INTERNATIONAL TRADE ADMINISTRATION

U.S. Export Assistance Centers Could Improve Their Delivery of Client Services and Cost Recovery Efforts

FINAL REPORT NO. OIG-13-010-I

NOVEMBER 30, 2012

U.S. Department of Commerce
Office of Inspector General
Office of Audit and Evaluation

FOR PUBLIC RELEASE

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

November 30, 2012

MEMORANDUM FOR: Ambassador Charles A. Ford
Acting Assistant Secretary for Trade Promotion and
Director General of the U.S. & Foreign Commercial Service

Antwaun Griffin
Deputy Assistant Secretary for Domestic Operations
U.S. & Foreign Commercial Service

FROM: Ron Prevost
Assistant Inspector General for Economic and
Statistical Program Assessment

SUBJECT: *U.S. Export Assistance Centers Could Improve Their Delivery of Client Services and Cost Recovery Efforts*
Final Report No. OIG-13-010-I

Attached is the final report on our evaluation of the U.S. & Foreign Commercial Service (US&FCS) Export Assistance Centers (USEACs). This evaluation, part of the OIG's fiscal year 2012 audit plan, sought to (1) evaluate whether CS's allocation of domestic resources meets its mission and goals, (2) assess CS's level of cost recovery, and (3) determine the extent to which the level of coordination between USEACs and its federal and nonfederal partners is sufficient to meet Administration priorities with respect to the National Export Initiative (NEI).

In the area of resource allocation, we found administrative tasks limit trade specialists' performance of export promotion duties; USEACs with location and performance issues consume CS's limited resources; and some USEAC initiated services warranting a response from overseas posts go unfulfilled. With respect to cost recovery, CS's fee schedule is outdated, inaccurate, and does not include all recoverable costs; in addition, certain internal controls are deficient. Finally, in the area of coordination: trade specialists reported that CS actions to implement the NEI have had a limited effect on collaboration, guidance and training to enhance collaboration is inadequate, and collaboration between USEACs and their partners is hampered by restrictions on sharing client information.

Where appropriate, we have modified this final report based on your response to our draft report and subsequent conversations. The formal International Trade Administration (ITA) response is included as appendix F. (We summarized your response, reflecting subsequent conversations with your staff, and OIG comments, starting on page 19.) The final report will be posted on the OIG's website pursuant to section 8L of the Inspector General Act of 1978, as amended.

In accordance with Departmental Administrative Order 213-2, please submit to us within 60 calendar days of the date of this memorandum an action plan that responds to the recommendations in this report including an estimate of cost savings resulting from your proposed approach to decrease trade specialist administrative burdens. We thank CS personnel for the assistance and courtesies extended to my staff during the review. If you have any further questions or comments about the report, please contact Carol Rice, Division Director, at (202) 482-6020, or Eleazar Velazquez, Program Manager, at (202) 482-0744.

Attachment

cc: Francisco Sanchez, Under Secretary of Commerce for International Trade
Daniel O'Brien, Acting National Director, US&FCS
Pat Kirwan, Director, Trade Promotion Coordinating Committee, US&FCS
Debra Delay, Director, Strategic Analysis and Policy, US&FCS
Justin Guz, Audit Liaison, ITA
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Report In Brief

NOVEMBER 30, 2012

Background

The United States & Foreign Commercial Service (the Commercial Service, or CS) within the Department's International Trade Administration (ITA) helps (a) promote the export of goods and services by small- and medium-sized U.S. companies and (b) enhance U.S. government collaboration and coordination on federal export promotion efforts.

The CS Office of Domestic Operations employs around 350 staff, most of whom are trade specialists. This domestic unit operates 107 field offices, known as U.S. Export Assistance Centers (USEACs) located across 8 networks nationwide.

USEACs enter into contracts, referred to as participation agreements (PAs), with companies and work closely with overseas CS staff to deliver services. Overseas CS staff set up interviews with foreign buyers, compile financial reports on foreign companies, and screen foreign business contacts for U.S. companies. A CS service that results in an actual export by a U.S. company is recorded as an "export success," which is the organization's primary performance measure.

Why We Did This Review

CS is a key player in the National Export Initiative (NEI), the Administration's plan to double U.S. exports by the end of 2014 over 2009 levels. The NEI calls on more than a dozen federal agencies and offices to help U.S. companies increase their exports and create jobs. This initiative was announced by the President during the 2010 State of the Union address and promulgated by executive order.

Our review sought to (1) evaluate whether CS's allocation of domestic resources meets its mission and goals, (2) assess CS's level of cost recovery, and (3) determine the extent to which the level of coordination between USEACs and their federal and nonfederal partners is sufficient to meet Administration priorities with respect to the NEI.

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U.S. Export Assistance Centers Could Improve Their Delivery of Client Services and Cost Recovery Efforts

OIG-13-010-I

WHAT WE FOUND

CS' Allocation of Resources Is Not Optimal. A significant amount of specialists' time is spent performing administrative tasks that prevent them from performing more substantive client-related services. Also, USEACs with location and performance issues consume CS's limited resources. Finally, approximately 20 percent of USEAC-initiated services go unfulfilled because overseas posts are unable to perform them.

CS' Cost Recovery Model and Certain Internal Financial Controls Have Weaknesses. CS's current model for recovering costs through fees for its client services is based on outdated information, cannot accurately track the time required to perform services, and does not account for all costs associated with providing those services. We also found deficient internal controls related to the handling of check payments for client services and the reconciliation of CS's accounts with the Department's.

Survey Respondents Reported That CS Actions to Implement NEI Reportedly Have Had a Limited Effect on USEAC Collaboration with Partners and Guidance to Enhance Collaboration Is Inadequate. According to trade specialists, the NEI has not significantly affected the outcomes of USEAC collaboration with partners. Further, trade specialists surveyed reported insufficient guidance on related initiatives and lack of participation in relevant training . Finally, collaboration between USEACs and their partners is hampered by restrictions on sharing client information.

WHAT WE RECOMMEND

We recommend the Acting Assistant Secretary for Export Promotion and Director General of the U.S. & Foreign Commercial Service:

1. Develop strategies for minimizing the administrative duties of trade specialists.
2. Upgrade or replace the current Client Tracking System.
3. Determine why some USEACs are underperforming and take corrective action.
4. Track overseas posts that are unable to deliver adequate services and use the tracking tool to provide estimated service delivery times to clients based on post performance and service type.
5. Standardize the review process for the fee schedule to ensure biennial updates.
6. Ensure that surveys used to determine user fees are methodologically sound and sample participation agreements for client services to validate the survey results.
7. Analyze and document the methodology for estimating overhead costs and include appropriate costs in the fee schedule to approximate full-cost recovery.
8. Develop (a) formal policies prohibiting trade specialists from handling checks and (b) appropriate internal controls for check payments, consistent with those in place for credit card payments.
9. Create official policies for account reconciliation, providing second-party review of reconciliation activities and guidance for corrective action.
10. Determine why guidance on collaboration is not effectively communicated to trade specialists in the field and take corrective action.
11. Develop guidance on how to incorporate GAO practices for enhancing collaboration to structure partnerships to add value in achieving the USEACs' mission.
12. Develop and provide training to USEAC and partner staff on collaboration strategies and techniques.
13. Request expanded Trade Promotion Coordinating Committee Trade Officer Training with a web-based alternative available to all domestic trade specialists.
14. Explore the possibility of requiring CS clients to waive confidentiality, in whole or in part, as a condition for receiving services.

Contents

COVER: Detail of fisheries pediment,
U.S. Department of Commerce headquarters,
by sculptor James Earle Fraser, 1934

Introduction

The United States & Foreign Commercial Service (hereafter, referred to as the Commercial Service, or CS) is one of four major business units within the Department's International Trade Administration (ITA). Established in 1980 and headed by the Assistant Secretary for Trade Promotion and Director General of the U.S. & Foreign Commercial Service, CS helps (a) promote the export of goods and services by small- and medium-sized U.S. companies and (b) enhance U.S. government collaboration and coordination on federal export promotion efforts. CS is divided into two primary units: its Office of International Operations and Office of Domestic Operations.

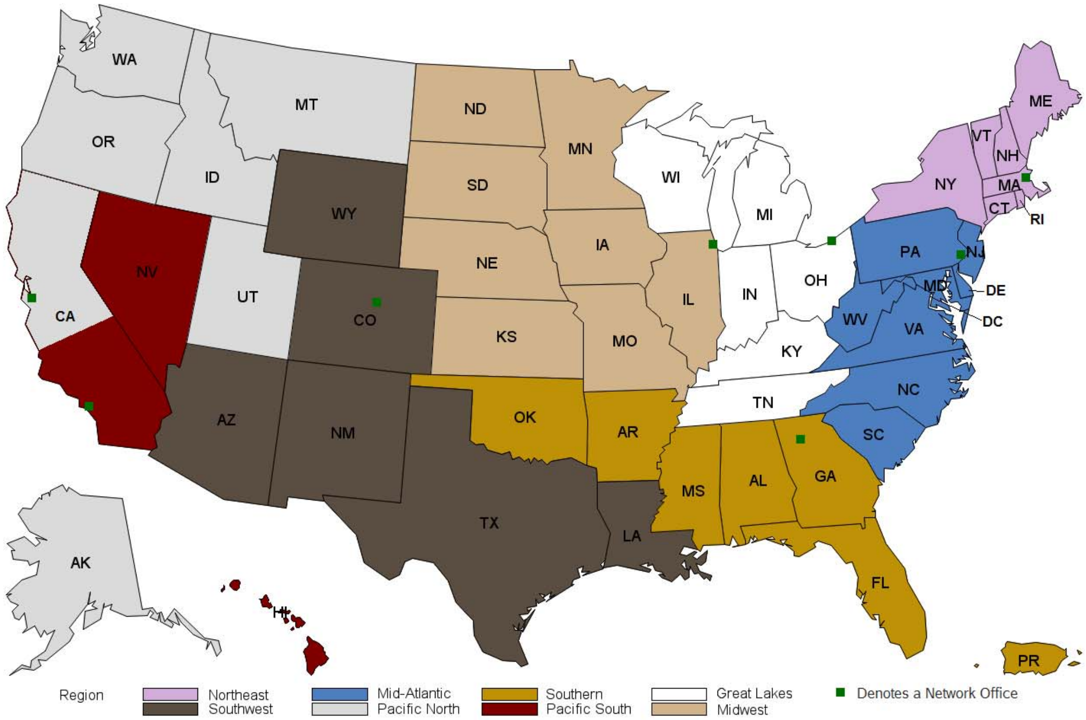
In FY 2012, CS received $270 million in appropriations, of which more than $9 million is derived from CS charging user fees for services it provides to U.S. exporters, to support 1,381 positions. The Office of International Operations received $175 million that support a total of 943 commercial officers and locally engaged staff stationed overseas at 117 offices in 73 countries.[1] The Office of Domestic Operations received $48 million and employed a total of 354 staff, most of whom are trade specialists (who are the focus of section I of this report's "Findings and Recommendations").[2] This domestic unit operates 107 field offices, known as U.S. Export Assistance Centers (USEACs) located across 8 networks nationwide (see figure 1, next page). Each USEAC is headed by a director, and each network is headed by a network director who works out of a USEAC office.[3]

[1] State Department staff provides services on behalf of CS at 57 offices referred to as "partner posts" in another 57 countries.

[2] The preceding two figures exclude CS headquarters costs and personnel, as well as costs for ITA centralized services.

[3] Network offices are located in Atlanta; Boston; Chicago; Cleveland; Denver; Irvine, California; Philadelphia; and San Jose, California.

Figure 1. Commercial Service USEAC Networks



Source: U.S. Commercial Service

In addition to providing general trade information and data to the public, trade specialists nationwide offer a number of fee-based, standardized services to U.S. companies seeking to export their goods (see box at right). They also offer fee-based customized services such as promoting a U.S. company's exports, performing market research, leading foreign trade missions into the United States, and sponsoring overseas trade events. USEACs enter into contracts, referred to as participation agreements (PAs), with companies and work closely with overseas CS staff to deliver services. Overseas CS staff carries out tasks such as setting up interviews with foreign buyers, compiling financial reports on foreign companies, and screening foreign business contacts for U.S. companies. A CS service that results in an actual export by a U.S. company is recorded as an "export success," which is the organization's primary performance measure.

Standardized CS Services Offered to U.S. Exporters

Gold Key Service—targeted business meetings with pre-screened foreign buyers

International Company Profile—a detailed financial report on a foreign company

International Partner Search—a prequalified list of international business contacts

Featured U.S. Exporter—overseas website promotion of U.S. companies targeted to foreign buyers

Business Service Provider—a directory to help U.S. companies identify domestic professional service providers to assist them with an export transaction

Source: OIG analysis of CS information

Specialists also coordinate and collaborate with other federal government agencies, such as the Small Business Administration (SBA) and Export–Import Bank, as well as state and local partners to assist U.S. companies export—whether as new exporters or exporters wishing to expand their business to new international markets. CS is a key player in the National Export Initiative (NEI), the Administration's plan to strengthen federal export promotion activities to double U.S. exports by the end of 2014 over 2009 levels. The NEI calls on more than a dozen federal agencies and offices to work together to advance eight priorities (see box at left) to help U.S. companies increase their exports and create jobs. This initiative was announced by the President during the 2010 State of the Union address and promulgated by executive order.[4]

National Export Initiative's Eight Priority Areas

- Export by small- and medium-sized enterprises
- Federal export assistance
- Trade missions
- Commercial advocacy
- Increase export credit
- Macroeconomic rebalancing
- Reducing barriers to trade
- Export promotion services

Source: Export Promotion Cabinet, *Report to the President on the National Export Initiative: The Export Promotion Cabinet's Plan for Doubling U.S. Exports in Five Years* (September 2010)

Our review sought to (1) evaluate whether CS's allocation of domestic resources meets its mission and goals, (2) assess CS's level of cost recovery, and (3) determine the extent to which the level of coordination between USEACs and their federal and nonfederal partners is sufficient to meet Administration priorities with respect to the NEI. For this review, we conducted interviews with managers and staff at CS headquarters, visited 12 USEACs, interviewed network directors and local staff to obtain their feedback on issues related to our objectives, and reviewed CS, ITA, Departmental, and external financial and management documentation (see appendix A for our methodology). In addition, we sent an online survey to domestic trade specialists asking specific questions related to our objectives and received an overall response rate of 85 percent (see appendix D for the survey methodology).

Overall, we found the USEACs deliver a broad range of services to U.S. companies seeking to export. Trade specialists counsel clients, attend networking events, conduct outreach, and work with partners to deliver services that U.S. exporters need. However, we found that CS could improve resource allocation by closing offices that are vacant, poorly located, or producing consistently lower output relative to other offices. CS could further maximize resources by minimizing the administrative tasks performed by specialists, as well as addressing issues with overseas offices that negatively impact service delivery. Additionally, CS could improve its level of cost recovery by (a) updating its cost model with current and more accurate information and (b) resolving weaknesses with certain internal financial controls. Finally, CS could improve collaboration and coordination with partners by providing enhanced guidance and online training and work to resolve legal impediments to sharing client information. By implementing our recommendations, we believe CS could realize \$1.5–5 million in funds put to better use over 2 fiscal years (see appendix C).

[4] *National Export Initiative*, Exec. Order No. 13534, 75 Fed. Reg. 12433 (March 11, 2010).

Findings and Recommendations

I. Commercial Service's Allocation of Resources Is Not Optimal

Domestic trade specialists at USEACs perform a broad range of client facing-activities, such as providing fee-based services, coordinating with overseas posts to ensure service delivery, attending trade shows, and developing marketing events to identify potential clients. Although the average specialist earns approximately $100,000 (excluding benefits) annually, a significant amount of specialists' time is spent performing administrative tasks that prevent them from performing more substantive client-related services.[5] Also, USEACs with location and performance issues consume CS's limited resources. Finally, approximately 20 percent of USEAC-initiated services go unfulfilled due to delivery issues at overseas posts.

A. Administrative tasks limit trade specialists' performance of export promotion duties

Based on survey responses, trade specialists reported spending nearly one-third of their time performing administrative tasks[6], which many said prevented them from performing client work such as outreach and services to U.S. exporters. As one trade specialist noted:

> We have no one to answer the main phone line, coordinate event arrangements, alleviate the administrative burden of inventory, pricing and ordering supplies . . . all time killers to trade specialists that are trying to focus on client development, service delivery, and solutions for their clients.

Another trade specialist wrote: "We have so many administrative burdens, and someone has to do them."

At each USEAC, individual employees maintain the office website, recruit and process student interns, manage office inventory, troubleshoot IT problems, and order supplies. According to CS staffing information, there are only 5 remaining administrative assistants working at USEACs.[7] Through our interviews and review of survey responses, we found that while some duties, such as inventory management, must be performed at each USEAC, others could be centralized, and many could be performed by administrative staff. For example, each office is responsible for its own website content, development, and maintenance, resulting in a trade specialist having to learn computer programming languages to assist with website upgrades and maintenance.

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[5] We derived this figure based on the following equation, using CS time and attendance data from 2011:

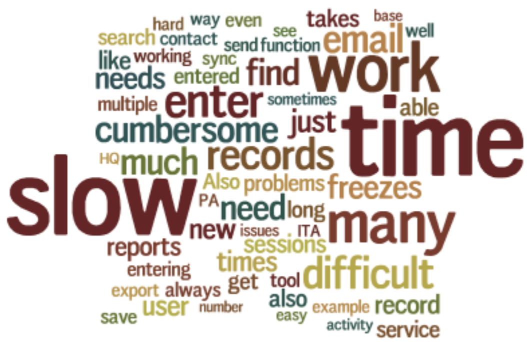
Average salary = Total wages, divided by total hours worked, multiplied by 2,087 hours (i.e., 1 work year)

[6] Trade specialists reported spending approximately 17percent of their time on data entry and 15 percent on administrative tasks that included ordering supplies, managing the website, hiring and training student interns, and coordinating events.

[7] CS phased out these administrative assistant positions as part of an earlier restructuring of its domestic field network. There is also a separate National Field Support Team, comprised of 16 field support specialists located at USEACs nationwide exists; however, team members perform primarily financial management, not programmatic administrative duties.

While each USEAC should provide website content about its respective office and market, development and maintenance are functions that could be centralized, thus freeing up specialists to perform client services.

Figure 2. Frequency of Trade Specialist Responses on the Effectiveness of the Client Tracking System

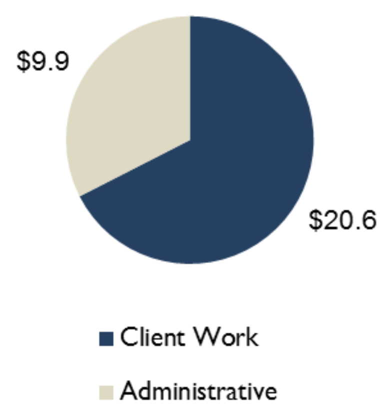


Source: OIG survey of CS domestic trade specialists

In addition, data entry is another task that could be assigned to local administrative staff if available. Trade specialists document their client interactions, communications, and trade leads using a custom application called the Client Tracking System (CTS). Our survey showed only 15 percent of trade specialists considered the system effective. The remaining 85 percent reported that it often freezes, fails to accept new data, operates slowly, and is difficult to use. Represented graphically below, trade specialists' responses tended to articulate the "slow," "cumbersome" nature of the system much more often than the sense that the system is "working" and in "sync" (see the trade specialists' responses in the word cloud presented in figure 2, above left).[8] We also observed these problems during our site visits. Despite these issues, trade specialists must record client data into CTS without administrative professionals to assist them.

Since trade specialists reported spending one-third of their time performing administrative tasks, we estimate they were paid nearly $10 million in FY 2011 (based on CS data) to perform tasks that could be completed by lower-grade positions (see figure 3, right). CS informed us that it plans to hire interns to perform trade specialist and administrative duties at offices where there is a need. This option is more cost-effective than hiring higher-grade trade specialists to perform administrative tasks. However, an internship provides a potential career path to becoming a full-time trade specialist; therefore, the long-term savings anticipated by hiring interns may not be as great as expected, as compared to hiring administrative staff. Further, if interns are not eventually hired as full-time specialists, CS would be faced with turnover of these positions every

Figure 3. Trade Specialist Wages by Reported Activity (in Millions), FY 2011



Source: OIG survey of CS domestic trade specialists

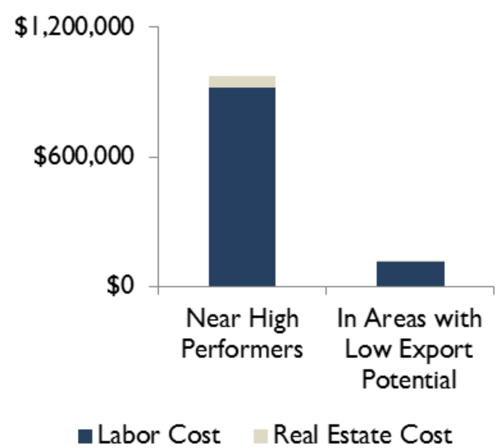
[8] This "word cloud" is a visual presentation of comments provided by survey respondents: the larger the word, the more times respondents mentioned it relative to other words.

few years. According to our analysis, shifting administrative duties to lower-graded positions could save CS $1.5–5 million in the next 2 fiscal years without a decrease in efficiency. We calculated this figure by subtracting the cost of a Washington, DC-based GS-7's salary and benefits total of $54,000 from the average trade specialist's salary and benefits total of $131,000, yielding a "per employee" savings of $77,000.[9] CS could increase efficiency and realize cost savings by better aligning job responsibilities with grade levels.

B. USEACs with location and performance issues consume CS's limited resources

Based on our analysis of CS data, there are four USEACs that, compared to others, are relatively low-producing: three in the same Metropolitan Statistical Areas (MSA)[10] as other USEACs and one in an area with low export potential. We assessed office performance by examining services provided and export successes recorded across all USEACs (see appendix B for the quantitative methodology). To identify USEACs in areas with low export potential, we used CS's Domestic Resource Allocation Model (DRAM), which assesses the export potential of MSAs. Along with other considerations (e.g., performance, policy needs, and coverage), the level of export potential in a particular MSA helps guide CS with USEAC network resource allocations. After assessing DRAM's inputs and methodology, we found it to be a reasonable and sufficient tool for determining the export potential of an area. We also found that there were several higher-producing USEACs in areas with low export potential, where USEACs can nonetheless produce successes effectively. However, CS should consider whether to move those USEACs in areas with limited export potential performing at a comparatively low-output rate.

Figure 4. The Cost of Underperforming USEACs in Suboptimal Locations, FY 2011



Source: OIG analysis of CS data

The four lower-producing and poorly located USEACs cost approximately $1.1 million to operate in FY 2011 (see figure 4, right).[11] We calculated this figure using time and attendance and office cost (i.e., rent and equipment) data

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[9] We calculated the savings at USEACs with four or more trade specialists ($5 million) and six or more specialists ($1.5 million). If one-third of a trade specialist's time is spent doing administrative work, offices with four or more staff could absorb the loss of a trade specialist with an administrative specialist taking over the administrative tasks. If CS could shift only 20% of the administrative work to lower-graded specialists, or if CS implements other solutions to reduce the administrative workload, then offices with six or more staff could maintain a similar level of work with an administrative specialist instead of a trade specialist.

[10] A Metropolitan Statistical Area (MSA) is a metropolitan area with a core urban population of at least 50,000. Adjacent counties with a high degree of social and economic integration are included in the MSA.

[11] While we do not identify the four offices in this public report, we have provided this information to CS for its consideration.

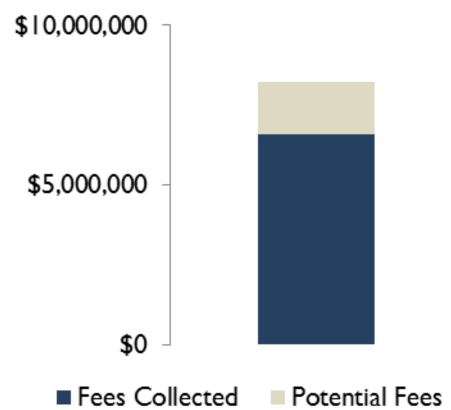
for that fiscal year provided by CS. We believe CS could have performed more services and generated additional export successes if these resources had been allocated to more advantageous locations. Additionally, there are nine currently vacant USEACs located in Anchorage, Alaska; Bakersfield and Cabazon, California; Libertyville, Illinois; Shreveport, Louisiana; Ypsilanti, Michigan; Toledo, Ohio; Harrisburg, Pennsylvania; and McAllen, Texas. Closing these offices would save CS nearly \$28,000[12] annually in additional real estate costs alone.

C. *Some USEAC-initiated services that warrant a response go unfulfilled after referral to overseas offices*

According to our survey of domestic trade specialists, approximately 20 percent of client requests that warrant response by overseas offices go unfulfilled. Domestic trade specialists assist U.S. companies by determining the services they need while CS staff at overseas posts perform and deliver the service requests, ideally resulting in export successes. USEACs reported that overseas posts often fail to respond to service requests in a timely manner, incurring considerable delays. After experiencing excessive wait times, some companies opt to seek assistance elsewhere, resulting in unfulfilled services.

CS management stated several factors contribute to these delays, including: declining overseas staff, communication lapses between domestic and overseas staff, and time spent by overseas staff organizing and supporting trade missions and official government visits. During FYs 2009–2011, overseas posts completed 8,699 USEAC-initiated services with an average fee of \$756 for each service.[13] If overseas posts had completed the number of unfulfilled services estimated by the trade specialists in our survey, CS could have collected an additional \$1.6 million in fees (see figure 5, right), and clients would have benefited from additional export successes. Formulating a more accurate estimate regarding the cost of service delivery delays must take into account the value and importance of Departmental and CS activities, such as trade missions and Secretarial visits, that take precedence over normal operations at overseas posts. Nonetheless, the problem regarding these service delays is significant enough that one

Figure 5. Fees from Unfulfilled Requests, FYs 2009–2011



Source: OIG analysis of eMenu data and the survey of domestic trade specialists

[12] We calculated this figure based on the offices' current annual lease rates and telecommunications costs (provided by CS).

[13] We calculated this figure by dividing the amount of fees collected (\$6,579,940.90) by the number of paid services (8,699).

USEAC network in FY 2012 is piloting a tool to track each service submitted to an overseas post. The tool will track the time that overseas posts take to respond to each request, whether services are accepted or declined, and the reasons behind unfulfilled services. If CS deems the pilot successful and expands the program to all USEACs, this tool would identify overseas posts where staff is unable to fulfill services, enabling CS to investigate the cause of the delays and, if necessary, reallocate resources to assist the posts causing the delays.

Recommendations

We recommend the Director General of the U.S. & Foreign Commercial Service take the following actions:

1. Develop strategies for minimizing the administrative duties of trade specialists.
2. Upgrade or replace the current Client Tracking System.
3. Determine why some USEACs are underperforming and take corrective action or explore the following options: (1) consolidate lower-producing USEACs with higher-producing USEACs located within the same MSA, (2) close lower-producing USEACs operating in MSAs with low export potential, and (3) consider closing vacant USEACs.
4. Track overseas posts that are unable to deliver services in an adequate manner and use the pilot tracking tool to provide estimated service delivery times to clients based on post performance and service type.

II. Commercial Service's Cost Recovery Model and Certain Internal Financial Controls Have Weaknesses

> ***In setting fees for client services, OMB Circular A-25 requires federal agencies to:***
>
> - Use the best available data
> - Update the data biennially
> - Include all direct (e.g., salaries) and indirect costs (e.g. rent, IT, travel, equipment)

CS's model for recovering costs through fees for its client services is based on outdated information, cannot accurately track the time required to perform services, and does not account for all costs associated with providing those services. CS charges fees for its services using a standard fee schedule in effect since 2008. For the period FYs 2009–2011, CS received appropriations totaling $750 million and recovered $34 million in fees for services. In keeping with its mission, CS charges small- and medium-sized companies (i.e., having fewer than 500 employees), which often have limited resources due to their size, less than large companies for the same service so as to help them export. The requirement to charge fees is mandated by Office of Management and Budget (OMB) Circular A-25 (A-25),[14] which establishes federal policy regarding fees assessed for government services.

[14] OMB Circular A-25, *User Charges*, July 8, 1993.

We could not accurately determine CS's level of cost recovery because CS does not track trade specialists' time spent on performing client services. This lack of key financial and workforce information has previously been identified by both our office and the Government Accountability Office (GAO) as an issue CS needs to address.[15] We also found that certain internal controls on financial information were deficient. The controls in question involved the handling of check payments for client services and the reconciliation of CS's accounts with the Department's.

A. CS's fee schedule is outdated, inaccurate, and does not include all recoverable costs

Prior OIG and GAO reports found that CS does not include all costs in its methodology for calculating fees, as required by OMB Circular A-25. We reviewed CS's fee schedule, cost recovery model, and financial data for FYs 2009–2011 to assess the extent to which CS recovers the cost for the services it provides to U.S. exporters. We found weaknesses remain, specifically in that CS:

Uses outdated information. CS's current fee schedule, introduced in 2008, uses a time estimate based on a USEAC survey for its 2005 fee schedule adjustment.[16] Its current $70 hourly rate is based on FY 2007 appropriations and staffing data of $229 million and 1,566 employees, respectively. Applying that methodology using FY 2012 budget ($270 million) and staffing (1,381 employees) data, CS's hourly rate should have risen to $94—a 34 percent increase over the current hourly rate. Had CS applied that rate to its services, it could have recovered more money per service delivered. However, it is possible many U.S. companies would not purchase services at the new prices. OMB Circular A-25 requires biennial review, based upon best available information, to set fees. An in-depth analysis would help CS determine the effect of applying the revised hourly rate on the demand for its services.

Does not accurately track employee time. CS does not track its trade specialists' time spent on performing client services. Currently, it uses only one accounting code to track trade specialists' time in its online timekeeping system, as opposed to using multiple codes that could track time by service or task. Without accurate data on the amount of time trade specialists spend on particular services, CS fees may not account realistically for the time trade specialists require to complete their services. CS's timekeeping system has the functionality to record specialists' time in greater detail, tracking the amount of time specialists spend performing administrative activities, and thus help determine future fees.

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[15] U.S. Department of Commerce Office of Inspector General, September 29, 2004. *USEACS Are Meeting Client Needs, but Better Management Oversight Is Needed*, IPE-16728. Washington, DC: Commerce OIG, 15; and U.S. Government Accountability Office, March 4, 2009, *Commerce Needs Better Information to Evaluate Its Fee-Based Programs and Customers*, GAO-09-144, Washington, DC: GAO, 15.

[16] CS calculated the hourly rate by dividing its FY 2007 budget ($229 million) by the total number of hours incurred by a staff of 1,566 in a work year totaling 2,087 hours (approximately 3.2 million hours). It charges the client for any third-party services, such as interpreters and equipment.

In response to our draft report, CS provided additional information about a 2010–2011 survey that will assist CS in determining user fees.[17] CS employed a contractor to survey its offices to determine whether its fees aligned with program costs. The survey asked office directors to estimate the amount of time staff needed to perform discrete steps to complete client services. Having reviewed the survey, we identified a number of problems with the methodology. CS management selected a nonprobability sample of only 25 of 108 USEACs[18] to participate in this survey and received 18 survey responses. Even though CS also sent the survey to 125 overseas offices,[19] it only received responses from 54 (43 percent). Unreliable survey results may result from:

- A nonprobability sampling of USEAC offices;
- No measurement of the extent or direction of statistical bias caused by the nonprobability sampling of USEACs or the low response rate from overseas offices—as responsive offices may have systematically differed from nonresponsive ones (e.g., had over- or underworked staff relative to the population, staffing composition, or type of country);
- No documented pretesting instrument to ensure clarity of questions and reduce respondent burden; and,
- No systematic, statistically sound approach to identify outliers, which the methodology stated CS removed on an ad hoc basis.

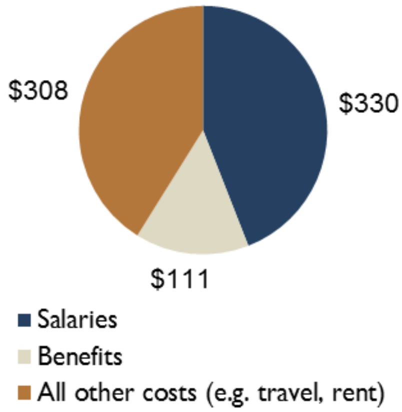
Despite the weaknesses found in the survey's design, its results represent the best available data for CS to use to determine its user fees at this time. CS, which is currently reviewing the results to determine appropriate user fees, plans on using such a survey as part of future biennial updates of user fees. A survey conducted once every 2 years may yield imprecise time estimates, impacting the accuracy of user fees. CS staff is aware of the problems and is working toward making improvements. To implement a methodologically sound survey, CS should address the issues identified above. In addition, CS should sample specific participation agreements for client services to validate the survey results.

[17] The formulation of user fees takes into account and impacts both domestic and overseas operations. While the focus of our evaluation was on domestic operations, our analysis of the user fee methodology and our recommendation should improve CS operations worldwide.

[18] At the time of the survey in 2010, there were 108 USEACs.

[19] At the time of the survey in 2010, there were 125 overseas CS offices.

Figure 6. CS Costs (in Millions), FYs 2009–2011



Source: OIG analysis of CS financial data

Cannot determine whether its fee schedule methodology includes all costs. When CS released its current fee schedule in 2008, it claimed nonsalary personnel costs (e.g., travel, rent, information technology) were accounted for in a flat-rate overhead charge of 12 percent of salaries and benefits.[20] However, GAO noted in its March 2009 review of CS's fee schedule methodology that CS provided documentation which estimated overhead at only 6.25 percent of salaries and benefits, rather than 12 percent. GAO also reported that CS did not document its methodology for estimating overhead costs, making it impossible to assess which costs are accounted for and at what level. In our analysis, the costs for rent, information technology, and travel, and other nonsalary and benefits costs accounted for $308 million (41percent) of $750 million in total costs for FYs 2009–2011 (see figure 6, above).

Without a clearly documented methodology or sound method of measuring time spent on services, we could not determine how CS accounted for these costs or identify where it could devise additional cost recovery improvements.

B. *Certain internal controls for processing and reconciling client transactions are deficient*

Trade specialists manually enter client contact and financial information into eMenu, CS's operation control system. This system automatically generates a unique code for each project. For a system of record for financial transactions, CS uses the Department's Commerce Business System (CBS), operated by the National Institute for Standards and Technology (NIST). CS's accounting staff manually assigns CBS accounting codes to each financial transaction with an eMenu project code. Field support specialists manage USEAC budgets, approve expenditures, process payments, and reconcile accounts between CBS and eMenu. We found several weaknesses in internal financial controls that, left unaddressed, would leave the agency susceptible to fraud or incorrect financial information.

Payments made by check lack proper internal controls. During FYs 2009–2011, CS received 19 percent of total domestic services revenue from check payments (see table 1, below). Clients who pay by check often mail payments directly to the trade specialists, who then forward it to their field support specialists. This practice is not consistent with OMB Circular A-123 on management controls, which requires a segregation of duties when processing financial transactions.[21] In contrast, CS allows clients to make secure electronic credit card payments through a link to CS's online

[20] OMB Circular A-76, *Competition in Commercial Activities*, May 29, 2003, establishes the 12 percent rate as a guideline to estimate overhead in a cost-absorption model.

[21] OMB Circular A-123, *Management's Responsibility for Internal Control*, December 21, 2004.

eMenu system. Clients often pay by check for more expensive services, such as a trade mission[22] or a Gold Key Service, and by credit card for lower cost services (e.g., market research, webinars, and seminars). Nonetheless, the credit card payment option removes the risk of fraud that could result from trade specialists collecting payments for services they initiate. Although we did not discover any evidence of wrongdoing, allowing trade specialists to handle checks exposes the USEACs to the risk of diverted payments. CS should take steps to maintain the separation of duties.

Table 1. Client Payments to Domestic Offices by Check and Credit Card, FYs 2009–2011

	Total	Checks	Credit Cards
Number of transactions	28,728	1,601	27,127
Total revenue (in millions)	$9.57	$1.82	$7.75
Percent of total transactions[a]		5.6	94.4
Percent of total revenue[a]		19.1	80.9

Source: CBS data on CS financial transactions, FYs 2009–2011
[a] Totals represent the combined number of transactions and amount of cumulative revenue collected via check or credit card by USEACs and network offices.

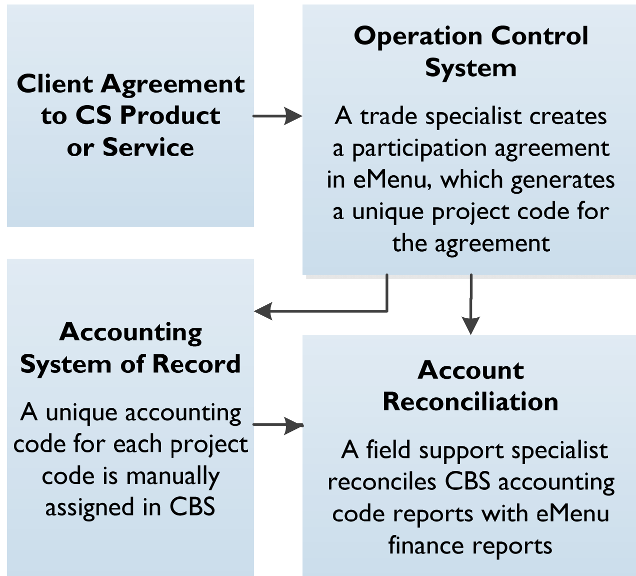
CS lacks official guidance on reconciling accounts. Departmental guidelines for managing financial data require regular, well-documented reconciliation activities subject to second-party review.[23] We found that CS field support staff may not regularly reconcile accounts, such as travel, mailing services, rent, telecommunications, and supplies, between eMenu and CBS.[24] When finding problems during reconciliation (see figure 7, below), the field support staff notifies the appropriate CBS staff at NIST. NIST staff, however, do not consistently follow up on problems or confirm corrective actions with CS. Additionally, reconciliation activities are currently not subject to higher-level review.

[22] Trade mission payments can only be made by check; are typically larger amounts than standard services; and can be accepted at a USEAC, overseas post, or mailed directly to CS headquarters.

[23] The *U.S. Department of Commerce Cash Management Policies and Procedures Handbook* (September 2011 revision) requires the segregation of all cash related duties; see chapter 8, section 5.0, item J.

[24] We could not assess the level of disparity between all eMenu and CBS accounts because eMenu lacks data on services performed without PAs.

Figure 7. CS Process for Reconciling Payments with eMenu and CBS Accounts



Source: OIG analysis of CS documentation

CS informed us it is working with the Department to develop policies to strengthen internal controls. Without a specific policy prohibiting trade specialists from handling client payments and standardized policies requiring second-party review of account reconciliation activities, CS is vulnerable to payment fraud and may use inaccurate financial data.

Recommendations

We recommend the Director General of the U.S. & Foreign Commercial Service take the following actions:

5. Standardize the review process for the fee schedule to ensure biennial updates, as required by OMB Circular A-25.
6. Ensure that surveys used to determine user fees are methodologically sound and sample participation agreements for client services to validate the survey results.
7. Analyze and document the methodology for estimating overhead costs and include appropriate costs in the fee schedule to approximate full-cost recovery.
8. Develop (a) formal policies prohibiting trade specialists from handling checks and (b) appropriate internal controls for check payments, consistent with those in place for credit card payments.
9. Create official policies for account reconciliation, providing second-party review of reconciliation activities and guidance for corrective action.

III. Survey Respondents Reported That CS Actions to Implement the National Export Initiative Have Had a Limited Effect on USEAC Collaboration with Partners and Guidance to Enhance Collaboration is Inadequate

Since their establishment, a key objective of USEACs has been to enhance and expand federal export promotion services through cooperation and coordination with trade-related partners. The recently created Export Promotion Cabinet has reported that enhancing such collaboration is necessary to achieve the goals of the NEI, which aims to double U.S. exports by the end of 2014. The Export Promotion Cabinet identified four overarching actions to implement the NEI Executive Order,[25] three of which relate to coordination. The cabinet also developed 68 recommendations to address the eight priorities identified in the NEI, seven of which specifically address the four priorities most directly related to USEAC operations: (1) exports by small- and medium-sized enterprises,(2) federal export assistance, (3) commercial advocacy, (4) export promotion of services (see appendix E).[26] Similarly, to enhance collaboration among federal agencies, GAO has identified eight practices that result in joint activities that produce more value than could be produced when organizations act alone.[27] These practices can also apply to federal collaboration with nonfederal entities.

Through staff interviews and an analysis of survey results and CS data, we found that USEACs collaborate extensively with partners; however, CS actions to implement the NEI have had a limited effect on the extent and quality of that collaboration. In addition, specialists—less than half of whom had attended interagency training in Washington, DC, focused on export promotion—reported that CS management guidance on collaboration was lacking. Finally, we found that collaboration between CS and its partners is inhibited by legal restrictions on the sharing of client information, even among federal agencies.

A. Trade specialists report the National Export Initiative has had a limited effect on collaboration

Fifty-five percent of survey respondents reported the NEI had not affected their collaboration with partners. An additional 11 percent responded that NEI programs have actually made collaboration with partners more difficult. Only 34 percent stated that NEI activities have improved collaboration with their partners (see figure 8, below).

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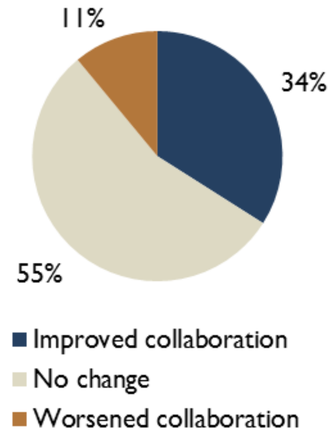
[25] *National Export Initiative*, Exec. Order No. 13534, 75 Fed. Reg. 12433 (March 11, 2010).

[26] *See* Export Promotion Cabinet, September 2010, *Report to the President on the National Export Initiative: The Export Promotion Cabinet's Plan for Doubling Exports in Five Years*, Washington, DC: Trade Promotion Coordinating Committee.

[27] These are: (1) define and articulate a common outcome; (2) establish mutually reinforcing or joint strategies; (3) identify and address needs by leveraging resources; (4) agree on roles and responsibilities; (5) establish compatible policies, procedures, and other means to operate across agency boundaries; (6) develop mechanisms to monitor, evaluate, and report on results; (7) reinforce agency accountability for collaborative efforts through agency plans and reports; and (8) reinforce individual accountability for collaborative efforts through performance management systems. *See* GAO, October 21, 2005. *Results-Oriented Government: Practices That Can Help Enhance and Sustain Collaboration Among Federal Agencies*, GAO-06-15, Washington, DC: GAO.

Figure 8. Has the NEI Changed Partner Collaboration?



Source: OIG survey of CS domestic trade specialists

Historically, USEACs have collaborated with a wide range of partners in fulfilling CS's mission of promoting U.S. exports. These partners include other ITA business units, Departmental bureaus and federal agencies; state and local governments; and private sector organizations. OIG previously reported that USEACs have developed strong relationships with federal and nonfederal partners, and all the USEAC Network Directors with whom we spoke for this review generally characterize their USEACs collaboration with partners as both extensive and generally effective.[28]

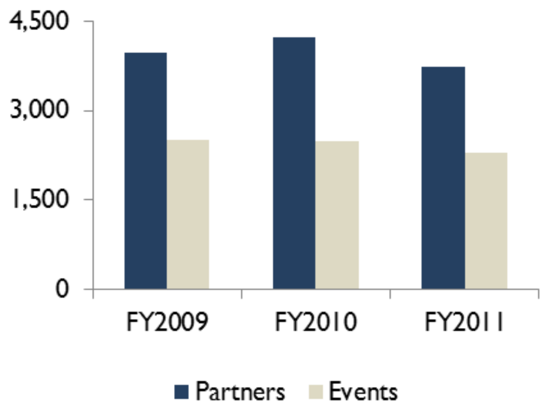
Survey respondents reported that during FYs 2009–2011 they collaborated most frequently with District Export Councils,[29] state trade offices, and the Export–Import Bank of the United States. Their most frequent collaboration activities were (1) jointly promoting their respective services through client outreach, such as seminars; (2) directly referring clients to each other, when appropriate; and (3) sharing client contact information.

Our review of CS "highlights" reports supports the survey respondents' assessment that the NEI has not significantly affected the outcomes of USEAC collaboration with partners. Highlight reports summarize nonquantifiable trade activities, accomplishments, and outreach of USEAC staff that do not result in export successes. During FYs 2009–2011, the number of approved USEAC highlights that identified partners, as well as the numbers of partners themselves, were fairly constant (see figure 9, below). Conversely, the proportion of total export success attributable to USEAC-led activities and which credited a partner declined over the same period (see figure 10, below). With improved collaboration, CS should expect to see a positive change.

[28] Commerce OIG, *USEACs Are Meeting Client Needs, but Better Management Oversight Is Needed*, 21.

[29] *District Export Councils* are comprised of local business leaders who advise local small- and medium-sized companies with exporting and work with USEACs to help promote trade-related activities.

Figure 9. USEAC Highlights, FYs 2009–2011



Source: OIG analysis of Highlights data

Figure 10. USEAC Export Successes with Partners, FYs 2009–2011

Source: OIG analysis of export success data

This survey, which elicited feedback from 230 trade specialists, provided opportunities for descriptive narrative responses. Not every question elicited the same number of narrative responses. Twenty-eight percent of 134 respondents who provided narratives explaining their responses about the NEI's impact on collaboration stated that the NEI was accompanied by no substantive change in CS policies or practices. Twenty percent responded that they have always collaborated with partners to identify clients and enhance service, thus the NEI has not affected their existing coordination with them. Sixteen percent of respondents stated that, while the NEI has highlighted the importance of exporting to companies and increased demand for export promotion services, the roles and responsibilities of the entities involved in export promotion across all government levels are poorly defined. This lack of clarity about export roles and responsibilities has led to competition and duplication of effort among service providers.

B. Trade specialist guidance and training on enhancing collaboration is inadequate

Our survey asked domestic trade specialists whether they had received guidance from CS headquarters on collaborating with partners in support of the NEI. Only 50 percent reported having received specific guidance; 32 percent could not recall having received such guidance, while 18 percent stating receiving no guidance at all. Of the 118 respondents who provided narratives explaining their responses to this question, 24 percent reported having received guidance about formalizing relationships with partners through signed agreements, and 15 percent reported receiving guidance on how to work with partners to implement the New Market Exporter Initiative.[30]

[30] The New Market Exporter Initiative is a national marketing and data mining effort to identify U.S. exporters currently exporting to one or two markets that are capable of expanding to additional markets. Under this

Our survey also asked for suggestions to improve collaboration with partners. Thirteen percent of 189 respondents who provided suggestions said receiving additional guidance and training would improve their ability to work with partners, given the importance of the Administration's initiative to double exports by the end of 2014. Thirteen percent of respondents also stated that CS should revise trade specialist performance measures to better promote collaboration with partners or align them more closely with those of partners.

With regard to specific training, CS participates in Trade Promotion Coordinating Committee (TPCC) Trade Officer Training. This interagency program provides client management skills training and broader knowledge of the programs and resources available to assist U.S. firms in the international marketplace and facilitates collaboration and problem solving for clients across the TPCC agencies. Several trade specialists who attended the training described it to us as being very valuable in developing the knowledge and skill needed to effectively perform their jobs. However, according to TPCC records, less than half of trade specialists currently working at USEACs have attended TPCC Trade Officer Training. The TPCC's deputy director identified constrained USEAC travel budgets and limited class capacity as the primary impediments to expanding the training; developing web-based training options available to all domestic trade specialists would mitigate these problems.

C. Collaboration between USEACs and their partners is hampered by restrictions on sharing client information

The Export Promotion Cabinet recommends strengthening interagency information sharing and coordination to implement the NEI. Trade specialists tended to support this recommendation: when asked for suggestions to improve collaboration, 23 percent of 189 survey respondents provided narratives about improving information sharing among partners. In addition, one of the USEAC network directors with whom we spoke cited their inability to share relevant information about clients with partners as hindering their efforts to enhance collaboration and avoid duplication of effort. Further, the Trade Secrets Act[31] generally prohibits federal employees from disclosing commercial confidential information. According to the Office of General Counsel's legal interpretation on behalf of CS, this information cannot be disclosed without the permission of the submitter of such information (i.e., CS's clients). Therefore, CS must seek a client's written permission to share that client's commercial information with others, including other federal entities like SBA and the Export–Import Bank. One state trade office director who partners with a USEAC told OIG that sharing client information is integral to true collaboration, and that the USEAC's inability to do so has hindered their relationship.

CS currently exchanges publicly available client information with the Export–Import Bank on a quarterly basis. However, personal privacy information about individuals is

program, ITA collaborates with shipping, finance, and other U.S. companies to identify its customers who already sell to an international market and direct them to Department trade specialists.

[31] 18 U.S.C. § 1905.

not provided by either agency, nor is any information protected by law (e.g., the Trade Secrets Act). At the request of state recipients of STEP grants,[32] CS also is exploring ways to provide information on client services funded by the program.

Recommendations

We recommend the Director General of the U.S. & Foreign Commercial Service take the following actions:

10. Determine why guidance on collaboration is not effectively communicated to trade specialists working in the field and take corrective action.
11. Develop guidance on how to incorporate GAO practices for enhancing collaboration to structure partnerships to add value in achieving the USEACs' mission.
12. Develop and provide training to USEAC and partner staff on collaboration strategies and techniques.
13. As chair of the TPCC, request expanded TPCC Trade Officer Training with a web-based alternative that is available to all domestic trade specialists.
14. Explore the possibility of requiring CS clients to waive confidentiality, in whole or in part, as a condition for receiving services.

[32] The State Trade and Export Promotion (STEP) program is a 3-year pilot trade and export initiative authorized by the Small Business Jobs Act of 2010, Pub. L. No. 111-240. Funded by federal grants and matching funds from the states, the STEP program is designed to help increase the number of small businesses exporting and to raise the value of exports for those small businesses currently exporting.

Summary of Agency Response and OIG Comments

On October 19, 2012, we received CS's formal comments to our draft report, which we include as appendix F of this report. Separately, the agency provided technical comments that we addressed in the report where appropriate. We had subsequent communications with CS officials to resolve issues stated in their written response summarized below.

Finding I, recommendation 1: Develop strategies for minimizing the administrative duties of trade specialists. *Agency concurred with our recommendation, but is uncertain about the resultant cost savings.*

CS agreed with our recommendation to develop strategies to minimize trade specialists' administrative duties but disagreed with our estimates of cost savings. (see finding I, section A). CS stated that (a) trade specialists can efficiently perform certain administrative duties and (b) the anticipated upgrade or replacement of its customer relationship management system could reduce time spent on administrative tasks, making administrative positions unnecessary. However, the majority of domestic trade specialists we surveyed reported administrative duties taking up a significant amount of time and detracting from their client-facing duties. We continue to believe that this warrants management attention. Finally, CS also stated website management throughout the federal government is handled by staff above the GS-7 level. We agree that any question of position classification would best be answered by management.

The examples in this report illustrate how cost savings can be realized by adjusting the duties of trade specialists. The monetary benefit value in our model represents a low estimate of achievable cost-savings over 2 years. CS states it is currently uncertain about cost savings that could result from strategies for minimizing administrative burdens, which are under development. We look forward to its proposed approach to decrease trade specialist administrative burdens and the estimate of cost savings, both of which are part of their action plan which is due within 60 calendar days.

Finding I, recommendation 2: Upgrade or replace the current Client Tracking System. *Agency concurred.*

CS is in the process of developing a new Customer Relationship Management system to replace the Client Tracking System.

Finding I, recommendation 3: Determine why some USEACs are underperforming and take corrective action or explore the following options: (1) consolidate lower-producing USEACs with higher-producing USEACs located within the same MSA, (2) close lower-producing USEACs operating in MSAs with low export potential, and (3) consider closing vacant USEACs. *Agency concurred.*

CS agreed that savings could be achieved by eliminating vacant offices and will consider objective criteria, including the resource allocation model (DRAM) and performance metrics, for future office resource allocation efforts.

Finding I, recommendation 4: Track overseas posts that are unable to deliver services in an adequate manner and use the pilot tracking tool to provide estimated service delivery times to clients based on post performance and service type. *Agency concurred.*

Finding II, recommendation 5: Standardize the review process for the fee schedule to ensure biennial updates, as required by OMB Circular A-25. *Agency concurred.*

Finding II, recommendation 6: Ensure that surveys used to determine user fees are methodologically sound and sample participation agreements for client services to validate the survey results. *Agency concurred with revised recommendation.*

Our initial recommendation proposed that CS trade specialists to track the time they spent performing client services, by type of service, using existing online timekeeping functionality. CS considered this requirement to be an increased administrative burden on staff that would require implementation in both domestic and overseas offices. CS maintained it was better to measure the average time spent on client services and calculate cost recovery fees through a survey that accounted for discrete process steps, which we found problematic.

Although a survey could be a viable alternative to biweekly timekeeping, we identified a number of weaknesses that may not produce precise time estimates—all of which would still result in inaccurate user fees. Therefore, we modified this section of the report to discuss the survey and revised recommendation 6, to prompt CS to take corrective action to ensure surveys used to determine user fees are (a) methodologically sound and (b) validated by a statistical review of time spent on specific participation agreements for client services.

Finding II, recommendation 7: Analyze and document the methodology for estimating overhead costs and include appropriate costs in the fee schedule to approximate full-cost recovery. *Agency concurred.*

Finding II, recommendation 8: Develop (a) formal policies prohibiting trade specialists from handling checks and (b) appropriate internal controls for check payments, consistent with those in place for credit card payments. *Agency concurred.*

Finding II, recommendation 9: Create official policies for account reconciliation, providing second-party review of reconciliation activities and guidance for corrective action. *Agency concurred.*

Finding III, recommendation 10: Determine why guidance on collaboration is not effectively communicated to trade specialists working in the field and take corrective action. *Agency concurred.*

CS stated that a recent Export Promotion Cabinet report established a national protocol for client services to improve coordination among agencies.

Finding III, recommendation 11: Develop guidance on how to incorporate GAO practices for enhancing collaboration to structure partnerships to add value in achieving the USEACs' mission. *Agency concurred.*

CS stated that, in FY 2012, more than 100 memoranda of understanding were signed with its partners to work together more closely.

Finding III, recommendation 12: Develop and provide training to USEAC and partner staff on collaboration strategies and techniques. *Agency concurred.*

Finding III, recommendation 13: As chair of the TPCC, request expanded TPCC Trade Officer Training with a web-based alternative that is available to all domestic trade specialists. *Agency concurred.*

The agency hopes to fund training for 30 field-based trade specialists in FY 2013 and agreed to explore web-based training options.

Finding III, recommendation 14: Explore the possibility of requiring CS clients to waive confidentiality, in whole or in part, as a condition for receiving services. *Agency concurred.*

Appendix A: Objectives, Scope, and Methodology

To conduct this review, we sought to (1) evaluate whether CS's allocation of domestic resources meets its mission and goals, (2) assess CS's level of cost recovery, and (3) determine the extent to which the level of coordination between USEACs and their federal and nonfederal partners is sufficient to meet Administration priorities with respect to the NEI.

Our methodology included interviewing senior CS managers and staff, as well as reviewing documentation related to our objectives, for the period FYs 2009–2011 (unless otherwise noted). Specifically, we:

- Interviewed CS headquarters officials to discuss issues involving domestic resources, cost recovery, and the coordination of trade promotion functions.
- Interviewed OMB officials to gain an understanding of CS's cost recovery efforts.
- Interviewed CS's partners at the federal, state, and local levels to assess the level of coordination and collaboration on trade promotion activities.
- Interviewed all eight USEAC network directors.
- Conducted site visits to select USEACs (see box at right) in four of the eight networks to meet with trade specialists to discuss and observe local operations.
- Conducted an online survey of domestic trade specialists to solicit their feedback on domestic CS operations.
- Reviewed Administration and Commercial Service trade promotion initiatives.
- Reviewed policies, procedures, and guidelines, related to USEAC operations.
- Reviewed CS's domestic resource allocation model and USEAC performance data.
- Reviewed relevant federal government criteria and requirements for full cost recovery of specialized services.
- Reviewed CS's fee schedule on client services and assessed the amounts collected to determine the extent of cost recovery efforts.

OIG Site Visits to U.S. Export Assistance Centers, February–April 2012

Atlanta
Arlington, Virginia
Austin, Texas
Baltimore
Denver
Detroit
Houston
Philadelphia
Pontiac, Michigan
Richmond
San Antonio
Trenton

We conducted this review from November 2011 through May 2012, under the authorities of the Inspector General Act of 1978, as amended, and Departmental Organization Order 10-13, dated August 31, 2006, as amended. The review was conducted in accordance with the *Quality Standards for Inspection and Evaluation* (January 2011) as published by the Council of the Inspectors General on Integrity and Efficiency.

Appendix B: Quantitative Methodology

Our review sought to evaluate whether CS's allocation of domestic resources meets its mission and goals. We reviewed individual USEAC performance to assess whether CS could reallocate resources from lower-producing offices to more productive areas. To accomplish this, we used four sources of data (three of which spanned the period FYs 2009–2011):

- eMenu services data
- eMenu export success data
- Time and Attendance data
- Domestic Resource Allocation Model (DRAM) data (completed in 2011)

The eMenu services data contain one observation for each participation agreement, including active, completed, and canceled services. To conduct our analysis, we first aggregated all paid active and completed services at the USEAC level to determine the total number of services provided and the total amount of fees collected by each USEAC.

Because the eMenu export success data also contains one observation for each export success, we then aggregated all export successes for each USEAC to obtain the total number of export successes and the dollar value of those export successes. Time and attendance data contains one observation for each employee pay period and includes information on salary, benefits, and the number of hours worked by each domestic trade specialist. Therefore, we aggregated all salary, benefits, and hours worked data from each USEAC.

The DRAM contains one observation for each Metropolitan Statistical Area (MSA) in the United States and estimates each MSA's export potential. We transformed the dataset into one observation for each USEAC, retaining the MSA ranking and export potential for each USEAC.[33]

Once the four datasets had a parallel structure (i.e., one observation for each USEAC), we merged them into a single database and developed the following performance metrics and export potential criteria.

Our performance metrics were:

- **OIG Metric 1:** USEAC services per hour (number of services divided by the total hours worked by trade specialists for each USEAC).
- **OIG Metric 2:** USEAC fee collection per hour (sum of fees collected for services divided by the total hours worked by trade specialists for each USEAC).

[33] For example, the Los Angeles and New York metropolitan areas count as two MSAs but are served by 3 and 5 USEACs, respectively.

- **OIG Metric 3:** USEAC export successes per hour (number of export successes divided by the total hours worked by trade specialists for each USEAC).
- **OIG Metric 4:** USEAC export success value per hour (total export success value divided by the number of hours worked by trade specialists for each USEAC).

Our export potential criteria were:

- **Criteria 1:** USEAC is in the same MSA as another USEAC.
- **Criteria 2:** USEAC is in an MSA that ranks in the bottom half of MSAs in the United States in terms of export potential, according to the DRAM.

We used 3 years of trade specialist data by USEAC, rather than 1 year, to better evaluate USEAC performance based on our 4 metrics.[34] If a USEAC underproduces in terms of providing services and generating export successes over 3 years, it does not necessarily mean that the individual trade specialists are also underproducing. Still, it does indicate that the USEAC is contributing significantly less than other offices. We converted all values to hourly rates to avoid biasing the results against USEACs with fewer employees, more part-time employees, or employees who left the organization during the three-year period.

Additionally, trade specialists perform other duties besides client services: they refer clients to other federal agencies that can assist them with business development, provide general advice without charge, and help companies locate data online. However, alternative measures of performance are either unreliable (e.g., data self-reported by USEACs) or unquantifiable. Offices with consistently low rates of both export successes and services provided over 3 years would need to provide considerably more nonquantifiable services than other offices to make up for those deficiencies. Again, individual trade specialists are not necessarily low-producing; rather, some USEACs could be located in areas with low export potential or that are served by other USEACs.

Therefore, we combined performance metrics (services and export successes) with criteria about office location, such as multiple USEACs in the same MSA and USEACs in MSAs with low-export potential, to identify opportunities for cost savings. All four OIG metrics were "right-skewed," meaning high performers raised the mean substantially above the median. Therefore, we used medians and quartiles to evaluate dispersion to ensure low-performing offices were not penalized for the strong performance of a few offices. To be considered underperforming, offices had to be in or near the bottom 25th percentile of at least 3 of the 4 OIG metrics. We then identified underperforming USEACs that were located in MSAs with low export potential or in MSAs with multiple USEACS. We do not identify the four offices in this public report but have provided this information to CS for its consideration.

[34] Measuring a trade specialist's performance based on 1 year's worth of data for export successes and completed client services may not be representative of long-term performance. For example, a trade specialist may deliver an outstanding service for a client who ends up not making a sale, resulting in no export success for the specialist. By contrast, a specialist may arrange a single meeting for a client that leads to an export success with a high dollar value that exceeds the value of all export successes from the previous year.

Appendix C: Monetary Benefits

	Questioned Costs	Unsupported Costs and Write-offs	Funds Put to Better Use
Centralize administrative duties where possible and better align job responsibilities with grade level. (see Section IA, pages 5–6)	$0	$0	$1,500,000[a]
Close vacant USEACs (see Section IB, pages 6–7)	$0	$0	$28,000

Source: OIG analysis

[a] CS agreed to develop strategies to minimize trade specialists' administrative duties but was uncertain about achievable cost savings. The $1.5 million estimated savings were based on a conservative data model that OIG used. However, we look forward to CS's cost estimates based on its proposed approach to decrease trade specialist administrative burdens, both of which are part of the action plan due within 60 calendar days.

Appendix D: Survey Methodology

To complete our review, we conducted an online survey of all CS domestic trade specialists, which included network directors, USEAC directors, career trade specialists, and commercial officers on domestic rotations. We asked questions related to our three objectives: resource allocation, cost recovery, and coordination/collaboration with partners. Overall, we achieved a response rate of 85 percent (see table D-1, below).

Table D-1. Trade Specialist Survey Response Rate by Network

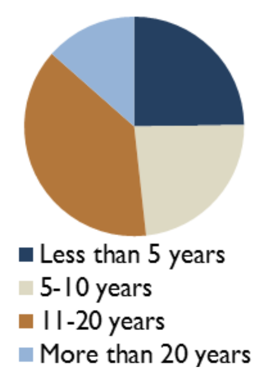
Network	Responses	Population	Response Rate (%)
Great Lakes	23	32	72
Mid-Atlantic	39	42	93
Midwest	29	32	91
Northeast	24	30	80
Pacific North	30	34	88
Pacific South	29	34	85
Southern	25	34	74
Southwest	31	34	91
Totals	**230**	**272**	**85**

Source: OIG survey of CS domestic trade specialists

Of the specialists who did not reply, many were on leave or on assignment, suggesting that much of the nonresponse is random. Additionally, there were no underrepresented strata: comparing regional response rates and trade specialist with commercial officer response rates show no evidence of nonresponse bias. Specialists, over half of whom have more than 10 years' experience with CS (see figure D-1), were required to answer each question to submit their responses.

To refine the survey instrument, we conducted four rounds of interviews during February and March, 2012 in Arlington, Virginia; Baltimore; Philadelphia; and Trenton. After each series of interviews, we modified the questionnaire to target the most relevant information and reduce question bias. Additionally, we provided a copy of the questionnaire to CS management on March 13, 2012, to ensure that our questions were not misleading or off-topic. We sent the survey to all domestic trade specialists via SurveyMonkey on March 16, 2012, and closed it on April 6, 2012, allowing them 3 weeks to complete the questionnaire. The list of survey questions is included below:

Figure D-1. Survey Respondent Years with Commercial Service



Survey Questions

1. Name
2. Title
3. USEAC Location
4. USEAC Region
5. Years of CS Experience
6. Email
7. Phone
8. Please identify the industries for which you are currently responsible.
9. For FYs 2009–2011, please estimate the percentage of your time spent performing the following tasks.
10. From the following list, please identity the administrative tasks that you performed at your USEAC from FY2009–2011.
11. Please estimate the percentage of your clients located within 50 miles of your USEAC.
12. On average, how many active clients do you work with simultaneously (e.g., at least one registered counseling session in CTS or open PA)?
13. What percentage of your clients' service requests are unfulfilled because of issues at overseas posts?
14. Please describe any problems related to fulfilling client service requests.
15. Where do you meet with your clients? Please provide the percentage for each location.
16. Please assess the efficiency and effectiveness of the following systems: eMenu.
17. Please assess the efficiency and effectiveness of the following systems: Client Tracking System (CTS).
18. Please describe any issues with the systems:
19. Are your clients satisfied with the CS fee schedule?
20. Are CS services appropriately priced for small and medium-sized businesses?
21. If CS fees were raised, would you lose potential clients?
22. Have you lost business to other organizations that provide similar services to CS due to cost, scheduling/timing of service delivery, or for some other reason?
23. How do you verify whether a company is a small to medium sized business or a large company?
24. How do you verify that a client's product satisfies the US content requirement?
25. Rate the extent to which you collaborated/coordinated in export promotion activities with the following non-CS entities from FYs 2009–2011 (list of entities provided).
26. How often did your collaboration with the following partners result in export successes in FYs 2009–2011 (uses the same list as the previous question)?
27. Please identify the non-CS partner that contributed to the greatest number of your export successes from FYs 2009–2011.

28. From the following list, please identify your collaboration/coordination activities with the entities you identified.
29. Has the NEI changed your coordination/collaboration efforts?
30. Have you received any specific guidance from CS HQ management relating to collaboration/coordination with non-CS partners in support of the NEI?
31. Do you routinely record coordination/collaboration activities with non-CS entities in CTS?
32. Do you routinely record or track referrals to other federal agencies, such as SBA or Ex–Im Bank?
33. Please provide any suggestions for improving CS coordination/collaboration with US government and non-US government entities.
34. Please provide any suggestions for improving the operation of the USEACs.

Appendix E: Export Promotion Cabinet Recommendations Related to Collaboration

The Export Promotion Cabinet (EPC) has identified three overarching coordination-related actions to implement the National Export Initiative Executive Order[35] and developed seven specific recommendations to address the four priority areas most directly related to USEAC operations: (1) exports by small- and medium-sized enterprises, (2) federal export assistance, (3) commercial advocacy, and (4) export promotion of services. Quoted verbatim from EPC, below, are only those priorities—and only those corresponding specific recommendations—most directly related to USEAC operations.[36]

Priority: Exports by Small and Medium-Sized Enterprises (SMEs)

Identify SMEs that can begin or expand exporting

Coordinate, expand, and leverage Federal outreach resources to identify potential exporters. These resources include the interagency U.S. Export Assistance Centers (USEACs); field offices of the SBA, Commerce, and Agriculture; State and local governments; and non-government partners that provide services to SMEs. International trade specialists from Commerce, Agriculture, and SBA will team up with business assistance agencies to form local "Export Outreach Teams."

Increase collaboration with the private sector, including businesses, trade associations, lenders, District Export Council members, and local chambers of commerce, to identify both new SME exporters and those with export expansion potential. It is in the interest of these private sector partners to link their clients and members to Government resources that can help them enter and/or grow in international markets.

Connect SMEs to export opportunities

Develop export assistance packages that effectively combine the programs of different agencies. For example, fees for Commerce's Gold Key Service or participation in trade missions could be paid for with an SBA Export Express loan. Or, an SME could receive a discounted Ex-Im Bank credit insurance policy in connection with an SBA Export Working Capital Program loan.

[35] *National Export Initiative*, Exec. Order No. 13534, 75 Fed. Reg. 12433 (March 11, 2010).

[36] A full list of the priorities and recommendations can be found in "[Section] II: Recommendations" of the report. Export Promotion Cabinet, September 2010. *Report to the President on the National Export Initiative: The Export Promotion Cabinet's Plan for Doubling U.S. Exports in Five Years* [Online]. www.whitehouse.gov/the-press-office/2010/09/16/white-house-releases-report-president-national-export-initiative (accessed on July 24, 2012).

Priority: Federal Export Assistance

Short-term Recommendations:

Emphasize the New Market Exporter Initiative. This program is a national marketing, data mining, and lead generation effort to identify U.S. exporters currently exporting to one or two markets, but capable of expanding into additional markets. The *New Market Exporter Initiative* enhances partnerships with shipping, finance, and other U.S. companies that specialize in providing exporting services. These companies, including but not limited to FedEx, UPS, and the U.S. Postal Service, identify their customers, many of whom are SMEs, who already sell to an international market and direct them to local Commerce trade specialists. The Commerce trade specialists work with these SMEs to help them enter additional international markets. This effort includes mining internal TPCC partner client databases to identify businesses with potential for entering new markets

Long-term Recommendations:

Increase coordination with State export promotion programs and nonprofit associations. State governors, the National Association of State Departments of Agriculture, State Regional Trade Groups, and the State International Development Organization are key players in this country's trade promotion efforts. Most States have offices devoted to export promotion for in-State companies, and many governors lead at least one trade mission a year. At the local level, the States work very closely with their Federal Government partners. In many States, the offices of the State and Federal export promotion agencies are co-located and work together to develop annual operating plans. Federal agencies should strive to make joint planning the standard procedure in all States that have export promotion programs. The Administration's proposed FY11 Budget would also provide increased funding for the Market Development Cooperator Program (MDCP). The MDCP grant program provides matching funds for public-private partnerships that expand export opportunities for U.S. businesses. The Administration has also requested an increase in funding to expand Agriculture's activities to promote exports of U.S. food and agricultural products.

Priority: Commercial Advocacy

Short-Term Recommendations

Enhance interagency coordination. Commercial advocacy can be enhanced by better coordinating the resources of the Federal Government. The Advocacy Center must continue to bring all key resources to bear on specific export transactions to enhance opportunities for success. This means rapidly directing U.S. exporters to appropriate agencies that can assist them with export opportunities and address potential vulnerability to foreign regulatory and trade actions. TPCC agencies will coordinate their leadership's efforts to provide advocacy on behalf of U.S. exporters. The Secretary of Commerce, at the urging of the President, has requested that senior Government officials consider commercial issues as part of their agenda when communicating with their foreign government counterparts. As noted by the Michigan District Export Council-West in comments submitted in response to the NEI Federal Register notice:

> Attention from the President and relevant cabinet-level agencies on aggressively expanding exports will show the world that we plan to compete. Our competitors' longstanding commitment to trade advocacy begins at the highest levels of government.

This can only occur productively with improved interagency communication. Interagency cooperation on advocacy can be especially effective for SMEs. SMEs benefit when the full range of Federal government services are coordinated to enhance their ability to export. Obtaining a key overseas contact through advocacy can have a huge impact. The Department of State's Commercial and Business Affairs Office is working to enhance communication between the State Department and TPCC agencies to ensure that Ambassadors, U.S. officials, and senior leadership at all levels can engage on specific export opportunities. Since January 2010, this overall effort has led to increased activity for the Advocacy Center, and to an increase in advocacy successes that support U.S. jobs.

Priority: Export Promotion of Services

Short-Term Recommendations

Continue to assess and focus on key growth priority sectors and markets to better coordinate export promotion efforts aimed at the services sector. The TPCC agencies will continue to work closely with industry and key stakeholders to identify and assess the services sectors which hold significant growth potential for the United States, and match those sectors with growing sales opportunities in key overseas markets. In concert, the TPCC agencies will heighten focus on U.S. service exports by deploying the full range of trade promotion tools, including targeted trade missions (see Priority 3 ["Trade Missions"]), bringing foreign buyers to the United States, and participating in services-oriented trade shows.

Appendix F: Agency Response

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

OCT 18 2012

MEMORANDUM FOR: Ron Prevost
Assistant Inspector General for Economic and Statistical Program Assessment
Office of the Inspector General

FROM: Antwaun Griffin
Deputy Assistant Secretary
Office of Domestic Operations
U.S. and Foreign Commercial Service

SUBJECT: Response to Draft Report: *U.S. Export Assistance Centers Could Improve Their Delivery of Client Services and Cost Recovery Efforts*, September 7, 2012

The U.S. and Foreign Commercial Service (CS) welcomes the September 7, 2012, Office of Inspector General's (OIG) draft report, *U.S. Export Assistance Centers Could Improve Their Delivery of Client Services and Cost Recovery Efforts*. The report focuses on three areas: 1) CS's allocation of domestic resources; 2) CS's level of cost recovery; and 3) coordination levels between CS domestic offices, or U.S. Export Assistance Centers (USEAC), and federal and nonfederal partners under the National Export Initiative (NEI). The draft report includes 14 recommendations for CS action. We appreciate the thorough and thoughtful review of these issues. While we generally agree with the findings and conclusions, we do have some concerns as noted herein.

Regarding the allocation of domestic resources, we agree in concept with the recommendation to develop strategies for minimizing the administrative duties of trade specialists. However, we respectfully disagree with the specific proposals and conclusion. We contend that trade specialists most efficiently and effectively perform certain administrative burdens. This includes the bulk of the client management responsibilities associated with entering data, obtained from client interaction, into the Customer Relationship Management (CRM) system. Furthermore, given the anticipated upgrade or replacement to the CRM system in the near future, any estimated cost savings from shifting such administrative duties are uncertain. Additionally, we disagree that the centralizing of domestic field office website management duties would result in any cost savings; throughout the government, such services are performed by personnel at grades higher than GS-7.

For recommendation 3, consolidating lower-producing USEACs and closing domestic offices, CS currently employs a Domestic Resource Allocation Model and a Gap and Opportunity Analysis to assist in allocating domestic field resources. These models provide indicators of export intensiveness at the Metropolitan Statistical Area level, as well as indicators for demand and performance at the USEAC level, respectively. CS will take this OIG recommendation into consideration when utilizing these resource allocation models for taking appropriate action.

INTERNATIONAL TRADE ADMINISTRATION

In reference to recommendation 6, you propose that CS require staff to use existing online timekeeping functionality to account for employee time spent on client services. While such information could assist in determining the level of cost recovery, we are concerned about the increased administrative burden that such a system would necessarily place on CS personnel worldwide. Additionally, the May 2011 independent study by Paradigm Technologies Inc., titled, *Fee-Based Export Promotion Program Pricing, Financial and Operational Management Review Support* has documented that statistically sound time tracking metrics on client services can be obtained via a survey, which is less administratively burdensome on CS personnel overall than having all CS personnel fully utilize online timekeeping.

The NEI remains the top priority for the Commercial Service, and we are committed to helping realize President Obama's goal of doubling exports from 2010 levels by the end of 2014. As citied in the report, the Export Promotion Cabinet has reported that enhancing cooperation and coordination with trade-related partners is necessary to achieve the goals of the National Export Initiative. To this end, in fiscal year 2012, CS signed over 100 Memoranda of Understanding (MOU) with private and public-sector partners across the country. These MOUs commits us and our partners, in specifically defined areas, to work together more closely. These partnerships are furthering export awareness through outreach activities and leading to better coordination and collaboration in the provision of export assistance services.

Additionally, the Export Promotion Cabinet's recent report titled, *Maximizing the Effectiveness of Federal Programs that Support Trade and Investment*, informs that Federal trade promotion agencies will (among other objectives) establish a national protocol for client services that will optimize how clients are served across Federal networks and increase the level of coordination among Federal agency and partners by including a clear process for referring clients to the correct Federal export assistance services.

The OIG report also recommends that CS "...request expanded [Trade Promotion Coordinating Committee] Trade Officer Training with a web-based alternative that is available to domestic trade specialists." Since 2003, 120 of our 240 domestic trade specialists have attended the Trade Promotion Coordinating Committee (TPCC) training in Washington, D.C. We hope to have the funds in FY 2013 to train an additional 30 field-based trade specialists and to explore web-based training alternatives.

We appreciate the continued opportunity to engage with OIG on these important findings and recommendations. We look forward to the final report.

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