



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

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## **International Trade Administration**

### **Commerce Service Operations in Argentina and Uruguay Are Mostly Sound but Financial Processes Need Attention**

*Final Inspection Report No. IPE-18111/September 2006*

**PUBLIC RELEASE**

*Office of Inspections and Program Evaluations*





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

SEP 29 2006

**MEMORANDUM FOR:** Franklin L. Lavin  
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**FROM:** Johnnie E. Frazier 

**SUBJECT:** Final OIG Inspection Report  
*Commercial Service Operations in Argentina and Uruguay Are  
Mostly Sound but Financial Processes Need Attention (IPE-18111)*

As follow up to our August 24, 2006, draft report, we are pleased to provide you with the final report on our inspection of CS operations in Argentina and Uruguay. Thank you for your comments on the draft report. We also received comments from 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 this report.

Our inspection highlighted that we found effective CS management practices in place in Argentina and Uruguay, favorable client satisfaction with the posts' services, and mostly sound administrative operations. We also found financial management practices at both posts that warranted management attention.

We offer a number of specific recommendations on page 35 that we believe, if implemented, will help strengthen CS management practices. We are pleased to note that ITA, in its written response to our draft report, has already taken or is planning to take action to address many of our recommendations. We request that you provide us with an action plan addressing the status of the recommendations in our report within 60 calendar days.

We thank the personnel in ITA headquarters and the CS posts in Argentina and Uruguay for their assistance and the courtesies they extended to us 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



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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 non-governmental trade partners to make companies aware of export opportunities and increase U.S. sales abroad. With offices in 80 countries and 108 domestic cities, CS plays a major role in promoting U.S. exports.

In June 2006, the U.S. Department of Commerce Office of the Inspector General conducted an inspection of CS' offices in Argentina and Uruguay. The review focused on the offices' management, program operations, and financial and administrative practices. As part of the review process, we reviewed pertinent documents, records, and accounting data both in Washington and at the post. We also met with officials at Commerce headquarters and other relevant U.S. government agencies in Washington, D.C., and at the posts, and met with key non-governmental partners and clients in the United States, Argentina, and Uruguay (see page 3).

Our review found that CS Argentina and CS Uruguay are providing useful export assistance to U.S. companies and have established collaborative relationships with key U.S. government offices and non-governmental organizations. Our review found effective administrative management practices at both posts, but we also identified some financial management and accounting concerns that warrant the attention of Commerce managers.

### Combined Management of CS Offices in Argentina and Uruguay

The CS' offices in Buenos Aires, Argentina, and Montevideo, Uruguay, are managed by the Senior Commercial Officer (SCO) for Argentina, who also serves as the SCO to Uruguay. CS' staff in Uruguay reports to the SCO in Argentina but coordinates with the State Department economic counselor in Uruguay on day-to-day matters. Because of this combined management structure, we conducted a joint review of both CS Argentina and CS Uruguay.

### Effective management practices promote collaboration

**and partnerships.** CS Argentina has effectively cultivated partnerships with local organizations in Argentina and stakeholders in the United States. It has also developed strong working relationships with other offices in the embassy. The senior commercial officer (SCO) in Buenos Aires oversees and closely coordinates with the CS office in Montevideo, Uruguay, which is staffed by local CS and State Department commercial specialists. Both the SCO in Buenos Aires and the CS Uruguay commercial specialists coordinate well with the local State Department economic section. CS Argentina's River Plate regional initiative also promotes the Uruguay market to U.S. exporters. In addition, CS Argentina collaborates effectively on export control activities with Commerce's Bureau of Industry and Security.

CS Argentina and CS Uruguay also face challenges to maintain and improve the effectiveness of their existing programs and efforts. CS Argentina should work to retain the extensive institutional knowledge of its most senior commercial specialists as they approach retirement, and should consider operating in teams to promote information sharing. Both CS Argentina and CS Uruguay also face the challenge of developing effective partnerships with Commerce's Brazil-based regional programs to promote compatible technical standards and intellectual property rights protection (see page 5).

**Posts generally satisfy their clients but do not maintain full export success documentation.**

Feedback from CS Argentina's and CS Uruguay's clients during FYs 2005 and 2006 was generally positive. Most clients were satisfied with the quality and timeliness of the services they received. We also reviewed the market research products produced by both posts during the same period. We found the planned market research reports to be comprehensive, although some reports written before CS developed its new report template did not contain all recommended elements. The customized market research reports were comprehensive and informative.

We also looked at the posts' reporting of their export successes, since CS' handling of this performance measurement has been a recurring problem cited in OIG reports issued over the last several years. In order to evaluate the validity of the export successes reported by CS Argentina and CS Uruguay, we reviewed a sample of the export success reports reported by both posts during FYs 2005 and 2006. We found that most of the reported successes complied with most aspects of CS' export success guidance, and the narratives describing the export successes generally contained sufficient detail. CS officers did review all reported export success narratives and did verify the pertinent facts for some of the reported transactions. The posts did not always maintain sufficient documentation beyond the export success narratives to fully substantiate reported export transactions and CS' value-added export-related assistance, as required by CS' export success guidelines. The posts were able to provide full documentation substantiating only 49 percent of the export successes in our sample, partial documentation for another 34 percent of the sample, and no documentation for the remaining 17 percent. CS Argentina management should improve controls for export success reporting in order to ensure compliance with CS' export success guidelines and verify the accuracy of the posts' reported successes (see page 12).

**Accounting and financial management practices need management attention.** During our review of CS Argentina's and CS Uruguay's financial management practices and accounting, we found several matters of concern. In addition to completing our normal work in this area, we followed up on a request from CS management that we review the advantages and disadvantages of CS Argentina's current process of certifying its own payments in Argentina. Specifically, CS management sought more information on the process in Argentina as it considered whether it should seek to have other posts certify their payments in order to reduce charges for administrative services provided by the State Department.

In 2000 CS Argentina partially opted out of the State Department's payment certification and accounting services. We found that there are some advantages to CS' certification program in Argentina, but it also presents substantial management and oversight challenges and is not permitted by current ITA and Commerce policies.

We estimate that CS paid the State Department about \$5,400 less in FY 2005 for financial services than it would have if State had certified CS' payments in Argentina and kept CS' accounting records. CS' current financial management practices in Argentina give CS greater control over the timeliness of its payments. However, we found that current ITA and Commerce policies prohibit CS from certifying its own payments in Argentina, and the CS Argentina officials who were certifying payments at the time of our inspection were not properly authorized to do so. While CS headquarters staff did authorize CS Argentina officials to certify payments, CS had no authority to make such a designation. According to Commerce's financial

management policies, the chief financial officer (CFO) for ITA is delegated the authority to designate certifying officers within ITA. In fact, the Department's deputy CFO re-delegated certifying authority for all Commerce overseas payments to the State Department on November 24, 2004, in accordance with the Department's Administrative Order 203-2. The State Department, however, has never designated CS officials as certifying officers in Argentina.

We also found that CS Argentina does not participate fully in the State Department's accounts and records services, as provided through the Interagency Cooperative Administrative Support Services program. As a result, State does not provide complete accounting services to CS Argentina and does not verify, audit, or reconcile CS' accounting transactions in Argentina. Because such services are normally provided by State, CS Argentina's accounting practices raise concerns about the effectiveness of ITA's internal controls for the post. The practice also appears to be inconsistent with ITA's policy on overseas accounting, which holds that the State Department is the sole provider of accounting services for Commerce's overseas posts. According to personnel in ITA's accounting office, ITA's accounting practices partially rely on the State Department's internal control procedures to verify the overseas transactions reported to ITA through State's accounting system. If State does not provide such financial oversight, then CS Argentina should work with ITA's Office of Financial Management to establish adequate alternative controls and oversight of its accounting practices.

CS needs to ensure that its financial management practices in Argentina comply with ITA and Commerce policies. CS headquarters should coordinate any future financial management initiatives with ITA's CFO and its Office of Financial Management to ensure that the initiatives are permitted and have adequate controls and oversight. CS headquarters and ITA's Office of Financial Management should also improve their coordination and communication to ensure that all CS officials at headquarters and posts are informed on ITA's overseas financial management policies.

We also reviewed ITA's official accounting records for CS Argentina and found unliquidated obligations for inactive transactions that should be deobligated. In addition, we found that CS Uruguay collects and retains user fees for services actually provided by the State Department commercial specialists in Uruguay, even though CS has no authority to retain such fees. At other partnership posts, CS has established the precedent of transferring such fee collections to the State Department, and CS should follow a similar process in Uruguay (see page 19).

**Administrative management can benefit from minor improvements.** CS Argentina's management of its human resources, physical office space, information technology, and other administrative matters are generally effective, but we also found minor concerns at both posts that warrant management action. Property management, particularly in Uruguay, needs improvement. CS needs to improve guidance on property and inventory management, including the disposal of computers and other property so that both posts can properly dispose of obsolete and surplus items (see page 30).

On page 35, we list a summary of the recommendations to address our concerns.



**ITA and USPTO Responses and OIG Comments**

The Under Secretary for International Trade, in responding to our draft report, highlighted actions that ITA has already taken or is planning to take in order to address many of our recommendations. The response included detailed steps that ITA is taking to address financial management concerns identified in our draft report and discussed several enhancements to administrative practices at CS Argentina and CS Uruguay. However, ITA's response disagreed with the draft report's characterization of CS' accounting practices in Argentina, and also proposed no substantial changes to CS' fee collection procedures in Uruguay. The response also discussed CS' current and revised export success reporting requirements, and measures that CS Argentina is taking to fully comply with those reporting guidelines. In addition, ITA reaffirmed CS' ongoing efforts to develop policies for its partnership posts, in collaboration with the State Department. The response did not indicate any commitment to ensuring regular coordination between CS' regional standards attaché in Brazil and the other CS posts in the region.

The U.S. Patent and Trademark Office also provided a response to our draft report. The response outlined steps that USPTO is taking to ensure that its new regional intellectual property rights attaché in Sao Paulo, Brazil, will coordinate effectively with CS Argentina to provide support on intellectual property rights issues. We appreciate the efforts that USPTO has taken to ensure that its regional attaché in Brazil will provide appropriate levels of support to other CS posts in the region.

We discuss the ITA and USPTO responses to our findings and recommendations in greater detail at the end of each chapter of the report. We have also included copies of the responses to our draft report in their entirety as appendices to this report.



## BACKGROUND

### CS Argentina

The U.S. Commercial Service (CS) maintains an office in Buenos Aires, Argentina, tasked with promoting U.S. exports and U.S. commercial interests in Argentina (see Figure 1).<sup>1</sup> The office is located inside the U.S. embassy and had a total budget of \$943,312 in FY 2005 and \$864,780 in FY 2006.<sup>2</sup> CS Argentina is organized under CS' Office of International Operations (OIO) and reports to the regional director for the Western Hemisphere stationed at CS headquarters in Washington, DC. CS reduced its staffing level in Argentina as U.S. exports declined (see Figure 3) following the devaluation of the Argentine peso in 2002 and the concurrent severe economic recession.<sup>3</sup> CS currently maintains a staff in Argentina consisting of a Senior Commercial Officer (SCO), a junior Commercial Officer (CO), and 15 local staff.



Figure 1: Argentina Country Profile (2005)

**Population:** 39.9 million  
**Size:** 1.07 million square miles  
**GDP:** \$518 billion (purchasing power parity – PPP)

**Major industries:** consumer durables, chemicals and petrochemicals, food processing, motor vehicles, metallurgy, and textiles.

**Leading agricultural exports:** fruits, corn, tobacco, peanuts, wheat, and livestock.

**Leading sectors for U.S. exports and investment:** agricultural machinery, electric power systems, information technology, medical equipment and supplies, and mining machinery

Source: CIA World Fact Book (2006) and CS Argentina's *Country Commercial Guide 2006*.

<sup>1</sup> The U.S. Commercial Service is also known as the U.S. and Foreign Commercial Service.

<sup>2</sup> These figures include overhead and administrative costs, officer and foreign service national salaries, and actual charges from the State Department for administrative services.

<sup>3</sup> In 2002, Argentina's economy contracted by 11%, which was triggered by the central government's default on its sovereign debt and the devaluation of the Argentina peso, which increased inflation and unemployment. The economy stabilized by mid-year and from 2003 through 2005, it grew at a 9 percent annual rate.

**CS Uruguay**

CS has maintained an office at the U.S. embassy in Montevideo, Uruguay since 1996 (see Figure 2). Both Argentina and Uruguay, along with Brazil, Paraguay, and Venezuela, are full members of the Mercado Común del Sur (Common Market of the South or MERCOSUR) customs union.<sup>4</sup> CS Uruguay’s staff is currently composed of two locally hired CS commercial specialists and two



State Department commercial specialists. CS Uruguay was budgeted \$110,803 for FY 2005 and \$120,280 for FY 2006. While the combined CS staff in Montevideo report to the State Department’s economic counselor on day-to-day matters, the SCO in Argentina, who makes quarterly visits there, is the actual supervisor of the CS staff in Uruguay.

**Figure 2: Uruguay Country Profile (2005)**

**Population:** 3.4 million  
**Size:** 68,040 square miles  
**GDP:** \$32.9 billion (PPP)

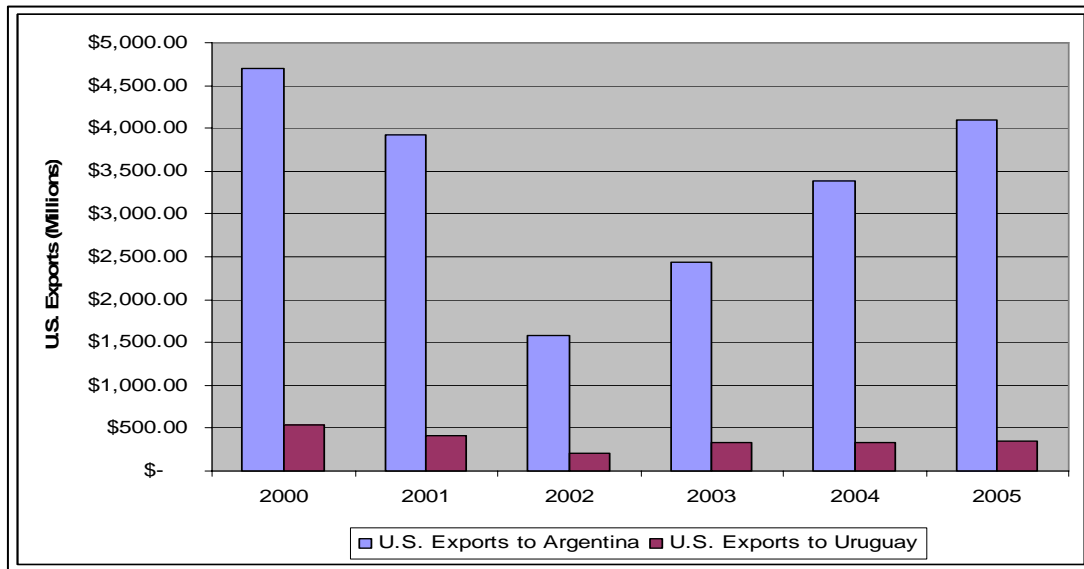
**Major industries:** beverages, chemicals, electrical machinery, food processing, petroleum products, and textiles.

**Leading agricultural exports:** barley, corn, fish, livestock, rice, and wheat

**Leading sectors for U.S. exports and investment:** agriculture, chemicals, telecommunications, fertilizers, and infrastructure projects

*Source: CIA World Fact Book (2006) and CS Uruguay’s Country Commercial Guide 2006.*

**Figure 3: U.S. Exports to Argentina and Uruguay**



Source: Census Bureau

<sup>4</sup> MERCOSUR is a customs union founded in 1991 by Argentina, Brazil, Paraguay, and Uruguay upon the signing of the Treaty of Asuncion that aims to eliminate customs restrictions on goods exchanged between member nations and to establish a uniform tariff policy towards nonmember nations. Currently, Bolivia, Chile, Colombia, Ecuador, and Peru are associate members.

## OBJECTIVES, SCOPE, AND METHODOLOGY

The purpose of this inspection was to assess the effectiveness of the management, programs, and financial and administrative practices of CS operations in Argentina and Uruguay. Our office conducted this inspection under the authority of the Inspector General Act of 1978, as amended, and in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency in 2005. Our review was conducted concurrently with a separate OIG review of Commerce's post in Brazil. Specifically, we sought to determine whether:

- CS' management and oversight of its offices in Argentina and Uruguay are effective;
- CS Argentina and CS Uruguay are planning, organizing, and managing their work and resources effectively and efficiently;
- CS Argentina and CS Uruguay exploit any regional opportunities for trade promotion;
- CS Argentina and CS Uruguay are meeting the needs of U.S. exporters through effective products, services and follow up with clients;
- CS Argentina and CS Uruguay provide sufficient support of other Commerce-related programs and initiatives, including export controls and end-use checks, efforts to improve market access for U.S. products and services, and initiatives to protect intellectual property;
- CS Argentina and CS Uruguay report complete and accurate performance measures, including export success stories;
- CS Argentina and CS Uruguay operate with proper internal controls and financial and administrative management practices;
- training and support for CS officers and foreign national staff are generally sufficient; and
- CS Argentina and CS Uruguay use "best practices," special programs, regional initiatives, or other innovations that could be useful to other CS posts and operations.

To accomplish our objectives, we:

- interviewed appropriate Commerce and CS headquarters staff;
- interviewed all Commerce staff at CS Argentina and CS Uruguay;
- interviewed trade partners from various federal agencies and organizations, industry associations, and business partners that regularly collaborate with the two posts;
- reviewed FY 2005 and FY 2006 export success performance data;
- contacted a sample of clients that utilized the posts' services; and
- examined pertinent files and records relating to both posts' internal controls and financial and administrative management for fiscal years 2004 to 2006.

We conducted our fieldwork from May 3 to July 14, 2006, including visits to CS Argentina and CS Uruguay from June 12 to June 23, 2006. During the course of our review we also met with the U.S. Ambassador and Deputy Chief of Mission in Argentina, the Chargé d'Affaires and Acting Deputy Chief of Mission in Uruguay<sup>5</sup>, and U.S. consular, administrative, economic, political, and security officials at both posts. We also spoke with representatives from trade

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<sup>5</sup> In Uruguay, we interviewed the Chargé d'Affaires and Acting Deputy Chief of Mission because there is currently no ambassador assigned to that post.

partner associations and foreign companies who have conducted business with U.S. companies (see Table 1).

During our review, we discussed our findings with the CS Argentina SCO 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 and his staff, and the acting chief financial officer for ITA.

**Table 1. OIG Meetings in Argentina and Uruguay**

In addition to meeting with officials of U.S. trade-related agencies, we met with representatives from the following organizations in Argentina and Uruguay:

- American Chamber of Commerce in Argentina
- American Chamber of Commerce in Uruguay
- Visit USA Committee Argentina
- Fundación Nueva Generación Argentina, Network USA Trade Partner
- Several CS Argentina clients

Source: OIG

## OBSERVATIONS AND CONCLUSIONS

### I. Effective Management Practices Promote Collaboration and Partnerships

We examined CS management practices to determine whether CS Argentina and CS Uruguay have effectively cultivated partnerships with local organizations and stakeholders in the United States and whether they have developed strong working relationships with other sections of the U.S. embassy in both countries. Such collaboration and partnerships help to promote U.S. exports by effectively leveraging the resources of other organizations to assist CS in accomplishing its objectives.

#### A. *CS Argentina management promotes effective collaboration with partners and stakeholders*

Our review found that CS Argentina collaborates well overall with other embassy sections in Argentina and Uruguay and with its partners and stakeholders in the U.S. and Argentina. Commerce headquarters offices and key stakeholders in Washington, D.C., including Market Access and Compliance (MAC) and the Overseas Private Investment Corporation (OPIC) also gave OIG positive feedback on CS Argentina and its management team. MAC specifically praised CS Argentina for its responsiveness on market access and compliance issues.

CS Argentina's SCO has cultivated productive relationships within the embassy, thus helping CS to leverage the resources of other embassy components to assist it in promoting U.S. exports and commercial interests in Argentina. The SCO's efforts to reach out to other embassy offices may present a useful model for other CS posts. Officials from other embassy sections praised the CS officers for their coordination and cooperation. The State Department's economic counselor described a close partnership with the CS office. According to the economic counselor, CS and the economic section "have found a way to build on each others' strengths and cover each others' weaknesses." The economic counselor also described how the two sections have begun working together more closely to maintain the embassy's economic and commercial contacts in the local community as new officers rotate into the SCO and economic counselor positions. The agriculture counselor also recounted successful collaborations with CS, including joint work on an intellectual property rights dispute involving a large U.S. agricultural products company.

Other officers within the embassy, including the public affairs officer and the defense attaché, also described productive relationships with the commercial section, and they specifically praised the CS officers for keeping other embassy sections informed of CS activities and initiatives and inviting them to relevant events. The political counselor described collaborative efforts with CS and noted that CS makes a point of inviting him to its functions, which has expanded his circle of contacts within the local community. The consul general noted that CS provides high-quality visa referrals and regularly uses the visa referral program to facilitate visa applications that promote U.S. commercial interest. CS has also collaborated with the Homeland Security and FBI officers to promote the export of security equipment to Argentina.

The CS office in Buenos Aires has also cultivated effective partnerships with several Argentina organizations. These partnerships allow CS to leverage the resources and contacts of other

organizations to support U.S. commercial interests and coordinate effectively when CS shares common objectives. The SCO regularly participates in meetings with the American Chamber of Commerce in Buenos Aires. This coordination has been particularly important as both organizations have sought to deal with concerns relating to the aftermath of Argentina's debt default and currency devaluation in 2002. CS personnel also regularly coordinate with the Buenos Aires Visit USA Committee, an organization that seeks to promote travel and tourism to the United States. The post has also begun developing a partnership program in Argentina loosely modeled after the Network USA (NUSA) program in Brazil. This program develops partnerships with private organizations in cities without CS offices to open business contacts in provincial cities to CS and provide private organizations with contacts in the embassy. Such relationships could assist CS in promoting exports in provincial cities where it has no direct presence. CS Argentina has developed its initial partnership in the city of Rosario and is seeking to establish a similar partnership with the American Chamber of Commerce in the city of Córdoba.

***B. CS Uruguay works closely with CS Argentina and the State Economic Section in Uruguay***

CS maintains an office in Montevideo, Uruguay, with two commercial specialists but no CS officer. The CS staff reports locally to the State Department economic counselor, but is managed by the SCO in Buenos Aires. There are also two State Department commercial specialists in Montevideo who work closely with their CS counterparts. All four commercial specialists work together to promote U.S. exports in Uruguay, provide traditional CS services, such as Gold Key and International Partner Search, and claim export successes for the Department of Commerce (see discussion of products and services in chapter II). We found that the CS staff works closely with the State Department commercial specialists and the State economic counselor on a day-to-day basis. Both CS and State staff work to support U.S. exporters, with each specialist focusing on specific industries. The CS staff also maintains a constructive relationship with other components of the embassy as well as the American Chamber of Commerce in Montevideo, which was helping CS to plan for a visiting trade delegation at the time of our visit.

The SCO in Argentina manages the CS staff in Uruguay and communicates regularly with them. The SCO tries to include CS Uruguay staff in CS Argentina's operations, such as weekly staff meetings (via telephone) and offsite conferences. The SCO also makes quarterly visits to Montevideo and communicates regularly with the State Department economic counselor. The regular collaboration and consultations with CS Argentina staff and officers allow CS Uruguay staff to stay up-to-date with developments in Argentina that may affect CS Uruguay, such as upcoming trade missions or official delegations.

In order to promote Uruguay as a market for U.S. exporters and U.S. companies with an interest in Argentina, the SCO developed the River Plate initiative.<sup>6</sup> Under the umbrella of this initiative, the SCO promotes the Uruguay market to delegations and trade missions visiting Buenos Aires, some of which may add Uruguay to their itinerary. In fall 2005, a Commerce delegation including the Deputy Assistant Secretary for Market Access and Compliance visited Montevideo

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<sup>6</sup> This initiative is named for the river separating Montevideo and Buenos Aires, known as the Rio de la Plata in Spanish or the River Plate in English.

for a day as part of a trip to Buenos Aires. CS Argentina also promotes the Uruguay market to businesses that request CS services and counseling in Argentina and has included Uruguay in its web site. Such efforts have helped to stimulate demand for CS products and services in Uruguay and raise the profile of the Uruguay market for U.S. exporters.

**C. CS Argentina needs to effectively plan for retirement and succession of its senior commercial specialists**

At least two CS Argentina's senior commercial specialists are approaching retirement after 30 years of service. These senior specialists have high-ranking contacts in the Argentine government and are a key resource for CS as well as other embassy sections. Many embassy officials, including the Ambassador, expressed confidence in the senior commercial specialists and praised their extensive business and government contacts. CS Argentina's management needs to plan effectively to minimize the impact of their departure on the office's institutional knowledge and ability to support U.S. exporters. In order to provide more opportunities for senior commercial specialists to share their knowledge, expertise, and contacts with their more junior colleagues, CS Argentina management should consider developing industry-sector teams. Currently, CS Argentina's commercial specialists are each assigned separate, non-overlapping industry sectors, and some commercial specialists noted that they rarely work together as teams on the same projects.

**D. CS Argentina and CS Uruguay effectively support export control programs**

CS Argentina effectively provides support to Commerce's Bureau of Industry and Security (BIS) on its export control end-use check program.<sup>7</sup> According to records provided by BIS, CS Argentina had conducted three end-use checks during FY 2005 and through April 30, 2006 using the guidance outlined in BIS' current end-use check handbook.<sup>8</sup> The officer tasked with this responsibility also consults with the appropriate commercial specialist responsible for the subject company's industry sector to obtain any relevant information to assist in conducting the check. BIS informed us that the commercial officer at CS Argentina conducted timely end-use checks of good quality. In addition, we found that CS Argentina maintains required documentation of end-use checks.

The commercial officer at CS Argentina did not receive end-use check training prior to being posted to Buenos Aires. While neither we nor BIS found any problems with the three end-use checks conducted, the commercial officer noted that training on the export control end-use program would be useful for officers before their arrival at a post because many of these officers do not have experience in conducting end-use checks.

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<sup>7</sup> End-use checks consist of pre-license checks, which help ensure that an overseas company is a reliable recipient of U.S. dual-use export controlled technology, and post-shipment verifications, which help verify that U.S. dual-use export-controlled technology is being used according to export license conditions. CS officers conduct end-use checks on behalf of BIS per the terms of a 1988 memorandum of understanding between both agencies.

<sup>8</sup> Bureau of Industry and Security, *How to Conduct Pre-License Checks and Post-Shipment Verifications*, January 2004.

BIS informed us that it offers to meet with and provide end-use check training to commercial officers while they are at CS headquarters for pre-travel consultations and training. In our FY 2003 report on BIS' export enforcement program,<sup>9</sup> we recommended that BIS work with CS to provide end-use check training to commercial officers. BIS responded to our recommendation by stating that, in addition to providing end-use check training at CS officer seminars conducted in the U.S., it would provide training to commercial officers in Washington, DC, before they are dispatched overseas. However, BIS relies on CS to include a meeting with BIS on the officer's schedule in order for the officer to receive end-use check training. We note that the commercial officer at CS Argentina is scheduled to depart post in December 2006. CS should ensure that it includes BIS on the schedule of meetings at CS headquarters for the incoming CS Argentina officer as well as for all commercial officers being posted overseas and for those who return to headquarters for consultation. End-use check training can also be provided at posts when a BIS Sentinel team is in country to do end-use checks. However, no Sentinel team is scheduled to visit Argentina in the near future.

According to BIS' records, there were no end-use checks conducted in Uruguay during FY 2005 and through April 30, 2006. In Uruguay, the Immigration and Customs Enforcement attaché, accompanied by an FSN investigator, conducts dual-use end-use checks. The FSN investigator consults with CS staff to obtain relevant company information to assist in conducting end-use checks. Adequate end-use check documentation is maintained by Customs staff in one central location along with other investigative files, thereby allowing BIS to retrieve information quickly if necessary. However, we found that the attaché did not have a current version of the end-use check handbook.<sup>10</sup> As a result of our review, CS Uruguay staff provided the attaché with the current end-use check handbook.

***E. Commerce's new regional standards and IPR attachés in Brazil are not yet active in Argentina and Uruguay***

In April 2006, CS assigned an officer with standards responsibilities to Sao Paulo, Brazil. This CS officer has regional responsibilities for facilitating U.S. exports by encouraging harmonization of U.S. and foreign standards and assisting CS posts in South America in their coordination with local standards-setting bodies. The regional standards attaché in Sao Paulo will also assist in providing standards training for staff in other CS posts in the region. CS has standards attachés stationed in Mexico and Brazil serving the western hemisphere region as part of the western hemisphere regional standards program that Commerce initiated in February 2004.<sup>11</sup> The regional standards attachés serve as points of contact on standards issues for posts within their region. According to the western hemisphere standards action plan for FY 2006, all CS posts in the region, including CS Argentina, are responsible for implementing the "four core activities" of the standards program. These activities include:

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<sup>9</sup> Commerce OIG, *Improvements Are Needed To Better Enforce Dual-Use Export Control Laws* (IPE-15155), March 2003.

<sup>10</sup> Although BIS' end-use check handbook was revised in January 2004, the current version and previous (2000) version contain the same reporting requirements.

<sup>11</sup> The officer in Mexico is responsible for the area covering Mexico, Canada, Central America, and the Caribbean while the officer in Brazil is responsible for South America.



- Ensuring that the standards team at each post has the training and skills needed to achieve the program objectives;
- Meeting regularly with their host country principal national standards bodies, both public and private;
- Monitoring and reporting on their host country standards- and compliance-related matters and producing an appropriate number of market research reports annually; and
- Involving their local, host country American Chambers of Commerce in standards-related matters.

The standards attaché in Brazil, who received training at the National Institute of Standards and Technology, is the first officer to occupy that position in almost a year, according to ITA. During this vacancy, other embassies in South America coordinated their standards-related efforts with the officer in Mexico. At the time of OIG's review of CS operations in Brazil in June 2006, the new standards attaché had not yet established the degree of support that he would provide to other posts in South America, and was planning on combining other responsibilities, such as ICASS coordination and the travel and tourism industry sector, with his standards portfolio.

Following his arrival in Sao Paulo, the new standards attaché formulated a work plan for his position, which was approved by the SCO in Brazil. In accordance with that plan, the attaché would meet with interested parties and Brazilian and MERCOSUR standards development organizations and conduct research on Brazilian standards issues. After that research is completed, the attaché and his staff planned to work with CS headquarters to complete the same exercise with other CS officers in their respective countries in the region.

When we visited CS Argentina and CS Uruguay two months after the standards attaché's arrival at CS Sao Paulo, we found that the SCO in Argentina was in regular contact with CS' Western Hemisphere standards attaché in Mexico, but was not sure how the standards attaché in Brazil would support efforts in Argentina. We also found that the economic affairs counselor in Uruguay was unaware of CS' regional standards program, but said he would appreciate assistance on standards issues.

Upon our return to Washington, we met with ITA's standards liaison in Washington, DC, to discuss the program and its relevance to the partnership post in Uruguay. After our discussion, staff from her office promptly worked with the standards attaché in Mexico to include the economic counselor in Uruguay on CS' western hemisphere standards email list so that he can receive current information on standards-related matters.<sup>12</sup> As Commerce further enhances this regional effort after the long vacancy in the standards position in Brazil, CS should work to establish an effective partnership between its Brazil-based regional standards attaché and its posts in Argentina and Uruguay.

Similar to the CS standards attaché in Brazil, the U.S. Patent and Trademark Office (USPTO) recently created a new officer position in Brazil with regional responsibilities for intellectual property rights (IPR) protection. This IPR attaché is scheduled to arrive in Sao Paulo in September 2006. Staff from the USPTO Office of International Relations told us the attaché would only directly handle intellectual property rights issues in Brazil. The attaché will not be

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<sup>12</sup> The standards attaché in Mexico initiated this contact list and maintains it.

accredited as a diplomat to other countries in the region, but would provide assistance to other embassies in the region as appropriate. The Ambassador in Argentina noted that additional assistance on IPR issues from the USPTO attaché could be helpful. During our review, the SCO in Argentina was aware of the IPR program but had not yet been consulted on the program's content and how the program could be useful for Argentina. As this effort progresses, USPTO anticipates that the new IPR attaché will need to coordinate with the other CS posts in the region in order to determine how the program can add value to these posts.

**Recommendations:**

*The Assistant Secretary for Trade Promotion and Director General of the U.S. and Foreign Commercial Service should ensure that:*

- CS Argentina takes action to foster greater cooperation between the senior commercial specialists and the less-experienced CS staff in order to help transfer the institutional knowledge and contacts of its senior commercial specialists.
- CS schedules a meeting with BIS for commercial officers being deployed to overseas posts and for those who return to CS headquarters for consultation in order for them to receive appropriate initial or refresher training on conducting end-use checks.
- The regional standards attaché in Brazil regularly coordinates with and provides adequate support to the other CS posts in South America, including the CS office in Buenos Aires and the economic affairs section in Montevideo.



**ITA and USPTO Responses and OIG Comments**

In response to our recommendation that CS Argentina take action to foster greater cooperation between its senior commercial specialists and its less-experienced staff, ITA discussed measures CS had taken during FY 2005 to pair the senior commercial specialists with the less-experienced commercial assistants. While this initiative has promise, we did not see any signs of such pairings during our inspection, and the FY 2005 initiative was not mentioned by the SCO or any of the commercial specialists or commercial assistants. CS Argentina should implement or reactivate this initiative, or take other appropriate measures, to encourage greater information sharing among its staff and make sure that the staff partnerships are more active in the office's day-to-day work activities.

In its written response to our draft report, ITA said that export control end-use check training will be incorporated into the routine junior officer training held in Washington, DC. ITA stated that it would also explore ways to identify and schedule appropriate consultations with BIS for visiting officers to receive end-use check training, noting that not every visiting officer would require such training. We acknowledge that end-use check training might not be necessary for every visiting incumbent officer if that officer received training during a recent consultation or at a post from a BIS attaché or visiting BIS sentinel team. However, for incumbent officers whose end-use check training was provided several years ago, we believe refresher training would be appropriate in order for them to be aware of any changes in end-use check procedures or relevant

export control regulations. We also believe that ITA's proposed effort to have BIS provide end-use check training at its junior officer training will provide these new officers with the knowledge and resources necessary to carry out this important function. We made a slight change in our recommendation on BIS training to address this point as well as ITA's comments on this section of the draft report.

In response to our recommendation to promote effective cooperation between the regional standards attaché in Brazil and the other CS posts in South America, ITA provided additional information on its western hemisphere standards program. ITA's response stated that the standards attaché in Mexico had been in regular communication with CS Argentina during the almost year-long period when the standards attaché position in Brazil was vacant prior to the new attaché being posted in April 2006. ITA also confirmed that the U.S. mission in Uruguay (specifically, the economic affairs counselor) is now included in the roster of CS standards contacts so that he may stay up-to-date on any standards-related issues or discussions. However, ITA's response did not specifically address our recommendation regarding the standards attaché in Brazil. We recognize that, at the time of our inspection, the attaché in Brazil did not yet have the opportunity to fully engage his regional contacts and other CS offices in the region. However, we hope that as the attaché resumes his post in Sao Paulo following his home leave, he will make contact with and provide ongoing support to other CS posts in South America, including Argentina and Uruguay. We would appreciate receiving information on the Brazil attaché's efforts to coordinate and support the posts in Argentina and Uruguay on standards issues when ITA prepares its action plan for addressing the recommendations in this report.

In its written response to our draft report, USPTO said that its headquarters staff and the incoming IPR attaché in Brazil had conferred with the SCO in Argentina regarding the new officer position. USPTO recognized that additional resources and support on IPR issues could be useful for Argentina and said that the attaché will seek to coordinate and provide support on IPR issues to CS Argentina as appropriate. The attaché also will consult on IPR issues with other CS posts in the region to determine the level of assistance to provide. Once at his post, we hope that the attaché will maintain open lines of communications with CS posts to assist them with IPR issues as needed.

## II. Posts Generally Satisfy Their Clients but Do Not Maintain Full Export Success Documentation

CS Argentina and CS Uruguay provide a number of products and services to U.S. companies. We contacted clients from both posts to measure their satisfaction with the services received. We also reviewed market research products issued by both posts during the same period. Finally, we reviewed a sample of export successes, CS' primary performance measure, reported by both CS Argentina and CS Uruguay during FYs 2005 and 2006.<sup>13</sup> We paid particular attention to the posts' export success documentation and verification procedures since this has been a recurring concern, as cited in recent OIG inspection reports. Overall, we found that most of CS Argentina's and CS Uruguay's clients were satisfied with the products and services that they received. In addition, although we found improvements over what we saw at other CS posts, we found that CS Argentina and CS Uruguay did not always maintain adequate documentation to support all of their export successes.

### A. Most clients were satisfied with the posts' products and services

To gauge client satisfaction, we sought feedback from some of the 66 clients that received a product or service from either CS Argentina or CS Uruguay during FY 2005 and through April 2006. (See Table 2.)

**Table 2: CS Argentina and Uruguay's Products and Services**

<i>For the Product and Service:</i>	<i>CS Argentina and CS Uruguay will:</i>
Business Facilitation Service	Provide services during a company's visit, such as translation, use of CS facilities/space, and couriers.
Customized Market Research	Prepare market research to fit the unique needs and requirements of a U.S. company.
Gold Key Service	Identify and arrange appointments with potential buyers or key players in respective markets.
International Buyer Program	Promote major U.S. trade exhibitions to Argentine and Uruguayan buyers.
International Company Profile	Provide detailed background information on a foreign company to help the U.S. firm evaluate its potential as a partner.
International Partner Search	Locate, screen, and assess potential overseas sales representatives.
Platinum Key Service	Support a U.S. company's long-term exporting goals with ongoing assistance.

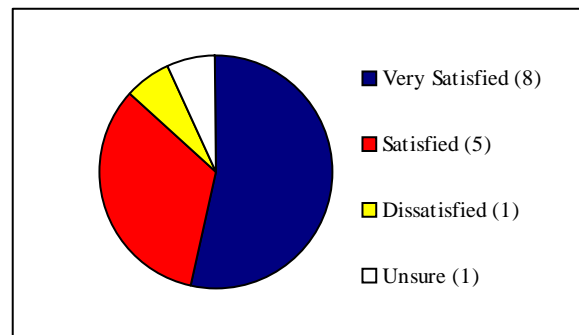
Source: Commercial Service

We contacted 42 companies that had not already responded to surveys from CS' Customer Relationship Management Unit. We received 15 responses (36 percent). Thirteen of the 15 clients who responded to our survey reported being satisfied with the service they received (see Figure 4). Specifically, eight were "very satisfied" with their service and five were "satisfied." Six of these clients used Business Facilitation Services, three used customized market research, two used Gold Key Services, and two used the International Partner Search service. The turnaround time varied for each service, but the majority of our respondents received requested services within four weeks. However, two respondents to our survey were not satisfied with CS' Gold Key Services. One was dissatisfied with the trade leads provided by CS and the lack of product market data and the other was unsure of the benefit because CS did not clearly communicate what the service would accomplish and what it would cost.

<sup>13</sup> We selected our sample of export successes from those that were approved before April 26, 2006.

We also reviewed surveys sent to and received by CS' Customer Relationship Management Unit from the posts' customers who obtained services during the same period. These were from clients of CS Argentina and CS Uruguay who received Customized Market Research and Gold Key Services. Clients of CS Argentina also received International Partner Searches while those of CS Uruguay also received International Company Profiles. In FYs 2005 and 2006 through the end of April, the unit received 25 surveys from clients of both posts with the following results; 12 reported being "extremely satisfied," 12 were "satisfied," and only 1 was "dissatisfied." Based on our review of both sets of client satisfaction surveys, only 3 of the 40 responsive clients reported dissatisfaction with CS' services.

**Figure 4: Client Satisfaction with CS Argentina and CS Uruguay as Measured by OIG Survey Responses**



Source: OIG

**B. Market research is comprehensive and informative**

Overall, we found that CS Argentina's and CS Uruguay's market research products are informative and meet the needs of their clients. We examined a sample of planned, unplanned, and customized market research products formulated by CS Argentina and CS Uruguay (see Figure 5). According to the SCO, CS Argentina issued 28 planned market research reports in calendar years 2005 and 2006 (through May 31, 2006), while CS Uruguay issued 9. According to CS' internal market research web site, CS Argentina is scheduled to produce 25 planned market research reports for all of calendar year 2006. CS Uruguay is scheduled to produce nine reports.

**Figure 5: CS' Market Research Reports**

*Planned market research reports* provide sector-level market research information to help U.S. companies assess market opportunities for their products and services.

*Unplanned market research reports* provide information to U.S. exporters on international market trends and unique business opportunities.

*Customized market research reports* address a client's particular questions or concerns regarding the markets for its products/services.

Source: Commercial Service

Planned market research reports completed by both posts covered areas such as aircrafts and parts, pre-fabricated housing, textile products, generator equipment, and pleasure boats and equipment.<sup>14</sup> These reports provide information to U.S. exporters about market conditions for select industry sectors. We found them to be comprehensive and informative. In addition, the posts generally followed the format recommended by CS' Office of Trade Promotion Programs (see Figure 6). We noticed that some

<sup>14</sup> Planned market research reports, known formerly as Industry Sector Analysis reports, are recorded by calendar year.

older reports lacked both an international copyright notice and a standard disclaimer,<sup>15</sup> but 2006 reports conformed to the format introduced in February 2006. CS Argentina and CS Uruguay should continue to use the templates provided by headquarters for their market research reports.

CS Argentina and CS Uruguay also issued 188 unplanned market research reports during FYs 2005 and 2006 (through May 31, 2006) on a wide range of topics, such as the auto industry and veterinary and medical research. Those reports were informative and varied in length from a few sentences up to five pages.

We also examined two customized market research products produced by CS Argentina, which were basically contact lists and brief financial studies requested by U.S. exporters seeking information on potential buyers or distributors in Argentina. The contact lists followed a standard format designed by CS Argentina that included contact information and brief information about companies, their type of business, and their products. Overall, CS Argentina's and CS Uruguay's market research products are informative and appear to meet the needs of their clients.

**C. Posts need to maintain adequate documentation to support all their export successes**

CS' primary performance goal is to "expand [the] U.S. exporter base." Measuring progress towards that goal relies on verified export transactions (referred to by CS as export successes) facilitated by CS among new and existing U.S. exporters. According to CS guidance, "export successes document the link between CS assistance to U.S. companies and the significant export benefits that result from that assistance." For an export success to be valid, an actual export sale must have been made or other significant benefit received by a U.S. exporter, such as the signing of a distribution or joint venture agreement, removal of a market access barrier, or resolution of an export trade complaint. In addition, a value-added service must have been provided by CS to facilitate the export sale or benefit. For CS Argentina and CS Uruguay, export successes are approved by the SCO or the CO and recorded into eMenu, CS' online records and information management system. This information is shared with CS headquarters, the Department, and Congress.

In FYs 2005 and 2006 (through April 26, 2006), CS Argentina and CS Uruguay recorded 244 and 48 export successes, respectively. Both posts recorded increases in export successes from FY 2003 to FY 2005 (see Figure 7). Export successes for both posts covered a wide range of industry sectors, including travel and tourism services, telecommunications equipment, general industrial equipment, computer software and peripherals, and automotive parts and services.

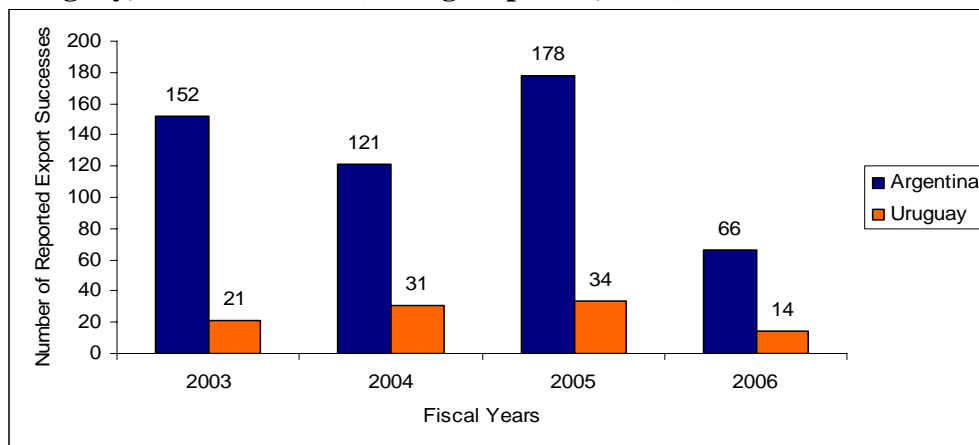
<sup>15</sup> An international copyright notice informs the reader of CS' legal right of exclusive publication. The disclaimer informs the reader that CS makes every effort to ensure accuracy but does not guarantee it and advises the reader to independently verify the information prior to acting on it.

**Figure 6: Standard Elements for Planned Market Research Reports**

- Summary
- Market overview
- Market trends
- Import market
- Competition
- End users
- Market access
- Market entry
- Contacts
- Upcoming trade shows
- International copyright
- Disclaimer

Source: Commercial Service

**Figure 7: Export Successes Reported by CS Argentina and CS Uruguay, FYs 2003-2006 (through April 26, 2006)**

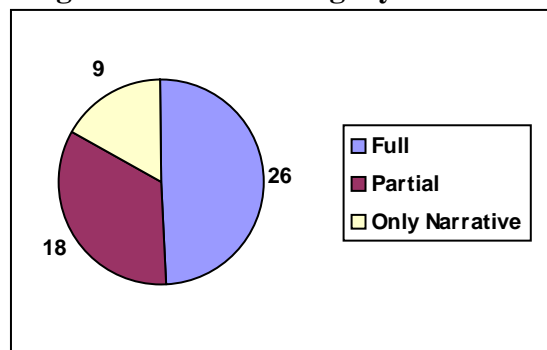


Source: eMenu

We selected a random sample of 53 export successes (46 from CS Argentina and 7 from CS Uruguay) to verify their validity.<sup>16</sup> We sent out questionnaires to representatives from each company involved and received 8 responses (15 percent). In addition, we reviewed documentation provided by CS Argentina and CS Uruguay which included export success narratives, records of client counseling sessions, email communications between CS Argentina and CS Uruguay and their clients, lists of recent International Buyer Program participants, and several sales invoices. We also met with representatives of two Argentine companies—a major aircraft distributor and a travel agency. Both said commercial specialists provided assistance that facilitated the purchase of U.S. exports, which appears to verify eight export successes in our sample.

We found one invalid export success, an April 2005 claim that CS helped a U.S. company appoint an Argentine distributor for its products. In a telephone conversation, the U.S. company representative informed us that it was still in negotiations with the Argentine company. Because the U.S. company had not yet realized any export-related benefit recognized by CS' export success guidance, the export success is invalid. We reported this to the SCO in Argentina, who said he would rescind the export success. We found few other obvious problems with the export successes reported by CS Argentina and CS Uruguay, but we could not fully verify all of the export successes in our sample. Export success narratives generally

**Figure 8: Export Success Documentation Provided by CS Argentina and CS Uruguay**



Source: CS records and OIG review

<sup>16</sup> This sample was selected using a 90 percent confidence level with a 10 percent confidence interval. This means that we are 90 percent certain that the actual values for the population fall within 10 percentage points of the values reported for our sample.

contained all relevant details of the transactions and CS' export-related assistance, but CS could not provide any additional written documentation to substantiate 9 (17 percent) of the export successes in our sample. Both posts were able to provide full documentation substantiating 26 (49 percent) successes in our sample and partial documentation for 18 (34 percent). While CS Argentina and CS Uruguay maintained more complete export success documentation than some other CS posts that we have recently reviewed, the documentation was not sufficient to meet the requirements specified by the *CS Operations Manual* (see Figure 8).

Export success documentation guidance in effect for the export successes that we reviewed stated that posts "should maintain accurate and complete counseling reports" and other written communications, separate from the export success narrative, which substantiates both the key aspects of the reported export transaction and CS' export-related assistance.<sup>17</sup> Though unaware of this guidance in the *CS Operations Manual* to retain written documentation on reported export successes independent from the export success narrative, the SCO took action on his own accord to verify select export successes and received some information directly from clients allowing such verification.

CS management partially revised its guidance on verifying and documenting export successes on May 18, 2006 to read:

All CS employees who have direct contact with clients must maintain accurate and complete counseling reports on CMS [CS' Client Management System]. Key communications that document CS assistance to the client... must be copied into the CMS record. In addition, hard copies of letters, faxes, and similar communications to and from the client must be kept on file. These records help to validate subsequent ES [export success] claims.

Prior CS guidance stated that CS officers *should* maintain such documentation as opposed to *must*, as is now required. CS management is also currently revising the guidance to further clarify what specifically is required in terms of export success documentation necessary for verification by the approver. In accordance with this guidance, CS Argentina and CS Uruguay should maintain written documentation independent from export success narratives to help substantiate export successes.

### **Recommendations:**

*The Assistant Secretary for Trade Promotion and Director General of the U.S. and Foreign Commercial Service should ensure that:*

- CS completes its revision of the *CS Operations Manual* to include clear and precise requirements for written documentation and verification of each element of an export success.

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<sup>17</sup> For an in depth discussion of this issue, see *CS China Generally Performs Well, but Opportunities Exist for Commerce to Better Coordinate its Multiple China Operations*, IPE-17546, March 2006, pp. 40-41. Available online at <https://www.oig.doc.gov/oig/reports/2006/ITA-IPE-17546-03-06.pdf>.



- The SCO in Argentina rescinds all invalid export successes, including the export success identified by our review.
- CS Argentina and CS Uruguay maintain adequate documentation substantiating reported export successes, as required by the *CS Operations Manual*.



### **ITA Response and OIG Comments**

In its response to our draft report, ITA said that the May 18, 2006, changes to its export success verification and documentation guidance were made specifically to establish stronger, clearer verification standards for its export success claims. While these changes do provide clearer instructions to export success authors on the types of documentation that must be maintained to support their claims, the guidance is not clear on verification methods to be used by first-level reviewers (approvers) of export successes. As of September 25, 2006, when we last checked, CS' export success guidance in the *CS Operations Manual* did not contain instructions for export success approvers on verification methods, as CS had proposed and outlined to the IG in its response to our March 2006 draft inspection report on CS China.<sup>18</sup> That response outlined four acceptable verification methods along with a requirement that first-line approvers confirm a significant sampling of export successes each quarter. In addition, CS' action plan to our CS China final report stated that the second-level review by CS' export success control officer would be augmented by a review of export success records by the OIO country manager.

The ITA response to this draft report on CS Argentina and CS Uruguay does state that CS is now modifying the standard CMS online format for submitting export success reports and, beginning in FY 2007, CMS will not accept any export success report that does not include the author's statement that he or she has met all verification requirements. ITA also stated that CS will require that first-level approvers independently confirm 10 percent of all export successes. We acknowledge that these new reporting and verification requirements are a step forward. However, all of these new requirements, along with the other proposed changes outlined above and clarification on how long such documentation needs to be retained, should be specifically incorporated into CS' online export success guidance (in the *CS Operations Manual*). This will allow all officers and commercial specialists to be aware of the new reporting requirements and to be held accountable for adhering to them. In a September 27, 2006, email to all CS staff on new export success drafting and approval procedures, CS management outlined specific steps that must be taken to "ensure the integrity" of export success performance data. CS stated that it would incorporate the revisions to the export success guidance in the *CS Operations Manual* and make them effective on October 1, 2006, except as otherwise indicated. We would appreciate receiving a copy of CS' revised export success guidance as part of its action plan or when it is finalized and published in the *CS Operations Manual*.

ITA's response also indicated that CS had rescinded the invalid export success identified in our report. We note that the export success in question no longer appears in eMenu. In addition, ITA

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<sup>18</sup> *CS China Generally Performs Well, But Opportunities Exist for Commerce to Better Coordinate its Multiple China Operations*, IPE-17546, March 2006.

said that CS Argentina officers reviewed all export success stories reported in FYs 2004-2006 for completeness and accuracy. However, we would appreciate knowing the results of the officers' review of export successes for the past three fiscal years to ascertain whether there were any other invalid export successes. We request that the results be provided in ITA's action plan.

ITA also responded to our recommendation that CS Argentina and CS Uruguay maintain the documentation required by CS' export success guidelines. ITA's response said that the SCO in Argentina will ensure that the posts maintain documentation to support all future export successes reported by CS Argentina and CS Uruguay, as required by the *CS Operations Manual*.

### III. Accounting and Financial Management Concerns Need Management Attention

During our review of CS Argentina's and CS Uruguay's financial management practices and accounting, we found several matters of concern. CS Argentina was certifying its own payment vouchers and was extensively involved in maintaining its own accounting records, functions performed by the State Department at other CS posts. We have detailed some concerns about these practices and provided recommendations to correct the problems noted in this chapter.

#### A. *CS Argentina's certification of its own payments is not permitted by current policy and presents oversight challenges*

CS Argentina has been certifying its own payment vouchers since a former CS Argentina officer implemented these procedures during fiscal year 2000, in coordination with CS' Office of International Operations. On February 17, 2000, the former director of ITA's Office of Financial Management, who was also ITA's deputy CFO, approved a cable to CS Argentina designating the former officer as a certifying official.<sup>19</sup> CS Argentina began certifying its own payments to reduce the cost of financial management services provided by the State Department through the interagency cooperative administrative support services (ICASS) program and to improve the quality of financial services at the post (see figure 9).

#### *CS Argentina's payment certification process is not consistent with Commerce policy*

Both the former CS Argentina officer who established the payment certification program and the current CS Argentina financial and administrative specialist told us that the quality of financial management services provided through ICASS during FY 1999 and FY 2000 was poor, specifically citing late payments to vendors. The former deputy CFO for ITA also said CS' payments to its local vendors in Argentina were late during FY 2000 because of poor services provided by the State Department.<sup>20</sup> By certifying its own vouchers, CS Argentina has been able to pay its local vendors in a more timely manner.

The ICASS council in Argentina has agreed to charge CS reduced fees for the "voucher" ICASS

#### **Figure 9: The Interagency Cooperative Administrative Support Services (ICASS)**

ICASS was established to eliminate duplicative administrative services at U.S. overseas missions. The State Department (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 at smaller ones. Each cost center has a specific workload factor used to allocate the service costs among overseas agencies. Agencies are also charged overhead and some staff costs (known as ICASS distribution charges) not allocated to specific cost centers. A post's ICASS council, which oversees the post's administrative operations, can approve a reduced charge (either 30 or 60 percent of the normal rate) for a service not fully utilized.

Source: CS and State Department Staff;  
Foreign Affairs Manual

<sup>19</sup> The former Director of ITA Office of Financial Management and Deputy CFO did not have the authority to designate certifying officers at the time this cable was issued, but was granted such authority on February 24, 2000.

<sup>20</sup> In 2000, the former deputy CFO for ITA went to Argentina to implement a purchase card program for the post, which allowed CS to make some of its payments to local vendors through government credit cards and credit card convenience checks and bypass ICASS financial management services.

cost center because CS certifies its own payments. At the time of our review, CS Argentina paid only 30 percent of the typical fee for the voucher cost center.<sup>21</sup> We estimate that CS Argentina's ICASS charges in FY 2005 would have been approximately \$2,050 higher if CS had fully participated in the voucher cost center.<sup>22</sup> CS Argentina's charges for this cost center fell from \$16,081 in FY 2000 to approximately \$877 in FY 2005, when it processed 65 vouchers through ICASS.<sup>23</sup> While CS' certification of its own vouchers contributed to this cost reduction, other factors also contributed to the decline of ICASS charges. Such factors included (1) the substantial devaluation of the Argentine peso in 2002 that reduced the U.S. dollar costs of the ICASS services, and (2) a reduced number of voucher transactions, due to the increased use of credit cards to process payments and the smaller size of CS' staff in Argentina.

While CS' ICASS costs decreased somewhat because of its certification activities, we found that none of the CS personnel who were certifying CS Argentina's payments at the time of our inspection were properly authorized to do so. CS management did send cables to the post designating these officials as Commerce's certifying officials in Argentina, but CS management did not have the authority to make such designations. According to Departmental Administrative Order (DAO) 203-2, any such designations from Commerce must be made by the Department's CFO or an official delegated the authority to designate certifying officials. Within ITA, the designated official is currently the acting chief financial officer (CFO).

DAO 203-2 also stipulates that the State Department will be designated to certify Commerce's payments overseas. In accordance with this requirement, the Department's Deputy Chief Financial Officer and Director for Financial Management has delegated authority for the certification of all overseas payments to the State Department. This delegation was most recently renewed on November 24, 2004. Commerce personnel in Argentina were never designated as certifying officers by the State Department, and State's Office of Global Financial Management confirmed that it would not generally do so.

The acting CFO for ITA clarified ITA's policy on overseas financial management in a June 6, 2006, memorandum addressed to the "International Trade Administration."<sup>24</sup> This memorandum not only reiterated the Department's policy on the certification of overseas payments, it explicitly states that the State Department is the exclusive provider of all financial management services for ITA's overseas posts. According to the memorandum, exceptions to ITA's policies on financial management at overseas posts must be approved by the CFO for ITA. The acting CFO for ITA told us that his office had not granted such an exemption for CS Argentina, and, therefore, CS Argentina's certification procedures were inappropriate. A former deputy CFO for

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<sup>21</sup> CS still pays some ICASS charges for all of its vouchers because it still relies on the State Department to process the payments that CS has certified.

<sup>22</sup> CS' direct charges for the voucher cost center would have been \$1,444 more, while overhead and other ICASS charges would have been approximately \$603 higher.

<sup>23</sup> The direct ICASS charges for a specific cost center from FY 2000 are not directly comparable with the direct charges for that cost center in FY 2005 because of a change in the way that ICASS charges are billed. In order to compensate for this change, the estimate for ICASS voucher costs in FY 2005 includes a prorated amount for non-allocated ICASS charges. The direct invoice amount for the voucher cost center in FY 2005 was \$619.

<sup>24</sup> The Chief Financial Officer for ITA is delegated the authority of the Department's CFO for "directing, managing, and providing policy guidance and oversight of all agency financial management personnel, activities and operations" within ITA, in accordance with DAO 10-5, 3.02(a).

ITA did approve a cable designating a former CS Argentina officer as a certifying officer on February 17, 2000. At the time of this approval, however, the former deputy CFO did not have the authority to designate certifying officers, and the current staff in ITA's Office of Financial Management was not aware of CS Argentina's unique accounting and financial management practices until notified by the OIG during the course of our review.

At the time of our review, all current and former CS staff in Argentina acting as certifying officials had a good-faith understanding that Commerce had officially designated them as certifying officials, as indicated in the cables sent to the post by CS headquarters staff. Notwithstanding any potential liability for past payments, CS Argentina's certifying officials may incur personal liability if these officials continue to certify payments despite notification that they have not been officially designated as Commerce certifying officials.

To comply with ITA's current policies on overseas accounting and payments, CS Argentina should have the State Department certify its payments in Argentina, as at other posts. Alternatively, CS could obtain official designations of certification authority for the relevant personnel in Argentina from the CFO for ITA and work with the ITA CFO to develop an adequate oversight program for CS' payment certification in Argentina. CS management should also coordinate any future changes in its overseas financial management practices closely with the CFO for ITA or his designated official. If CS Argentina should find that it once again has problems with the timeliness of the State Department's payments or other State administrative services, it should address them through the post's ICASS council.

***CS Argentina's experience shows that self-certification of payments has some potential benefits but presents significant management and oversight challenges***

CS Argentina originally sought the authority to certify its own payments in order to lower its ICASS expenses and speed the processing of its payments. CS management asked us to evaluate the advantages and disadvantages of CS Argentina's payment certification program in order to help management determine whether it should expand this program to other posts. While we found that CS Argentina marginally lowered its ICASS charges and gained more control over the timing of its payments, we also found substantial barriers to implementing the program successfully at other posts.

**ICASS charges would vary.** If CS certified its payments at other posts, ICASS charges would vary depending on post-specific factors, such as the number of vouchers processed and the cost of local ICASS services. Since the CS posts would still rely on the State Department to process the actual payments (requiring participation in the voucher cost center), each post would also have to negotiate any fee reduction with its respective ICASS council. Other councils may not approve a reduced ICASS fee, and if they did so, the fee may be not be the same as that negotiated in Argentina.

**Table 3: Assessment of CS' Payment Self-Certification**

Advantages	Challenges
<ul style="list-style-type: none"> <li>• Potential for reduced ICASS charges, as negotiated on a post-by-post basis</li> <li>• More control over the timing of payments</li> </ul>	<ul style="list-style-type: none"> <li>• Need to obtain certification authority from ITA</li> <li>• Greater administrative responsibilities for CS</li> <li>• Personal liability for CS officers</li> <li>• Need to train each new incoming certifying officer</li> <li>• Continued reliance on State to process payments even if CS certifies the payments</li> <li>• Need to develop an effective audit and oversight program</li> </ul>

Source: OIG Analysis

**Administrative responsibilities would increase.** Certification of payments at other posts could substantially increase CS' administrative responsibilities by making the certifying officials legally responsible for each payment.<sup>25</sup> CS posts certifying payments would have to maintain both a primary certifying official, who must be an American officer, and an alternate certifying official, who can be locally-hired. All incoming commercial officers assigned this responsibility would need to receive proper training on certification duties from the Foreign Service Institute, another added cost for CS. In addition, the new officers would have to be willing to accept both the substantial personal liability and the administrative burden associated with certifying payments.

**State services would still be required.**

Even if posts assumed payment

certification, they would still have to rely on the State Department for many of the financial management services necessary to complete certification and to process CS' overseas payments. Even if CS staff certifies a payment, the State Department still must process the payment in its accounting system and make the actual payment to the vendor. Certifying payments and verifying funds availability would also require CS staff to have real-time access to the State Department's official accounting records. CS posts have read-only access to these records through a software viewer tool, but cannot make any accounting entries.

**CS headquarters oversight would be required.** Certification of payments also requires oversight from CS headquarters in order to maintain adequate management controls over the process (see table 4). The current acting CFO for ITA was unaware of CS Argentina's certification activities and, therefore, had not conducted a review. If CS posts were to continue to certify their own payments, ITA would have to develop the capacity to audit the process and review the adequacy of the management controls, including the segregation of duties. At other CS posts, the State Department performs regular audits of payment activity and reviews the management controls and segregation of duties of the payment process at a post. State also hires external auditors who periodically visit posts to review financial management activities, including payment vouchers.

<sup>25</sup> Personal liability for certifying officials is described in 31 U.S.C. § 3528, which states that certifying officials are personally liable for repaying any payment that is: (a) illegal, improper, or incorrect because of an inaccurate or misleading certificate; (b) prohibited by law; or (c) that does not represent a legal obligation under the appropriation or fund involved.

**Table 4: Comparison of the Internal Controls for Payments at CS Argentina and Other Posts**

	CS Argentina		Other CS Posts	
	Acting Organization	Action Description	Acting Organization	Action Description
<b>Step 1</b> <i>Payment Authorization</i>	CS Argentina	CS staff acknowledges goods received and CS officer approves payment	CS Post	CS staff acknowledges goods received and CS officer approves payment
<b>Step 2</b> <i>Payment Certification</i>	CS Argentina	CS certifies the payment	State's administrative officers	State financial management officer certifies the payment
<b>Step 3</b> <i>Transaction Review</i>	CS Argentina	CS accountant reconciles transaction with State accounting records and CS' cuff records	State Office of Global Financial Management	The Office of Global Financial Management verifies transaction before executing the payment, and conducts regular audits of payment activity
<b>Step 4</b> <i>External Audit Oversight</i>	No action taken		State Headquarters	External auditors review overall post financial management activity

Source: Department of State, CS Argentina, OIG Analysis

CS Argentina's experience in certifying its own payments shows that it would be extremely difficult to replicate the process at other posts, and the benefits of doing so are uncertain. Expanding this program to other posts would require CS to adopt additional administrative burdens; ITA would also need to develop an effective oversight process. In return for these substantial investments, CS would still rely on the State Department to process its payments and would not be certain of reducing its ICASS charges.

**B. CS Argentina's accounting practices are inconsistent with ITA policy and bypass Commerce's internal controls**

Our review found that CS Argentina does not fully participate in the State Department's accounts and records ICASS cost center, thus State does not provide all the accounting services that it typically provides to CS posts. According to the State Department's Financial Management Officer in Argentina, State does not provide full accounting services to CS in Argentina. Currently, CS prepares memos that report CS' accounting transactions to the State Department. The State Department, in turn, enters these transactions into its accounting system. Thus, State does report CS Argentina's accounting transactions to the National Business Center<sup>26</sup> through State's accounting system, but State Department personnel do not provide the added internal controls normally associated with verifying, auditing, or reconciling CS' accounting transactions.

<sup>26</sup> The National Business Center in Denver, Colorado, (part of the Department of the Interior) is ITA's accounting service provider in the United States.

CS Argentina's accounting practices have marginally reduced the post's ICASS expenses,<sup>27</sup> but also require that the post maintain its own accountant.

CS Argentina's current accounting practices are not consistent with ITA's overseas financial management policy, which holds that all overseas financial management services be provided by the State Department. This policy was reiterated in the Acting CFO for ITA's June 6, 2006, memorandum (see page 21). CS Argentina's accounting practices also bypass the Department's internal controls for accounting at overseas posts, which primarily rely on the State Department's oversight of its own financial management activities. Neither ITA's Office of Financial Management nor ITA's accounting service provider regularly reviews or audits overseas accounting records maintained by the State Department. Although Commerce's OIG does review a sample of these transactions at one selected overseas post as part of its annual financial statement review, the Department primarily relies on State to review, audit, and certify the accuracy of the accounts that it keeps on behalf of Commerce.

To ensure adequate oversight of CS Argentina's accounting practices, CS Argentina should either have the State Department keep its accounting records, or should work with ITA's Office of Financial Management to establish adequate controls and oversight of its current accounting practices. ITA should ensure that the Office of Financial Management reviews CS' accounting and payment certification in Argentina since FY 2000, as necessary, to determine whether there have been any financial irregularities that would materially affect the Department's financial reporting. At the time of our review, ITA's Office of Financial Management was unaware of CS Argentina's unique accounting procedures and had not reviewed or audited CS Argentina's accounts.

**C. CS and ITA should improve communication of overseas financial management policies**

During the course of our review, we also found that ITA's financial management policies for overseas posts were not being adequately communicated to the relevant CS officials. Although the acting CFO for ITA told us that he holds regular meetings with CS management, at least two former Deputy Assistant Secretaries for International Operations and other CS officials approved cables designating CS staff in Argentina as certifying officials, even though these officials had no authority to make such designations. After the OIG inspectors brought this matter to the attention of ITA's Office of Financial Management, the acting CFO for ITA approved a memorandum on June 6, 2006, clarifying ITA policy on financial services at overseas posts. However, we found that relevant officials within CS were unaware of this memorandum almost a month later. The acting CFO for ITA told us the memorandum was made available on the web site of ITA's Office of Financial Management, but this was insufficient to reach the attention of key CS officials. We also found that the guidance on CS' eMenu intranet site was out of date. The link for ITA's *Online Overseas Financial Policies and Procedures Manual* lead to a web page that was last updated on December 9, 1999, and did not have a copy of the June 6, 2006 memorandum. CS management should work with the CFO for ITA or his designated official to

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<sup>27</sup> Because CS Argentina opted out of some of the services provided under the "accounts and records" ICASS cost center, CS was only charged 60 percent of the usual fee for that cost center. We estimate that this fee reduction lowered CS Argentina's FY 2005 ICASS charges by about \$3,400.



improve communication of ITA's financial management policies for overseas posts to CS personnel. CS management should also ensure that ITA policy is fully reflected in official CS policy guidance, such as the *CS Operations Manual*.

**D. *Accounting records for CS Argentina show unliquidated obligations for inactive transactions***

ITA's official accounting records as maintained at headquarters contain unliquidated obligations for inactive CS Argentina accounting transactions for FY 1999 through FY 2004. The "undelivered orders" report showing CS Argentina's unliquidated obligations also contains negative obligation balances that appear to result from errors in tallying the net unliquidated balances for individual transactions. The net value of the inactive obligations on this report is \$64,223.98. These funds were not obligated at the post, and so are not reflected in the post's accounting records.<sup>28</sup> This amount includes a balance of \$36,200 from FY 2000 described in the accounting records as being obligated to "MISCELLANEOUS NON-GOVT."<sup>29</sup> All of the other apparently inactive obligations, totaling \$28,023.98, appear to be for travel orders for officers who either are no longer posted to CS Argentina or have retired from the Commercial Service. ITA's Office of Financial Management should work with the National Business Center to deobligate these fund balances, as appropriate, and should correct the apparent computational errors on the undelivered orders report, as necessary.

**E. *CS Uruguay collects and retains user fees for services provided by the State Department***

The CS office in Uruguay consists of two State Department commercial specialists working side-by-side with two Commerce commercial specialists under the direction and day-to-day management of the State Department's economic counselor. All four commercial specialists provide CS products and services to U.S. companies, including Gold Key and International Partner Search services. CS collects and retains its usual fee for all of these services, including the services provided primarily by State Department staff. This structure effectively serves exporters but creates challenges for effectively managing user fees collected by the office.

There are many State Department posts around the world with no Commerce officers. At these so-called "partnership posts," the State Department is responsible for the embassy's commercial function, and often provides U.S. companies with traditional CS products and services. At some partnership posts, CS may have locally-hired staff, but the State Department retains some responsibility for commercial affairs.<sup>30</sup> CS is currently working with the State Department to establish formal procedures for fee collections and product and service delivery at partnership posts, but these policies have not yet been finalized or approved. At partnership posts other than Uruguay, CS told us that it transfers fees that it collects on behalf of the State Department to the

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<sup>28</sup> Obligations made at the post are clearly identified in ITA's accounting records as being reported through the State Department's accounting system. Other obligations in the accounting records are made at headquarters or at the National Business Center in Denver.

<sup>29</sup> The budget object code identifies the transaction as "MISC CONTR SERV NOT OTHWSE IDE."

<sup>30</sup> Examples of such posts include Montevideo, Uruguay; Rabat, Morocco; Beirut, Lebanon; and Tegucigalpa, Honduras.

local State Department post. We confirmed that such transfers have occurred for some CS partnership posts in Africa.

According to CS records, Commerce collected a total of \$5,350 in FY 2005 and \$1,470 in FY 2006 (as of June 15, 2006) in user fees for services provided by both CS and State Department staff in Uruguay. In addition, we estimate that, as of the beginning of FY 2005, CS Uruguay still had \$3,266 remaining from fee collections in prior fiscal years (FY 2004 or earlier). CS did not spend or transfer any of these funds during FY 2005. In FY 2006, it obligated \$2,025 for a CS commercial specialist to attend a trade show in the United States, leaving an estimated \$8,061 in collected user fees available for expenditure in the post's trust fund as of June 15, 2006. At that time, none of these funds had been transferred to the State Department or had been spent to benefit the State Department or its personnel, even though State Department staff provided many of the services for which the fees had been collected.

We could find no relevant authority that authorizes CS Uruguay to retain fees collected for services that its employees did not provide. Relevant guidance on the collection and disbursement of user fees is found in the Office of Management and Budget *Circular A-25*,<sup>31</sup> chapter 12 of the Department's *Accounting Principles and Standards Handbook*, and section 12.5 of the *CS Operations Manual*. All of these guidelines indicate that user fees are primarily intended to reimburse an agency for costs that it incurred in providing products and services to an individual entity that are not available to the general public. Because Commerce did not incur any substantial costs in the services provided by State Department staff, it should not retain the fees collected for these services. Commerce should transfer these user fees directly to the State Department post in Uruguay for State's retention or proper disposition of the fees, or should consult with the Office of General Counsel to determine an acceptable alternative mechanism for collecting and disbursing the fees. The policies that CS is currently developing to clarify procedures for service provision and fee collection and disbursement at partnership posts should also specify appropriate arrangements for posts such as Uruguay where State commercial specialists provide some of CS' fee-based services.

### **Recommendations:**

*The Assistant Secretary for Trade Promotion and Director General of the U.S. and Foreign Commercial Service should ensure that:*

- CS Argentina fully complies with ITA's and the Department's policies on overseas financial management by resuming its full participation in the relevant ICASS financial management cost centers.
- CS management coordinates any future changes in its overseas financial management practices closely with the CFO for ITA or his designated official.
- User fees collected by CS for services provided by the State Department in Uruguay are transferred directly to the State Department for their retention or proper disposition, or are handled in accordance with alternative guidance from the Office of General Counsel.

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<sup>31</sup> OMB Circular A-25, *User Charges* (7/8/1993).

- CS finalizes and issues its policies on service provision and on fee collection and disbursement at partnership posts. Such policies should include detailed procedures for fee collection and disbursement at all posts where the State Department provides services for which CS collects fees, including those where CS also maintains staff.

*The Undersecretary for International Trade should ensure that:*

- ITA's Office of Financial Management reviews CS' accounting and payment certification in Argentina since FY 2000, as necessary, to ensure that there have been no financial irregularities.
- ITA's policies on overseas financial management are (1) clearly communicated to CS headquarters and overseas personnel, (2) fully reflected in the *CS Operations Manual*, and (3) incorporated into relevant training materials for CS' officers and administrative staff.
- ITA's Office of Financial Management works with the National Business Center to de-obligate inactive obligations and address computational errors in CS Argentina's undelivered orders report.



### **ITA Response and OIG Comments**

In response to our draft report, ITA stated that CS Argentina has discontinued the practice of certifying its own payments, thus bringing CS Argentina's certification process in line with ITA policy. The response also states that, in the future, CS will seek written approval from the CFO for ITA prior to changing any financial management practices. ITA's response stated that "CS Argentina's official accounting records are maintained by the Department of State," but did not discuss the draft report's observation that State was not performing normal accounting oversight functions for CS Argentina. ITA's response did note that CS Argentina is very careful about recording obligations in the State Department accounting system, even for types of transactions that might normally be obligated and liquidated simultaneously.

At the time of our review, the State Department's Financial Management Officer told us that State did not provide full accounting services for CS Argentina. Instead, State only recorded transactions for CS Argentina into State's accounting system. This is consistent with ITA's response, which states that CS Argentina does not fully subscribe to State's accounts and records ICASS cost center, and also with the subscription of services referenced in ITA's response. We recognize that CS Argentina is very active in recording obligations in the State Department accounting system, a practice that should improve the accuracy of funds availability reports from this system. As noted in the draft report, however, CS Argentina's lack of full participation in State's accounting services calls into question the effectiveness of the internal controls that ITA has established for accounting at overseas posts, which rely on State to verify, reconcile, and audit overseas accounting records. In the future, ITA's Office of Financial Management must either ensure that the accounting services provided by State for CS Argentina are consistent with ITA's established internal controls for overseas posts, or ITA must establish separate oversight processes for the post.

ITA's response did not concur with our recommendation that CS Uruguay transfer those user fees that it collects on behalf of the State Department back to the State Department. The response stated that such transfers would require that ITA send new funding cables to the post for each collection. ITA also noted that the spirit of cooperation between the Commerce and State staff in Uruguay "could be damaged by a new emphasis on division of collections." Instead, ITA proposed that the user fees be kept in CS accounts, and the SCO in Argentina and the Economic Counselor in Uruguay would make joint decisions on expending the user fees. In response to our recommendation that CS finalize its policies on service provision and fee collection and disbursement at partnership posts, ITA's response promised a renewed effort to gain concurrence from the State Department and Commerce's Office of General Counsel on policies that it had previously developed and sent to State for review.

As was noted in our draft report, we recognize that CS and the State Department maintain a collaborative and cordial working relationship in Uruguay, and this relationship helps both organizations serve their clients. Despite this close working relationship, CS does not have the authority to retain user fees that it collects on behalf of the State Department. The measures proposed by ITA's response do not represent a substantial change from the procedures that were in place at the time of our inspection, which resulted in CS' unauthorized retention of fees collected for services provided by the State Department. ITA's response also does not adequately explain why CS is able to send funding cables to the State Department for some partnership posts, but cannot do so for Uruguay. ITA's commitment to renew efforts to coordinate with State to develop a permanent policy on service provision and fee collection at partnership posts is welcome. ITA should ensure that this policy contains sufficient detail on fee collection and disbursement for services provided by State Department personnel, and it should address our concerns with the current fee collection procedures in Uruguay. In the interim, however, CS should implement procedures in Uruguay that are consistent with federal policies governing user fees and are not totally dependent on the goodwill between the current SCO in Argentina and the current Economic Counselor in Uruguay. If CS does not transfer these funds directly to the State Department, it should gain concurrence from the Office of General Counsel for any alternative arrangement.

With regard to our recommendations that ITA review CS Argentina's accounting and payment certification since FY 2000 and that ITA's Office of Financial Management better communicate its policies on overseas financial management to CS personnel, ITA's response indicates that it will fully implement both of these recommendations.

ITA also committed to deobligating inactive obligations in its accounting records, in response to our recommendation. ITA's response acknowledged that its lease payments in FY 2001 were not liquidated against the obligation made for those leases during FY 2000, and the FY 2000 obligation was never deobligated. The response attributes this error to changes in the way that ITA obligated prepaid leases. As a result, the large obligation (\$36,200) that we highlighted in our draft report remains on ITA's books, and ITA should deobligate these funds. Because this issue arose from an organization-wide change in obligating procedures in FY 2001, ITA should also review the accounting records of other CS posts and should similarly address any outstanding obligations for prepaid leases made in FY 2000.

The draft report noted that there appeared to be coding errors in the budget object class field that had prevented the liquidations of some obligations in ITA's accounting records. ITA's response clarified its use of the budget object class field, showing that there was no coding error associated with this data field. We maintain, however, that the unliquidated obligations (or "undelivered orders") report that ITA provided to us contains errors because many of the balances listed on the report are not calculated in the manner specified by ITA's response ("the net of all obligation line items having the same transaction ID"). We have amended our report to remove references to coding errors, but we ask that ITA review its unliquidated obligations reports and correct the reports, as necessary.

#### IV. Administrative Management Can Benefit From Minor Improvements

We found that CS Argentina's and CS Uruguay's management of its human resources, physical office space, information technology, and other administrative matters is generally effective. However, we did find some relatively minor administrative issues at both posts that warrant management attention, including a temporary lapse in petty cash fund audits and improper authorizations of cash reimbursements in Argentina. Inventory management, particularly in Uruguay, needs improvement. The retention of obsolete and surplus items at both posts indicates the need for CS to improve its guidance on inventory management and the disposal of excess property.

##### A. *CS Argentina's administrative operations are mostly well managed*

We found that human resources were effectively managed at both CS Argentina and CS Uruguay. The State Department human resources officer praised CS Argentina's junior officer for working through a backlog of late performance appraisals upon her arrival at the post. Both the SCO and the human resources officer also praised the junior officer for effectively managing the complex and time-consuming task of updating delinquent computer-aided job evaluations for most of the CS Argentina staff.<sup>32</sup> In addition, most staff at both offices spoke well of current management practices and the accessibility of the SCO. Most staff felt that CS provided adequate training opportunities, although we noted that CS should provide better training on conducting export control end-use checks. All of these factors contributed to the apparently high staff morale at both posts.

We also found that CS Argentina has been proactive in using the Internet to support the post's trade promotion activities. CS Argentina maintains a comprehensive Internet site with information on CS Argentina, the Patagonia region of Argentina, and the River Plate Initiative.<sup>33</sup> CS Argentina was also the first embassy section to provide Internet content for the embassy's Patagonia "virtual consulate."<sup>34</sup> While CS Argentina's current web effort is commendable, the post could improve its website with a few minor additions. An example would be to supplement its country-specific trade information with details found on other CS posts' web sites, such as featured U.S. suppliers, business etiquette for Argentina and Uruguay, and pointers to help American companies navigate through trade regulations, tariffs, import barriers, and product standards.

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<sup>32</sup> The State Department uses a world-wide job evaluation tool, known as Computer Aided Job Evaluation (CAJE), to review and revise FSN/PSA position classifications and grade levels. CAJE is used to objectively review the content of each job based on several factors, including job responsibility; knowledge, skills, and abilities required to perform the job; the level of interaction with others; and work environments. If the CAJE review determines that a position classification is inaccurate or out-of-date, the position classification will be revised to reflect any discrepancies identified during the review. Conducting timely CAJE reviews to ensure that FSN/PSA position classifications and grade levels are current is an essential practice for proper administrative management.

<sup>33</sup> Available online at <http://www.comerciousa.org/argentina/En/setenglish.asp> (accessed July 18, 2006).

<sup>34</sup> "Virtual consulates" is a State Department initiative that serves as an extension of the American presence in places where there are no physical consulates. The initiative reaches out to people in these areas through region-specific online-content that is supplemented by scheduled visits and presentations by American officers or other guests.

We did not find problems with security practices and emergency preparedness at either CS Argentina or CS Uruguay. Both offices are collocated within U.S. embassies and are physically secured by the protection afforded to embassy grounds. The regional security officers at both embassies reported no problems or concerns with either CS staff or operations. Earlier this calendar year, all CS Argentina staff attended mandatory refresher training on emergency and evacuation procedures, and all have emergency escape hoods. The SCO recently assigned a member of the CS Argentina staff to ensure that the two CS staff members in Uruguay have emergency escape hoods and training in emergency and safety procedures.

Our reviews of CS' physical office space management did not reveal any issues, and our audit of CS' petty cash fund did not reveal any accounting discrepancies. However, CS did not conduct regular petty cash fund audits for a period of several months when the junior officer in charge of this function was on extended leave. We also found that the junior officer had approved several of the SCO's cash reimbursement vouchers during FY 2005, approvals which were inconsistent with Commerce's financial management policies<sup>35</sup>. By the time of our review, CS had resumed monthly audits of its petty cash fund and the Deputy Chief of Mission confirmed that he was now approving the SCO's reimbursement vouchers. CS Argentina should continue to ensure that its petty cash fund is audited every month and that future SCO reimbursement vouchers are not approved by the SCO's subordinates.

During our review of CS Uruguay, we found that the office did not have a central telephone number for individuals attempting to reach the CS office through the embassy's general switchboard. Callers who selected the commercial section from the embassy's automated directory were directed to the personal line of a State commercial specialist. During our visit, this specialist was on vacation, and all calls were routed to his personal voicemail. We discussed this issue with the State Department's economic officer in Uruguay and the SCO for CS Argentina. Both officers were unaware of the situation, but indicated they would promptly resolve the issue.

**B. Better inventory practices and guidance on property disposal are needed**

CS policy requires inventory records for physical property, which serve as a basis for accountability and support budget estimates for replacement costs. CS Argentina and CS Uruguay are responsible for maintaining accurate inventory logs and disposing of obsolete or other surplus property. During our review, we performed unannounced physical checks of inventoried property at both posts and reconciled the property on hand with inventory records.

We found careful accounting of property at CS Argentina. All items had proper bar code labels that matched inventory logs, and the property custodian maintained detailed inventory logs identifying all relevant post property. The post's inventory log matched the one at CS

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<sup>35</sup> According to policies issued by the Department's Office of Financial Management, no one person may control all phases of a transaction, so subordinates should not be allowed or required to approve cash reimbursements for their supervisors. The requirements of segregating and separating these duties are found in Commerce's *Cash Management Policies and Procedures Handbook*, available online at [www.osec.doc.gov/ofm/cash/chptr8.pdf](http://www.osec.doc.gov/ofm/cash/chptr8.pdf), and *Accounting Principles and Standards Handbook*, available online at [www.osec.doc.gov/ofm/acctg/chptr6.pdf](http://www.osec.doc.gov/ofm/acctg/chptr6.pdf) (both accessed July 27, 2006).

headquarters. The logs included bar code numbers, manufacturer names, serial numbers, item descriptions, and the initials of staff members possessing the items. Although CS Argentina's property custodian only performs reviews of personal property twice per year instead of quarterly as required by CS policy, we found that CS Argentina's property inventory records were detailed and carefully managed. During our review, we found that the post retained obsolete and other surplus property, including cell phones and laptop computers. The SCO expressed uncertainty as to how the office should dispose of such equipment.

At CS Uruguay, we conducted a thorough physical property check and found that items were not properly coded and that inventory records for CS Uruguay were not complete or accurate. At least 18 items did not have bar codes, as required by CS policy. At least 19 items that we physically located were not recorded on the post's inventory log, and some items that were included on the post's log were no longer physically located at the post. In addition, the inventory list provided by headquarters, which listed only 10 items, did not match the list maintained at the post, which had 38 items. CS Uruguay also retained obsolete and surplus items on its inventory. CS Uruguay should conduct a complete inventory, properly mark items with bar codes, and submit an accurate inventory list to CS headquarters.

CS posts are provided with at least three overlapping policy manuals that discuss property management and inventory procedures, but none of these manuals provides adequate guidance on disposing of obsolete and surplus property. CS provides property management guidance in both its *CS Operations Manual* and in the Office of International Operations' (OIO) *Administrative Manual*, but neither manual discusses acceptable procedures for disposing of surplus items. The manuals also do not detail procedures for protecting licensed software and sensitive information contained on obsolete or surplus computers.<sup>36</sup> According to OIO's *Administrative Manual*, items may be sold, donated or transferred through the embassy after the post receives specific approval from the CS budget officer in Washington.<sup>37</sup> This manual also specifies that posts must have approval from both OIO, through its CS' budget officer, and from the Office of the Chief Information Officer to dispose of computer and some other equipment.<sup>38</sup>

CS' guidance on managing property and keeping property inventories is supplemented by guidance in ITA's *Online Overseas Financial Policies and Procedures Manual*. Property disposal procedures outlined in this manual, however, assume that "disposal arrangements are usually handled by the State Department."<sup>39</sup> This guidance is not applicable for many CS posts, however, because CS headquarters has encouraged posts to opt out of ICASS inventory services. This not only prevents CS from participating in the State Department's regular auctions of

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<sup>36</sup> The *CS Operations Manual* provides limited reference to ITA's policies and procedures for donating excess computers to schools and nonprofit organizations, but these procedures are not relevant for overseas offices.

<sup>37</sup> The *CS Operations Manual* does not provide guidance on how to dispose of property properly. However, the OIO *Administrative Manual* has a section on property management that briefly describes what factors and steps posts must consider before disposing of property. One step requires that posts must have approval from OIO before disposing property.

<sup>38</sup> The manual does not specify which Office of the Chief Information Officer should be consulted (there is such an office both within ITA and for the entire Department), nor does the manual provide a specific point of contact within the office.

<sup>39</sup> *International Trade Administration Online Overseas Financial Policies and Procedures Manual*, available online at <https://ourplace.ita.doc.gov/intranet3.nsf> (accessed August 3, 2006).



surplus property, it also adds an additional administrative burden for the posts. If CS headquarters expects its offices to independently manage inventories, it should provide clear and practical guidance on how posts should sell or otherwise dispose of excess property, including computer equipment that contains licensed software and/or sensitive data.

**Recommendations:**

*The Assistant Secretary for Trade Promotion and Director General of the U.S. and Foreign Commercial Service should ensure that:*

- CS Argentina audits its petty cash fund every month;
- The Argentina SCO's reimbursement vouchers continue to be approved by the Deputy Chief of Mission or another appropriate official who is not the SCO's subordinate;
- CS Uruguay coordinates with the State Department to develop a centralized telephone number for the commercial section;
- CS Argentina and CS Uruguay comply fully with CS policy on property management, including the requirement to conduct quarterly reviews of inventoried property;
- CS Uruguay develops and provides to headquarters a comprehensive and correct inventory listing and marks all equipment with bar codes;
- CS Argentina and CS Uruguay assess their inventories for obsolete and surplus items and consult with CS headquarters on their disposal; and,
- CS headquarters provides clear and practical guidance for posts to dispose of excess property, including computer equipment that contains licensed software and/or sensitive data. Such guidance should be consistent among the *CS Operations Manual*, *OIO Administrative Manual*, and *ITA's Online Overseas Financial Policies and Procedures Manual* or should be consolidated into one manual. CS' guidance should also be consistent with controls for media protection provided in Commerce's *IT Security Program Policy and Minimum Implementation Standards*.



**ITA's Response and OIG Comments**

In its response to recommendations in our draft report, ITA stated that CS Argentina will continue to audit its petty cash fund every month as required by ITA policy. It will also continue to have the SCO's reimbursement vouchers approved by the Deputy Chief of Mission or another appropriate official who is not the SCO's subordinate. ITA reported that CS Uruguay has coordinated with the State Department and established a menu option for the Commercial Section on the embassy's main telephone line. Incoming calls ring on all extensions and if no one is able to answer, calls transfer to a Commercial Section voicemail. All staff members have access to the voice mail and receive message alerts.

ITA's response also stated that CS Argentina and CS Uruguay will begin to conduct quarterly inventories of CS office and residential furniture and equipment. Both posts will reconcile inventories on or around the 1<sup>st</sup> of November, February, May, and August. On August 28, 2006, CS Uruguay assumed complete management responsibilities for its property from CS Argentina. It is now in the process of conducting an initial inventory. The designated property custodian will conduct a complete and thorough review of all its property located in its offices and storage, label property with bar codes, control the existing list of properties, and resolve discrepancies with previous inventory reports. CS Argentina will provide relevant information to the OIO property manager regarding the transfer of bar code labels from CS Argentina to CS Uruguay. Both posts will evaluate their inventories to identify obsolete or surplus items and will request approval from their regional office prior to disposing of property. CS Argentina has developed an arrangement with the State Department to transfer, sell, and dispose of its unnecessary and obsolete property.

Regarding our recommendation for clear and practical inventory guidance, ITA's response noted that CS issued an email in February 2005 that instructed posts to seek approval from their regional offices for disposal of excess property. ITA's response explained that authority to dispose of property is granted via email messages from regional offices and includes procedures for cleaning information technology equipment prior to sale or donation. However, these instructions are not consistent with guidance provided in the *OIO Administrative Manual*. In addition, the procedures provided in authorization emails for cleaning equipment are insufficient and do not comply with controls for media protection provided in Commerce's *IT Security Program Policy and Minimum Implementation Standards*. Providing accurate guidelines for securing information technology assets is particularly important given heightened concerns over the security of sensitive information stored on government computers, hand-held devices, and other equipment.

ITA's response also indicated that it is developing guidance for disposing of property at posts that do not subscribe to the relevant State Department ICASS services, and it will include this guidance in the *OIO Administrative Manual*. In revising its guidance on inventory management, ITA should also ensure that the guidance for CS staff is complete and consistent between the three separate manuals that cover inventory management (the *CS Operations Manual*, the *OIO Operations Manual*, and the *ITA Online Overseas Financial Policies and Procedures Manual*), or it should consolidate such guidance for posts in one manual. The procedures should include comprehensive instructions for cleaning various types of technology equipment that comply with Commerce's policies for safeguarding information stored on these types of items. Please include a progress report on the development of the inventory guidance and, if completed, copies of the updated guidance in ITA's action plan for this report.

## SUMMARY OF RECOMMENDATIONS

*The Assistant Secretary for Trade Promotion and Director General of the U.S. and Foreign Commercial Service should ensure that:*

1. CS Argentina takes action to foster greater cooperation between the senior commercial specialists and the less-experienced CS staff in order to help transfer the institutional knowledge and contacts of its senior commercial specialists (see page 10).
2. CS schedules a meeting with BIS for commercial officers being deployed to overseas posts and for those who return to CS headquarters for consultation in order for them to receive appropriate initial or refresher training on conducting end-use checks (see page 10).
3. The regional standards attaché in Brazil regularly coordinates with and provides adequate support to the other CS posts in South America, including the CS office in Buenos Aires and the economic affairs section in Montevideo (see page 10).
4. CS completes its revision of the *CS Operations Manual* to include clear and precise requirements for written documentation and verification of each element of an export success (see page 16).
5. The SCO in Argentina rescinds all invalid export successes, including the export success identified by our review (see page 17)
6. CS Argentina and CS Uruguay maintain adequate documentation substantiating reported export successes, as required by the *CS Operations Manual* (see page 17).
7. CS Argentina fully complies with ITA's and the Department's policies on overseas financial management by resuming its full participation in the relevant ICASS financial management cost centers (see page 19).
8. CS management coordinates any future changes in its overseas financial management practices closely with the CFO for ITA or his designated official (see page 26).
9. User fees collected by CS for services provided by the State Department in Uruguay are transferred directly to the State Department for their retention or proper disposition, or are handled in accordance with alternative guidance from the Office of General Counsel (see page 26).
10. CS finalizes and issues its policies on service provision and on fee collection and disbursement at partnership posts. Such policies should include detailed procedures for fee collection and disbursement at all posts where the State Department provides services for which CS collects fees, including those where CS also maintains staff (see page 26).
11. CS Argentina audits its petty cash fund every month (see page 33).
12. The Argentina SCO's reimbursement vouchers continue to be approved by the Deputy Chief of Mission or another appropriate official who is not the SCO's subordinate (see page 33).
13. CS Uruguay coordinates with the State Department to develop a centralized telephone number for the commercial section (see page 33).

14. CS Argentina and CS Uruguay comply fully with CS policy on property management, including the requirement to conduct quarterly reviews of inventoried property (see page 33).
15. CS Uruguay develops and provides to headquarters a comprehensive and correct inventory listing and marks all equipment with bar codes (see page 33).
16. CS Argentina and CS Uruguay assess their inventories for obsolete and surplus items and consult with CS headquarters on their disposal (see page 33)
17. CS headquarters provides clear and practical guidance for posts to dispose of excess property, including computer equipment that contains licensed software and/or sensitive data. Such guidance should be consistent among the *CS Operations Manual*, *OIO Administrative Manual*, and ITA's *Online Overseas Financial Policies and Procedures Manual* or should be consolidated into one manual. CS' guidance should also be consistent with controls for media protection provided in Commerce's *IT Security Program Policy and Minimum Implementation Standards* (see page 33).

*The Undersecretary for International Trade should ensure that:*

1. ITA's Office of Financial Management reviews CS' accounting and payment certification in Argentina since FY 2000, as necessary, to ensure that there have been no financial irregularities (see page 27).
2. ITA's policies on overseas financial management are (1) clearly communicated to CS headquarters and overseas personnel, (2) fully reflected in the CS operations manual, and (3) incorporated into relevant training materials for CS' officers and administrative staff (see page 27).
3. ITA's Office of Financial Management works with the National Business Center to de-obligate inactive obligations and address computational errors in CS Argentina's undelivered orders report (see page 27).

## APPENDIX A: ITA MANAGEMENT RESPONSE TO OIG DRAFT REPORT



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

SEP 22 2006

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

FROM: Franklin L. Lavin *MLL*

SUBJECT: Response to Draft OIG Report – Commercial Service  
Operations in Argentina and Uruguay Are Mostly Sound  
But Financial Processes Need Attention (IPE-18111)

Thank you for your report on Commercial Service operations in Argentina and Uruguay. We appreciate your thorough review and have given careful consideration to your recommendations.

Please find attached ITA's response to the Office of the Inspector General's report on Commercial Service's operations in Argentina and Uruguay. If you have any questions, please contact me or Israel Hernandez, Assistant Secretary for Trade promotion and Director General of the U.S. and Foreign Commercial Service.

Attachment



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

**The Assistant Secretary for Trade Promotion and Director General of the U.S. and Foreign Commercial Service should ensure that:**

1. CS Argentina takes action to foster greater cooperation between the senior commercial specialists and the less-experienced CS staff in order to help transfer the institutional knowledge and contacts of its senior commercial specialists.

**Response:** CS Argentina will continue to ensure that the knowledge and contacts of its senior commercial specialists nearing retirement are transferred to the rest of the CS staff. Toward that end, in FY05, CS Argentina paired each of the commercial assistants with one of the senior commercial specialists in order to enhance their professional development and industry knowledge, as well as to better prepare them to cultivate new contacts and get to know the senior specialists' key contacts in government and the private sector.

2. CS schedules a meeting with BIS for commercial officers being deployed to overseas posts and for those who return to CS headquarters for consultation in order for them to receive training on conducting end-use checks.

**Response:** Training on conducting end-use checks will be incorporated in the routine Junior Officer training held in Washington, DC. We will also explore ways to identify when it is appropriate and to schedule a consultation with BIS for visiting officers. It may not be necessary for every visiting officer to conduct such a meeting during each visit to Washington.

3. The regional standards attaché in Brazil regularly coordinates with and provides adequate support to the other CS posts in South America, including the CS office in Buenos Aires and the economic affairs section in Montevideo.

**Response:** As noted in the report, the Commercial Service Officer currently serving as Standards Attache in Brazil arrived in Sao Paulo in April, after the position had been vacant for almost one year. This vacancy was created as a result of an unexpected departure by the previous attaché who was serving in a limited position and departed after holding the position for only 5 months. During the time the position was vacant, the Standards Attache in Mexico filled the role of regional coordinator for the Western Hemisphere, and was in regular communication with CS Argentina. While Uruguay was not included in the roster of CS Standards contacts, they have now been added as is noted in the draft report.

4. CS completes its revision of the CS Operations Manual to include clear and precise requirements for written documentation and verification of each element of an export success.

**Response:** On May 18, 2006, the US&FCS Operations Manual was amended for the express purpose of establishing stronger, clearer standards of verification for Export Success (ES) claims. The guidance now requires all employees who have direct contact with clients to maintain complete and accurate counseling reports on the Client Management System (CMS), as well as file copies of any key communications documenting CS assistance to the client. Further, authors of ES reports must *directly verify* the essential facts of the success with the client or the client's customer, agent, etc. The Ops Manual defines "essential facts" as a description of the success obtained (e.g., export sale, appointment of a distributor), the year in which it occurred, the foreign market (country) to which it applied, and the dollar-value of the transaction (if applicable). If the client declines to provide the dollar-value, this fact must be noted in the ES narrative.

The standard CMS on-line format for submitting ES reports is now being modified to reflect these changes. Beginning in FY-2007, CMS will not accept any ES report that does not include the author's statement that he/she has met all verification requirements. As a further safeguard, each first-level reviewer will be required to *independently* confirm 10% of all reports he/she reviews.

5. The SCO in Argentina rescinds all invalid export successes, including the export success identified by our review.

**Response:** The SCO in Buenos Aires has rescinded the invalid export success identified by the review. CS Argentina's Officers have reviewed all of the success stories reported in FY 04, FY05 and FY06 for completeness and accuracy.

6. CS Argentina and CS Uruguay maintain adequate documentation substantiating reported export successes, as required by the CS Operations Manual.

**Response:** The SCO in Argentina will ensure that all future export successes reported by CS Argentina and CS Uruguay are substantiated as required by the *CS Operations Manual* and will implement all of the new documentation and verification guidance issued by CS Management on May 18, 2006.

7. CS Argentina fully complies with ITA's and the Department's policies on overseas financial management by resuming its full participation in the relevant ICASS financial management cost centers.

**Response:** CS Argentina maintains extensive cuff records, however CS Argentina's official accounting records are maintained by the Department of State, and their transactions appear in the Department of State's RFMS (60/62) reports. Page 21 of the Inspector General's draft report states that CS Argentina "prepares memos that

report CS' accounting transactions to the State Department." The memos discussed here are for the purpose of requesting an obligation of funds for recurring expenses or expenses paid with petty cash where no other obligating document is available prior to receipt of services. Examples of these include electricity bills, subscriptions, or miscellaneous repairs at the officers' residences. For expenses where obligating documentation is available, such as with travel, the memo in question serves only as a cover letter to request that the funds be obligated. This is not improper procedure. In cases where obligating documentation is not available, it is accepted practice at many organizations including ITA to wait for the liquidating documentation to be presented and conduct both obligation and liquidation simultaneously. CS Argentina has demonstrated extra care in requesting an obligation in advance to ensure that a correct balance of funds is shown at all times in the State Department official records.

The report also states on page 21 that "State does not provide any accounting services to CS in Argentina." The Accounts and Records ICASS cost center is a modifiable cost center. CS Argentina subscribes at a .6 level. The services provided at this level are clearly stated in the *Subscription of Services* provided by the Department of State. CS Argentina has read-only access to the State Department accounting system, and requests State Department's services in inputting its allotment as well as any and all obligations into the official system through the provision of appropriate obligating documentation. CS Argentina's subscription at the .6 level means that the FMO also provides standard RFMS reports to allow CS Argentina to reconcile its activity with the official records.

At the direction of ITA, CS Argentina has discontinued the practice of certifying payments and in doing so has raised its subscription level in the Vouchering cost center from .3 to .6.

8. CS management coordinates any future changes in its overseas financial management practices closely with the CFO for ITA or his designated official.

**Response:** We will seek written approval from the ITA CFO prior to changing any financial management practices.

9. User fees collected by CS for services provided by the State Department in Uruguay are transferred directly to the State Department for their retention or proper disposition, as appropriate.

**Response:** To transfer collected funds to State Department would entail new cables each time a collection was made. Additionally, the spirit of cooperation that currently exists among the State Department and Commerce Department FSNs in the Uruguay office could be damaged by a new emphasis on division of collections as opposed to jointly held funds used for joint benefit. Alternatively, we would propose that collected fees for Commercial Service products and services generated by the participation or coordination of State Department FSNs should continue to be maintained in a single account. The State Department Econ/Commercial Counselor



in Uruguay and the SCO in Argentina would jointly approve the spending of these funds to ensure that both the State Department and Commerce Department benefit appropriately from the user fees collected for services provided in Uruguay.

10. CS finalizes and issues its policies on service provision and on fee collection and disbursement at partnership posts. Such policies should include detailed procedures for fee collection and disbursement at all posts where the State Department provides service for which CS collects fees, including those where CS also maintains staff.

**Response:** The U.S. & FCS sent proposed guidance for CS and partner posts to State Department's EB/CBA (Economic & Business/Commercial Business Affairs Section) over a year ago. We will renew our efforts to get OGC concurrence and State's legal department to focus on service provision and on fee collection and disbursement at partnership posts.

11. CS Argentina audits its petty cash fund every month.

**Response:** CS Argentina will continue to audit its petty cash fund every month as required by ITA policy.

12. The Argentina SCO's reimbursement vouchers continue to be approved by the Deputy Chief of Mission or other appropriate official who is not the SCO's subordinate.

**Response:** Post will continue to have all reimbursement vouchers for the SCO approved by the Deputy Chief of Mission or another appropriate official who is not the SCO's subordinate.

13. CS Uruguay coordinates with the State Department to develop a centralized telephone number for the commercial section.

**Response:** Calling the Commercial Section through the Embassy's switchboard is now option number 3. In-coming calls ring on all four extensions. If no one is able to answer, a Commercial Section voicemail is activated. All four extensions have access to the voicemail and receive message alerts.

14. CS Argentina and CS Uruguay comply fully with CS policy on property management, including the requirement to conduct quarterly reviews of inventoried property.

**Response:** CS Uruguay assumed full responsibility from CS Argentina for all Property Management as of August 28, 2006. CS Argentina and CS Uruguay will fully comply with ITA policy and will begin to conduct quarterly physical inventories - including CS Office and residential furniture/equipment - and reconciliation on or around the 1<sup>st</sup> of November, February, May and August.

15. CS Uruguay develops and provides to headquarters a comprehensive and correct inventory listing and marks all equipment with bar codes.

**Response:** CS Uruguay has now assumed full responsibility for Property Management. The designated property custodian will conduct a complete and thorough review of all its property through the entire office and storage areas, label the properties with bar codes, control the existing list of properties and resolve discrepancies, if any, in relation to previous reports. CS Argentina will provide bar codes and information to OIO Property Manager regarding the transfer of the bar code labels.

16. CS Argentina and CS Uruguay assess their inventories for obsolete and surplus items and consult with CS headquarters on their disposal.

**Response:** CS Argentina and CS Uruguay will evaluate their inventories to identify obsolete or surplus equipment, furniture or vehicles. Prior to the disposal, they will request the approval from their regional office as was directed in the most recent headquarters guidance regarding disposal of inventory. On August 28, 2006, CS Uruguay assumed complete management of its inventory and post is performing their initial inventory. CS Argentina has worked out an arrangement with GSO to transfer, sell and dispose of all unnecessary and obsolete inventory on hand.

17. CS headquarters provides clear and practical guidance for posts to dispose of excess property, including computer equipment that contains licensed software and/or sensitive data.

**Response:** In February of 2005, the current CS guidance was issued by e-mail instructing posts to seek approval for disposal of excess property directly from their regional offices. When authorizations are granted, the authorization email includes procedures for cleaning information technology equipment prior to sale or donation, as well as a notification to the Office of International Operations Budget Manager. All authorizations of disposal of IT equipment include a carbon copy to a member of the Office of the Chief Information Officer.

Guidance on acceptable procedures for disposing of surplus items where posts do not subscribe to these State Department services through ICASS is being developed and will be placed in the OIO Admin Manual. The Manual will also be updated to reflect the most recent guidance to seek approval from OIO regional offices.

**The Undersecretary for International Trade should ensure that:**

18. ITA's Office of Financial Management reviews CS' accounting and payment certification in Argentina since FY2000, as necessary, to ensure that there have been no financial irregularities.

**Response:** ITA's Office of Financial Management plans to review a sample of the payments made by CS Argentina since FY2000 to ensure that they are valid.

19. ITA's policies on overseas financial management are (1) clearly communicated to CS headquarters and overseas personnel, (2) fully reflected in the CS operations manual, and (3) incorporated into relevant training materials for CS' officers and administrative staff.

**Response:** (1) ITA's Office of Financial Management will institute more regular communications with Commercial Service's Office of International Operations to ensure that Commercial Service has input in the development of or at minimum is aware of new financial management policies at the time they are issued. (2) Changes to ITA's financial management policies will be included in the CS Operations Manual or only in the OIO Admin Manual if the effect of the policy change is limited to overseas operations. (3) Changes to ITA's financial management policy have been and will continue to be incorporated into relevant training materials for CS' officers and administrative staff.

20. ITA's Office of Financial Management works with the National Business Center to deobligate inactive obligations and correct coding errors in ITA's accounting records.

**Response:** ITA's Office of Financial Management, the National Business Center (NBC), and the Commercial Service Office of International Operations will work together to review unliquidated obligations for CS Argentina accounting transactions for FY 1999 through FY 2004. If the obligations are determined to be no longer valid, NBC will take the action to deobligate the remaining balances.

The draft report indicated that there were coding errors associated with the travel transactions included on the unliquidated obligations report. However, these apparent coding errors reflect the NBC procedures for recording travel transactions. Travel orders are initially recorded using BOC 2100 but when the voucher is processed it is recorded using the detailed BOCs e.g., 2112, 2132, etc., based on the nature of the expense included on the voucher. The unliquidated balance is the net of all obligation line items having the same transaction ID. Once the order is deobligated, all related obligation line items will be removed from the Unliquidated Obligations Report.

The draft report highlighted an FY 2000 obligation on the Unliquidated Obligation Report for \$36,200, which accounts for more than one half of the total for the older obligations questioned by the report. This is related to an adjustment to record an operating lease. Currently, operating lease payments, whether prepayments or not, are treated as expenses. During the 4<sup>th</sup> quarter of every fiscal year, ITA's OFM in conjunction with the NBC, calculates the amount of prepaid leases overseas. NBC makes an adjusting entry, to reclassify the expense to a prepaid expense. During FY 2000, the prepaid leases were recorded at the individual post level. In FY 2001 these individual post level prepaid leases, were reversed at a higher organizational level, the

new current year calculation was then recorded at that same higher organizational level, thus leaving the transaction at the individual post level, incorrectly. NBC will work to clear the transactions at the individual post level.

## APPENDIX B: USPTO MANAGEMENT RESPONSE TO OIG DRAFT REPORT



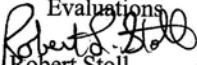
Appendix B: PTO Management Response

### UNITED STATES PATENT AND TRADEMARK OFFICE

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

September 18, 2006

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

FROM:   
Robert Stoll  
Director, Office of Enforcement

SUBJECT: Response to Final Inspection Report  
*Commercial Service Operations in Argentina and Uruguay  
Are Mostly Sound but Financial Processes Need Attention*  
(IPE-18111)

This is in response to your August 2006, memorandum sent to Under Secretary and Director Jon W. Dudas, regarding Draft Inspection Report, "*Commercial Service Operations in Argentina and Uruguay Are Mostly Sound but Financial Processes Need Attention*" (IPE-18111).

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

The USPTO and the new IPR attaché have conferred with the SCO in Argentina regarding the new officer position. The USPTO recognizes that additional assistance and support on IPR could be useful for Argentina. Accordingly, the new IPR attaché will look to coordinate and provide support to CS Argentina on IPR issues as appropriate. As the USPTO looks to enhance regional support and assistance on IPR issues through this program, the new IPR attaché will consult and coordinate with other CS posts in the region to determine what assistance can be provided in the field of IPR.

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