not to eMenu, discrepancies will result. Both systems have merit, but only the State/ITA accounting system is recognized by the Treasury Department as being the official accounting record for all of ITA, including CS Brazil.

ITA's Office of Financial Management (OFM), working with the staff at the Department of Interior's National Business Center in Denver, will provide any additional financial information that pertains to CS Brazil that would assist CS in reconciling the eMenu system with the official accounting records.

- 39. Work with CS to examine open obligations on a regular basis and deobligate any that are no longer needed.**

Response: OFM, working with Interior's National Business Center, will provide whatever level of support would be helpful to the CS staff in Brazil and Washington to facilitate their review of open obligations.

- 40. Work with CS to evaluate the cost effectiveness and potential risk of CS Brazil having a Class B cashier and determine if CS could eliminate this function and use the State Department cashier.**

Response: OFM endorses the elimination of CS Class B cashiers and sub-cashiers where the need for their operation is not thoroughly substantiated. OFM will assist CS with

scrutinizing the Class B cashier's operation in Sao Paulo, Brazil in response to this recommendation.

APPENDIX B. NIST'S Response to OIG Draft Report



UNITED STATES DEPARTMENT OF COMMERCE
National Institute of Standards and Technology
Gaithersburg, Maryland 20899-0001
OFFICE OF THE DIRECTOR

FEB 7 2007

MEMORANDUM FOR Johnnie E. Frazier
Inspector General

Through: Robert C. Cresanti *RC*
Under Secretary for Technology

From: William Jeffrey *WJ*
Director

Subject: NIST Response to Draft Inspection Report No. IPE-18114 Entitled
"INTERNATIONAL TRADE ADMINISTRATION: *CS Brazil is Operating Well Overall But Needs Management Attention in Some Areas*"

Thank you for providing the draft inspection report entitled "*CS Brazil is Operating Well Overall But Needs Management Attention in Some Areas.*" I commend you on the thoroughness of your review and the quality of your recommendations.

We agree with your comment that the National Institute of Standards and Technology (NIST) and the International Trade Administration (ITA) must work together to develop a standards strategy for South America. We also agree that there are some inconsistencies of perception.

In fact, NIST already has begun work with ITA -- specifically, the Office of the Standards Liaison (OSL) and the Commercial Service (CS) -- to develop a plan to identify measurable, long-term goals for the Standards Attaché. We also are working on an action plan for a long-term standards strategy for South America to benefit U.S. exports. ITA and NIST are currently reviewing a regional standards program implementation plan, which is serving as the basis for establishing those goals and an action plan. Those documents are expected to be completed in the next few months.

Your draft report notes that "NIST and Brazil's National Institute of Metrology, Standardization, and Industrial Quality (INMETRO), in coordination with the private sector, will begin to exchange information and strengthen standards, conformity assessment, and technical regulations in the coming year." You should know that, in addition to NIST, ITA's Office of the Standards Liaison is actively involved in the design and delivery of the exchange of information with Brazil on standards, conformity assessment, and technical regulations.

I look forward to receiving the final version of your report. If you have any questions, please contact Steve Willett on (301) 975-8707.

NIST

APPENDIX C. USPTO's Response to OIG Draft Report




UNITED STATES PATENT AND TRADEMARK OFFICE

UNDER SECRETARY OF COMMERCE FOR INTELLECTUAL PROPERTY AND
DIRECTOR OF THE UNITED STATES PATENT AND TRADEMARK OFFICE

January 25, 2007

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

FROM: Robert Stoll 
Director, Office of Enforcement

SUBJECT: Response to Draft Inspection Report
*CS Brazil Is Operating Well Overall But Needs
Management Attention in Some Areas (IPE-18114)*

This is in response to your January 3, 2007, memorandum sent to Under Secretary and Director Jon W. Dudas, regarding Draft Inspection Report, "*CS Brazil Is Operating Well Overall But Needs Management Attention in Some Areas*" (IPE-18114).

Thank you and your team for a thorough review of Commerce operations and interests in Brazil, including those of the United States Patent and Trademark Office (USPTO).

Attached for your review is an action plan that outlines our initiatives to improve our efforts based on your recommendation.

If you have any questions concerning this matter please do not hesitate to contact me at (571) 272-9300.

Attachment

**USPTO Plan of Action and Milestones
"CS Brazil Is Operating Well Overall But Needs Management Attention In Some Areas" - Report IPE-18114**

DOC Inspector General Recommendations: USPTO work with CS to develop the regional responsibilities of the intellectual property rights attaché recently assigned to Brazil and ensure the availability of support staff and adequate travel funds.			
Recommendations	Corrective Actions	Due Date	Lead
<p>1. (Listed as No. 42) Work with the Commercial Service to develop a work plan for and clarify the CS Brazil and regional responsibilities of the new intellectual property rights attaché in Brazil</p>	<ul style="list-style-type: none"> USPTO has created a Latin America Regional Team to support the operations of the CS intellectual property rights attaché. The USPTO Latin America Regional Team is working with CS and the intellectual property attaché in Brazil to develop an Action Plan for the region. 	<ul style="list-style-type: none"> By late January 2007 	<ul style="list-style-type: none"> John Rodriguez In Process
<p>2. (Listed as No. 43) Work with the Commercial Service to ensure that adequate support staff and travel funds are available to the attaché to pursue his mission.</p>	<ul style="list-style-type: none"> USPTO has authorized hiring and budget for support staff. USPTO has approved CS Brazil budget for intellectual property attaché and fully obligated fund for 2007, including adequate travel funds. 	<ul style="list-style-type: none"> Completed 	<ul style="list-style-type: none"> Terri Davis Completed