



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



***INTERNATIONAL TRADE
ADMINISTRATION***

***CS China Generally Performs Well
But Opportunities Exist for
Commerce to Better Coordinate Its
Multiple China Operations***

Final Inspection Report No. IPE-17546/March 2006

**PUBLIC
RELEASE**

Office of Inspections and Program Evaluations



March 31, 2006

MEMORANDUM FOR: Carlos M. Gutierrez
Secretary

David A. Sampson
Deputy Secretary

FROM: Johnnie E. Frazier 

SUBJECT: Final OIG Report
*CS China Generally Performs Well, But Opportunities Exist for
Commerce to Better Coordinate its Multiple China Operations
(IPE-17546)*

As follow-up to our March 3, 2006, draft report, attached is the final report on our inspection of Commerce's operations in China. We thank you for your comments on our draft report. We also received comments from the Deputy Under Secretary for International Trade and the Director of the Office of Enforcement at the U.S. Patent and Trademark Office. We have considered these comments in preparing our final report and have attached them in their entirety as appendices to the report.

Our inspection focused on the management of the Commercial Service's post in China, including its programmatic, financial, and administrative operations, but we also looked at other Commerce operations and interests in China. We are pleased to report that CS China and the other Commerce organizations operating there are aggressively pursuing their missions and are generally collaborating well with their trade partners, other components of the U.S. mission, and other U.S. government agencies. At the same time, we also identified a number of issues, challenges, and—more importantly—opportunities that warrant your attention and that of your senior managers.

As you are aware, China is not only Commerce's largest overseas mission, it is also the only overseas post with permanently assigned staff from three separate Commerce bureaus and three organizations within the International Trade Administration. However, the management structure of Commerce's China mission was designed for a much smaller and more limited overseas operation. This structure may not be the most effective to manage future growth in Commerce's China operations. Additionally, to a large extent, the Commerce bureaus operating in China are independently pursuing their own missions and responsibilities. Commerce must speak as one voice on complex policy issues or it will not be able to best lead the cross-organizational efforts that are needed to make progress on the Department's goals in China.

We are pleased to note that Commerce officials have already taken and are planning to take actions to address most of our recommendations. We commend the aggressive steps that you and others are taking to strengthen the Department's effectiveness at managing future growth in Commerce's China operations. Most notably, this includes your decision to have the Deputy Secretary chair a quarterly meeting of principals from Commerce bureaus with operations or interests in China.

We thank you and other personnel throughout the Department, particularly the CS China staff, for the assistance and the courtesies extended to us during our review.

Attachment





MAR 31 2006

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

Michelle O'Neill
Deputy Under Secretary for International Trade

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

FROM: Johnnie E. Frazier

SUBJECT: Final OIG Report
*CS China Generally Performs Well, But Opportunities Exist for
Commerce to Better Coordinate its Multiple China Operations
(IPE-17546)*

As follow-up to our March 3, 2006, draft report, attached is the final report on our inspection of Commerce's operations in China. We thank you for ITA's comments on our draft report. We also received comments from the Secretary and the Director of the Office of Enforcement at the U.S. Patent and Trademark Office. We have considered these comments in preparing our final report and have attached them in their entirety as appendices to the report.

Our inspection focused on the management CS China, as well as the post's programmatic, financial, and administrative operations. We are pleased to report that CS China generally performs well in providing export assistance to U.S. companies and collaborates well with its trade partners, the embassy, other Commerce components, and other U.S. government agencies. China is not only Commerce's largest overseas mission, it is also the only overseas post with permanently assigned staff from three separate Commerce bureaus and three organizations within the International Trade Administration (ITA). While all of these resources bring great opportunity for Commerce to make a difference in China, our report highlights many of the issues, challenges, and—more importantly—opportunities that warrant management attention to ensure the Department's overall success in China. In particular, we noted the cross-organizational efforts that are needed to make progress on the Department's goals in China. Additionally, our report comments on the American Trading Center initiative, the commercial center in Shanghai, CS' products and services, human resource issues, challenges in handling the growing number of visitors to the post, and specific financial and administrative operations. Finally, our report discusses the on-going problems with CS' key performance metric—export successes.

We are pleased to note that ITA has already taken or is planning to take actions to address most of our recommendations. We request that you provide us with an action plan addressing the status of action on the recommendations in our report within 60 calendar days.



We thank you for the assistance and courtesies extended to us by personnel in ITA headquarters and CS China during our review. If you would like to discuss this report or the requested action plan, please call me at (202) 482-4661, or Jill Gross, Assistant Inspector General for Inspections and Program Evaluations, at (202) 482-2754.

Attachment



MAR 31 2006

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

FROM: Johnnie E. Frazier

SUBJECT: Final OIG Report
*CS China Generally Performs Well, But Opportunities Exist for
Commerce to Better Coordinate its Multiple China Operations (IPE-
17546)*

As follow-up to our March 3, 2006, draft report, attached is the final report on our inspection of Commerce's operations in China. We thank USPTO for its prompt and thoughtful comments to our draft report. We also received comments from the Secretary and the Deputy Under Secretary for International Trade. We have considered these comments in preparing our final report and have attached them in their entirety as appendices to the report.

Our inspection focused on the management of the Commercial Service's post in China, including its programmatic, financial, and administrative operations, but we also reviewed other Commerce operations and interests in China, including those of USPTO. We are pleased to report that CS China generally performs well in providing export assistance to U.S. companies and collaborates well with its trade partners, the embassy, other Commerce components, and other U.S. government agencies. China is not only Commerce's largest overseas mission, it is also the only overseas post with permanently assigned staff from three separate Commerce bureaus and three organizations within the International Trade Administration (ITA). While all of these resources bring great opportunity for Commerce to make a difference in China, our report highlights many of the issues, challenges, and—more importantly—opportunities that warrant management attention to ensure the Department's overall success in China. In particular, we noted the cross-organizational efforts that are needed to make progress on the Department's goals in China.

We are pleased to note that your agency, as well as the Secretary, ITA, and its Commercial Service, have already taken or are planning to take actions to address most of our recommendations. We request that you provide us with an action plan within 60 days to update us on the status of action you have taken to address the recommendation related to intellectual property training (Recommendation #28).

We thank you for the assistance and courtesies that you and your staff extended to us during our review. If you have any questions or comments, please call me at (202) 482-4661, or Jill Gross, Assistant Inspector General for Inspections and Program Evaluations, at (202) 482-2754.

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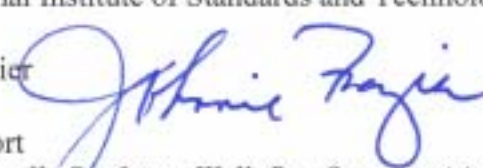
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MAR 31 2006

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

FROM: Johnnie E. Frazier 

SUBJECT: Final OIG Report
*CS China Generally Performs Well, But Opportunities Exist for
Commerce to Better Coordinate its Multiple China Operations (IPE-
17546)*

As follow-up to our March 3, 2006, draft report, attached is the final report on our inspection of Commerce's operations in China. We received comments to our draft report from the Secretary, the Deputy Under Secretary for International Trade, and the Director of the Office of Enforcement at the U.S. Patent and Trademark Office. We have considered these comments in preparing our final report and have attached them in their entirety as appendices to the report.

Our inspection focused on the management of the Commercial Service's post in China, including its programmatic, financial, and administrative operations. We are pleased to report that CS China generally performs well in providing export assistance to U.S. companies and collaborates well with its trade partners, the embassy, other Commerce components, and other U.S. government agencies. China is not only Commerce's largest overseas mission, it is also the only overseas post with permanently assigned staff from three separate Commerce bureaus and three organizations within the International Trade Administration (ITA). While all of these resources bring great opportunity for Commerce to make a difference in China, our report highlights many of the issues, challenges, and—more importantly—opportunities that warrant management attention to ensure the Department's overall success in China. In particular, we noted the cross-organizational efforts that are needed to make progress on the Department's goals in China.

We are pleased to note that the Secretary, ITA, the Commercial Service, and U.S. Patent and Trademark Office have already taken or are planning to take actions to address most of our recommendations. We request that you provide us with an action plan within 60 days to update us on the status of action you have taken to address the recommendation related to standards training (Recommendation #28).

We thank the personnel at NIST for the assistance and the courtesies they extended to us during our review. If you have any questions or comments, please call me at (202) 482-4661, or Jill Gross, Assistant Inspector General for Inspections and Program Evaluations, at (202) 482-2754.

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EXECUTIVE SUMMARY

The Department of Commerce's International Trade Administration (ITA) plays a major role in leading the federal government's efforts to increase U.S. exports. ITA's U.S. Commercial Service (CS),¹ as one of the nation's most visible export promotion agencies, works closely with the American business community as well as federal, state, and local trade partners to promote companies' awareness of export opportunities and increase U.S. sales abroad. To this end, CS operates offices in 80 countries and 108 domestic export assistance centers.

The Office of Inspector General conducted an inspection of Commercial Service's China post, which operates five offices in Beijing, Shanghai, Guangzhou, Chengdu, and Shenyang, from September 9 to September 30, 2005. We focused primarily on the post's management, program operations, and financial and administrative practices. During our inspection, we also met with representatives of other Commerce organizations in China, including officers representing the Bureau of Industry and Security (BIS), Market Access and Compliance (MAC), Import Administration (IA), and the U.S. Patent and Trademark Office (USPTO). In addition, we met with other U.S. government officials with trade-related operations in China.

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

Commerce's China Mission Faces Unique Management Challenges and Opportunities.

China is not only CS' largest overseas mission, it is also the only overseas post with permanently assigned staff from three separate Commerce bureaus (ITA, BIS, and USPTO). Moreover, ITA, for its part, has representatives from three of its units (CS, MAC, and IA) in China. And, at the time of our review, the Department also had a special counsel in China who represented the Secretary of Commerce.²

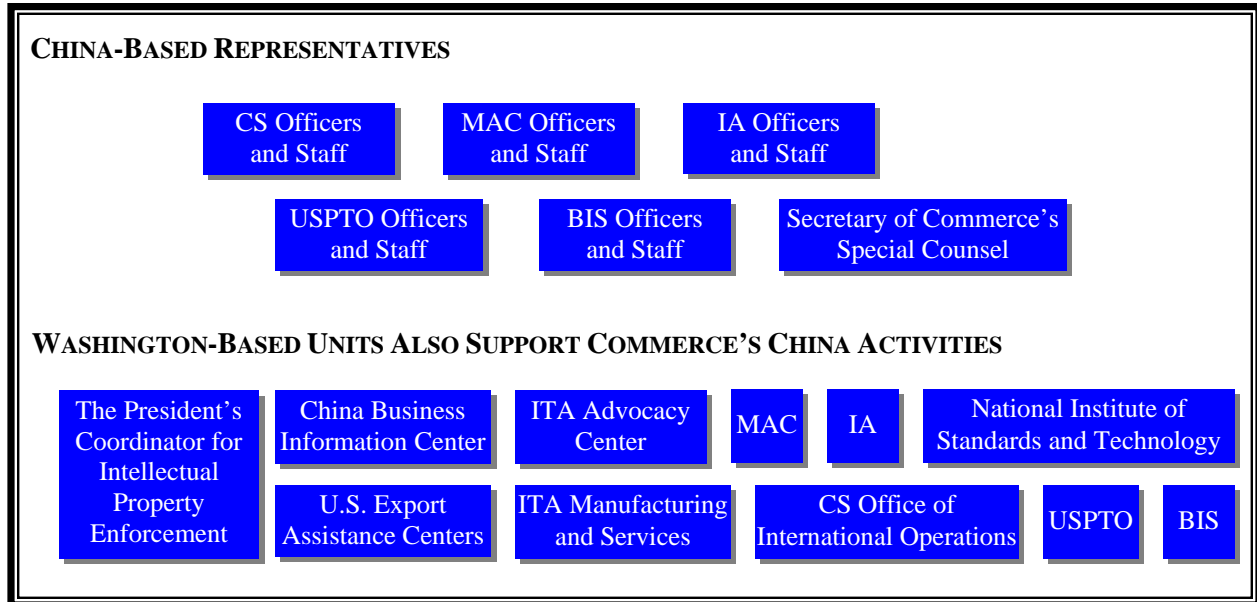
COMMERCE HAS A CRITICAL MISSION AND IMPORTANT RESPONSIBILITIES TO FULFILL IN MEETING THE NATION'S COMMERCIAL CHALLENGES IN CHINA

- Promoting Exports of U.S. Goods and Services
- Protecting Intellectual Property Rights
- Advocating and Enforcing Export Controls
- Promoting U.S. Industry Standards
- Ensuring Compliance with Trade Agreements
- Gaining Greater Access to China's Market
- Supporting U.S. Foreign Policy Initiatives

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

² The Secretary of Commerce is permitted to make one political appointment to CS. The special counsel was in China at the time of our visit, but resigned his position in October 2005. The Secretary has not yet named a replacement, nor has he indicated whether the replacement will go to China or another post of the Secretary's choosing.

Figure 1. Commerce’s China Mission



Source: OIG

The scope of Commerce’s commitment to its China mission is a reflection of both the growing economic and political importance of China and the United States’ growing trade deficit with China, which reached about \$193.9 billion in fiscal year 2005.³ Given the post’s extremely high workload, brought on in part by a constant stream of visitors, the Ambassador has welcomed the additional staff that Commerce has assigned to the post. Many of these additional staff have varied agendas and slightly different goals than CS China, as well as different management reporting chains. Thus, the increasing number of Commerce organizations represented in China amplifies the need for effective cooperation and coordination among these organizations. As Commerce confronts its major challenges in China, such as promoting U.S. exports, protecting intellectual property rights (IPR), improving market access, enforcing export controls, and promoting U.S. industry standards, it must be able to depend on a seamless team effort, both from its staff on the ground in China and its various headquarters units with interests or responsibilities in China. Policy disagreements, confusing lines of authority, logistical issues, or conflicting objectives would hinder the effectiveness of Commerce’s efforts in China. To deal with this challenge, the Department must develop appropriate management processes to ensure that all Commerce representatives and organizations cooperate effectively to better meet the opportunities for progress on the China-related issues facing the Department.

At the same time, CS managers in Beijing face challenges in running such a large and geographically diverse post. We found strong management in the Shanghai and Guangzhou offices, but we also found that CS faces significant challenges in effectively managing and staffing its smaller Chengdu and Shenyang offices. We also found lengthy vacancies in other

³ U.S. Census Bureau, Foreign Trade Statistics, Trade in Goods (Imports, Exports and Trade Balance) with China, www.census.gov/foreign-trade/balance/c5700.html, February 13, 2006.

Commerce positions in China that indicate the need for the Department to improve human resource planning for its positions in China (see page 13).

The American Trading Center Program is New and Largely Untested. CS is currently implementing its American Trading Center (ATC) initiative in 14 major commercial centers throughout China. At the time of our visit, the most progress on this initiative had been made in the Shanghai consular district, while many of the other offices were not yet ready to provide services to American companies. Work remains to build an effective and complete program. We found that CS will need to closely monitor the efforts of its partner for the ATC program, the quasi-state Chinese Council for the Promotion of International Trade (CCPIT), to ensure that the local CCPIT sub-councils provide quality services to U.S. companies. While CCPIT has extensive local market knowledge, CS needs to understand that the promotion of imports from the U.S. is not one of the organization's major objectives given its primary goal of promoting foreign investment in China. Given the limited training that CS provided to CCPIT staff (only a two-day orientation) and CCPIT's inexperience in promoting foreign imports, CS needs to be actively involved in and oversee the services provided through the ATC network to ensure their quality and timeliness. Additionally, in the Shanghai and Guangzhou offices, we noted that CS has not adequately defined the role of the new CS staff who were hired to support CS China's trade show initiative, an effort which CS has associated with the ATC program. This confusion has led to unnecessary staff frustration and the inefficient use of staff resources (see page 23).

CS Should Evaluate the Future Direction of the Commercial Center Program. The commercial center in Shanghai opened in July 1996 and was one of four commercial centers created under the Jobs Through Exports Act of 1992.⁴ According to the Act, the purpose of the commercial centers is to provide additional resources for the promotion of U.S. exports by providing expanded business facilities and support services at key posts. CS expanded the commercial center concept to include collocation of CS personnel with federal, state and private sector trade partners in the centers. The Shanghai Commercial Center currently has six trade partners collocated in its facilities, including three states, one city, and two trade associations. We found, however, that the benefits of the commercial center are not being fully realized. CS Shanghai is not working closely with most of its collocated partners and has not integrated them adequately into the post's operations. Additionally, CS has done little to promote and market the commercial center and its trade partners. Finally, because two out of the original four centers have closed and the remaining centers may be affected by planned CS office moves into U.S. consulate compounds in the future, CS management in headquarters also needs to determine its long-term strategy for the entire commercial center program (see page 31).

Export Success Reporting, CS' Critical Performance Measure, Continues to be a Recurring Problem. CS' primary performance goal is to "expand [the] U.S. exporter base." Measuring progress toward that goal relies on verified numbers of export transactions facilitated by CS among new and existing U.S. exporters. We found CS China, with the exception of its Shanghai office, has few verification procedures in place to support its claimed performance results, which show yearly increases. Our analysis of 126 export success stories for CS China shows that approximately 44 percent were not adequately supported by written documentation. Documentation and success story verification issues are not new. This is a recurring problem

⁴ 15 USC § 4723a.

that the OIG has noted in its last 3 CS overseas post inspections—CS Turkey,⁵ CS Greece,⁶ and CS India⁷—and its review of the Pacific Northwest USEAC network.⁸ Before performance statistics are presented to Congress and OMB, CS must confirm they are reliable and meet the reporting guidelines outlined in the *CS Operations Manual*. However, the guidelines in the manual are not specific enough to provide adequate guidance on maintaining supporting documentation of the export success stories prepared by CS trade specialists (see page 37).

CS China’s Products and Services Satisfy Most of Its Clients. CS has multiple products and services to help U.S. exporters reach the global market, including customized market research, trade events, international partner matching, and one-on-one counseling. During fiscal years 2004 and 2005, CS China provided clients more than 600 products and services. We reviewed customer surveys performed by both OIG and CS’ customer relationship management (CRM) unit to determine if these efforts met the needs of U.S. exporters. In addition, we reviewed CS China’s market research reports (planned and unplanned) to gauge the quality of the post’s written products. We also reviewed the marketing materials CS currently uses to reach prospective U.S. exporters to China and expand its potential client base. We found these efforts are satisfying most of CS’ clients but it should continue to monitor the quality of its products and services (see page 49).

Human Resources Issues Must Be Addressed to Ensure Commerce Can Maximize Its Effectiveness in China. The post’s success relies on its human resource capabilities and its ability to effectively maximize these resources and adequately plan for the future of Commerce operations in China. Adequate language training for Commerce’s foreign service officers and foreign service nationals (FSNs) is critical to effective communication at the post and with U.S. exporters. Similarly, the complex nature of business in China requires in depth knowledge of industry sectors in order to effectively service the department’s customers (see page 55).

CS China is Challenged by The Growing Number of Visitors. China’s growing economy and its expanding trade with the United States prompts many congressional staff, state governors, mayors, and other high-ranking government officials to travel to China on trade missions or commercial delegations. In 2005, CS China co-hosted 219 major events, including more than 50 trade missions. CS officers and staff are nearly always required to provide logistical support for these events, which distracts from CS’ core products and services. CS does a tremendous job of accommodating its visitors and organizing events while still accomplishing its core export-promotion mission. But several improvements could help CS manage visitors and events more efficiently, such as evaluating its logistical support for major events and visits to ensure the most efficient use of resources, reporting events to CS headquarters through CS’ eMenu, and recovering all costs it incurs in supporting certified trade missions (see page 63).

⁵ *The Commercial Service Needs to Improve Management of its Operations in Turkey*, March 2003, IPE-15370.

⁶ *Generally Sound Operations at Commercial Service Greece Are Compromised by Key Weaknesses*, September 2003, IPE-15804.

⁷ *Commercial Service India: Challenges Remain for Management of a Large and Economically Diverse Post*, September 2004, IPE-16808.

⁸ *Pacific Northwest USEAC Network Generally Operates Well, but Export Success Reports Need More Management Scrutiny*, March 2004, IPE-16507.

CS China is Not Using the Established Hiring Process to Hire Temporary Workers. CS China, particularly in Beijing and Guangzhou, frequently uses temporary workers to help with the post's special events, such as single company promotions and trade delegations. These workers typically work for a short period of time—a few days to a few weeks—and perform such tasks as recruiting attendees, issuing invitations, setting up appointments, arranging receptions, and managing RSVP lists. In some cases, temporary workers are used to update CS' databases and assist permanent staff with general administrative support, such as answering phones, making copies, and maintaining files. Certainly a post as busy as CS China will occasionally need additional help to meet deadlines and ensure the success of its events. But the process being used to employ temporary workers is problematic because proper security and human resources procedures are generally not being followed. In the future, to better protect both CS and the temporary workers themselves, CS China should use the established hiring process, in particular the Personal Services Agreement (PSA)-Temporary authority, for hiring temporary workers (see page 67).

Financial and Administrative Management of the Post Is Largely Positive, But Can Be Improved. CS China's financial and administrative operations are generally managed well, but there are several categories in which management and oversight should be improved. The staff is experienced and conscientious and has done a good job of keeping up with the increasing workload. In addition, CS China hired an administrative manager in Beijing in July 2005 who is improving coordination and management of financial and administrative activities at all CS China posts. However, procedures for petty cash and collections are not always followed, and CS officers do not properly authorize all critical financial and administrative documents. We also found that the post's inventory records were not adequately managed and reconciled and the commercial libraries in Shanghai and Guangzhou are not being fully utilized. In addition, we reviewed the physical security of each office and found no security vulnerabilities. The Regional Security Officer (RSO) in Beijing confirmed that four of the five CS offices in China meet the physical security standards set by the Overseas Security Policy Board. Security upgrades to the Shanghai office were underway as part of an office renovation at the time of our visit in September 2005. The RSO in Shanghai was monitoring the project and assured us that the office would meet all physical security requirements when the construction is completed (see page 71).

This report has two limited distribution appendices that contain sensitive or classified information that will be provided under separate cover. Appendix E is a separate memorandum report on briefings for Commerce's official travelers to China. Appendix E is For Official Use Only. Appendix F discusses the clearance process for Commerce's staff assigned to China; this appendix contains national security information and is classified SECRET/NOFORN.

On page 77, we list a summary of the recommendations to address our concerns.



In responding to our draft report, the Secretary of Commerce noted that the Department has made a substantial commitment of resources to address the growing economic and political importance of China. Specifically, he stated that the Department has expanded its presence in China and worked to ensure that U.S. companies are able to fully leverage export opportunities and have access to the China market. The Secretary also stated that he appreciated our report's

emphasis on the need to build on and improve the coordination and cooperation between the staffs of the various bureaus in order to ensure the success of the Department's programs in China. To address this issue, the Secretary has asked that the Deputy Secretary chair a quarterly meeting of the Department's principal officials who have staff in China. The Secretary stated that the purpose of the meeting will be to provide a forum for the exchange of information, to identify emerging issues, and to improve overall coordination of the Department's China operations. We appreciate the Secretary's efforts to ensure the Department continues to be flexible and innovative in its operations to ensure continued effectiveness.

The Deputy Under Secretary for International Trade also provided comments on our draft report. ITA generally appeared to concur with nearly all of our recommendations, although it did not always use those words. ITA also indicated actions that it had taken or was planning to take to address our recommendations. The only major point of disagreement centered on our recommendation to revise the *CS Operations Manual* to include clear and precise requirements for written documentation and verification of the required elements of an export success. ITA's response stated that CS does not anticipate any change to its April 2005 guidance, but it will make changes to the export success reporting form, which it states will reinforce export success record-keeping requirements and integrate them with other verification elements. CS will also take steps to clarify the export success guidelines with its cadre of officers at upcoming Senior Commercial Officer conferences. Further, the agency's response states that CS disagrees with the OIG's application of the guidance, particularly in terms of the need for client verification of export successes, documentation, and linkage between the service provided and export success. The response states that applying CS' interpretation of the guidelines, 32 percent of CS China's export successes should be categorized as unverified, not 44 percent as reported by the OIG.

While we acknowledge CS' efforts to clarify export success guidelines at the upcoming conferences, we also note that the problems we identified in our report occurred as a direct result of deficiencies in the guidelines. Indeed, when we met with several senior CS officials in February 2006 to discuss the export success reporting guidelines, they had differing interpretations as to what the guidance said and what documentation was needed to support a legitimate export success. Differing interpretations of the guidelines will continue to be an issue unless the guidance is revised to remove the ambiguity and better clarify CS' policy. We are requesting that ITA and CS rethink their position on this issue when preparing the action plan for dealing with the recommendations made in this report.

Finally, USPTO provided comments to our draft report. In response to our recommendation to develop a regular standards and IPR training program for CS officers and staff, USPTO said that CS should take advantage of its annual IPR training for U.S. government officials. This training will next be held June 15-16, 2006. Additionally, USPTO stated that it could provide IPR training during CS China's all-hands meetings or during visits to the post by USPTO officials.

We discuss the Department's responses to our findings and recommendations in greater detail following each chapter of this report. We have also included copies of the three responses to our draft report in their entirety as appendices to this report—the Secretary's response begins on page B-1, ITA's response begins on page C-1, and USPTO's response can be found on page D-1. In addition, the responses to the classified appendices are attached to those sections and provided under separate cover.

BACKGROUND




China's average growth rate of 10 percent since 1993 has propelled it to the status of third largest trading nation in the world, surpassed only by the United States and Germany. Although China is the fifth largest export market for the United States, U.S. exports to China totaled only \$38.9 billion in fiscal year 2005. Chinese imports to the United States exceeded \$232.9 billion.⁹ In 2004, China attracted more foreign direct investment than any country other than the United States. The United States is a significant investor in China, with investment growing from \$2 billion in 1995 to \$15 billion in 2004.¹⁰

China's 1.3 billion population, large land mass, nuclear capabilities, wealth of raw materials, and rapid economic growth make it a country of significant geopolitical importance. China is one of the five permanent members of the United Nations Security Council. It joined the Asia-Pacific Economic Cooperation (APEC) in 1991 and the World Trade Organization (WTO) in late 2001. China also will host the summer Olympics in Beijing in 2008 and the World Expo in Shanghai in 2010.

Both the U.S. government and business sectors have concerns about the U.S. trade deficit with China and inequities in Chinese markets. China's intellectual property rights enforcement, currency valuation, technical barriers to trade, restrictions on trading and distribution rights, and closed regulatory environment are but a few of the issues that give pause to U.S. business interests. These topics and others are discussed at annual meetings of the U.S.-China Joint Commission on Commerce and Trade (JCCT), the bilateral organization formed to address trade concerns and promote commercial opportunities. Despite the difficulties in U.S.-China trade relations, the U.S. increased exports to China by 22 percent in 2004. The U.S. is now a major supplier of power generation equipment, aircraft and parts, computers and industrial machinery, raw materials, and chemical and agricultural products to China.

The United States restricts export of high-technology products that might have military applications to China, which has been a communist state since 1949. Although some U.S. technology companies and industry associations have complained that these export controls obstruct attempts to increase trade with China, only about 2 percent of U.S. exports to China in 2004 required export control licenses, according to Commerce's Bureau of Industry and Security (BIS).

 Key Statistics for China 2004	
GDP	\$1.65 trillion
Per Capita GDP	\$1,200
U.S. Exports	\$34.7 billion
U.S. Imports	\$196.7 billion
Population	1.3 billion
Unemployment	8-10 percent
GDP Growth	9.5 percent
Total Area	3.7 million square miles

⁹ U.S. Census Bureau, Foreign Trade Statistics, Trade in Goods (Imports, Exports and Trade Balance) with China, www.census.gov/foreign-trade/balance/c5700.html, February 13, 2006.

¹⁰ *China Trade: U.S. Exports, Investment, Affiliate Sales Rising, but Export Share Falling*, U.S. Government Accountability Office, GAO-06-162, December 2005.

U.S.-China Joint Commission on Commerce and Trade

The JCCT is a government-to-government consultative mechanism that provides a forum to resolve trade concerns and promote bilateral commercial opportunities. The JCCT was established in 1983 and holds a plenary session annually. Beginning with the 2004 JCCT plenary session, both the Chinese government and the U.S. government upgraded the level of their representation at the plenary sessions; the Chinese delegation is now chaired by the Vice Premier, while the Secretary of Commerce and the U.S. Trade Representative head the United States' delegation. The most recent JCCT plenary session took place in Beijing in July 2005.¹¹ Ten JCCT working groups, which meet periodically, address issues from intellectual property rights to export controls. The JCCT plenary sessions usually formalize agreements made in these working groups.

Commerce Operations in China

The Department of Commerce has a major presence inside China, with the following bureaus operating in the country:

International Trade Administration (ITA)

- U.S. Commercial Service (CS):¹² Responsible for providing export assistance to U.S. firms through counseling, trade events, market research, and advocacy efforts (17 officers, 89 local staff).
- Import Administration (IA): Responsible for enforcing laws and agreements to prevent unfairly traded imports. Also assists U.S. companies facing Chinese trade remedy proceedings (2 officers, 3 local staff).
- Market Access and Compliance (MAC): Responsible for pursuing market access for American firms and obtaining full compliance by foreign nations with trade agreements signed between the country and the U.S. (2 officers, 4 local staff).¹³

U.S. Patent and Trademark Office (USPTO): Responsible for working on intellectual property rights (IPR) issues in China, in cooperation with other Commerce and U.S. government agencies (1 officer; 2 additional officers and 6 local staff pending).

¹¹ The July 2005 plenary session also included the participation of the U.S. Secretary of Agriculture.

¹² The Commercial Service is also known as the U.S. and Foreign Commercial Service.

¹³ Together, the IA and MAC operations in China are referred to as the Trade Facilitation Office (TFO), which is located in the same building as CS, but on a different floor. The USPTO officer, also known as the IPR attaché, is currently working out of State's Economic section in the embassy. However, negotiations are underway to move him to the TFO by the end of FY 2006. The BIS officer and the CS officer who works on standards issues are collocated with CS.

Bureau of Industry and Security (BIS): Responsible for conducting end-use checks of export controlled items, working with the Chinese government to enforce U.S. export control laws and regulations, and assisting U.S. companies with export control issues (1 officer, 1 local staff).

In addition, a CS China officer works closely with the National Institute of Standards and Technology (NIST) on standards issues. And, until October 2005, a special counsel also represented the Secretary of Commerce in Beijing.

International Trade Administration's Role in Promoting Trade with China

<u>CS China Staff</u>		
	<u>Officers</u>	<u>Local Staff</u>
Beijing	9	38
Shanghai	5	25
Guangzhou	1	14
Chengdu	1	8
Shenyang	<u>1</u>	<u>4</u>
Totals	17	89

Note: Includes 6 vacant positions

Source: CS China Quarterly Personnel Report, January 20, 2006

CS' operation in China is its largest, with offices in Beijing, Shanghai, Guangzhou, Chengdu and Shenyang and 106 officer and staff positions. The post's budget in fiscal year 2005 was approximately \$8.5 million, with \$2.8 million of that amount designated for salaries and benefits of CS' 17 foreign service officers. The remainder was allotted for administrative costs, office and residential leases, and direct program support.

Most of CS China's personnel are Chinese local residents, although the post also employs several resident American citizens. CS China now has much more latitude and discretion in hiring local staff because requirements that all diplomatic missions hire through the Chinese government's

Diplomatic Services Bureau (DSB) have been relaxed. CS offices in Beijing, Chengdu, and Shenyang are able to directly hire local staff, although DSB remains the legal employer. Under this arrangement, DSB does not retain portions of the employees' salaries. CS offices in Shanghai and Guangzhou hire through the local DSB, which retains a significant portion of the employees' salary. Locally hired American citizen personnel are not subject to the DSB rules.

Figure 1: Commercial Service Offices in China



CS also provides assistance and counseling for U.S. businesses interested in exporting to China through its domestic U.S. export assistance centers (USEACs), located in more than 100 U.S. cities. These centers work with local and state trade offices, export councils, and other public and private organizations to sponsor China trade seminars, counseling, and other assistance for interested U.S. companies. CS also maintains the China Business Information Center web site (www.export.gov/china) and has a network of specialists, including commercial officers who previously worked in China, that counsel U.S. firms interested in the China market. Finally, CS



runs the Advocacy Center in its Washington, D.C. headquarters, which works closely with CS China to coordinate official U.S. government efforts on behalf of U.S. exporters, especially those seeking to win major contracts or participate in major projects with the Chinese government.

MAC's China desk in Washington, D.C., coordinates with CS China on market access and other trade policy issues, as well as its own staff in the TFO. The Trade Compliance Center, which is part of MAC, also periodically coordinates with CS China to assist U.S. exporters struggling with Chinese trade barriers. Finally, ITA's Manufacturing and Services unit has industry specialists who work with CS China on industry-specific trade issues.

CS China Coordination with Other Agencies and Organizations

CS China coordinates with several other governmental and non-governmental entities that promote U.S. exports to China or are active in promoting the interests of U.S. businesses in China (see Table 1). In addition, CS China supports other U.S. government agencies such as the State Department, the Agriculture Department, and the U.S. Trade Representative, in their efforts to promote market access for U.S. companies and Chinese compliance with trade agreements.

Table 1: Highlights of CS China’s Coordination with Other Entities¹⁴

OTHER GOVERNMENTAL ORGANIZATIONS	
<i>State Department</i>	CS China regularly coordinates with State’s Economic Affairs section on trade and market access issues and the Consular Affairs section on visa issues. CS China also relies on other State Department sections for administrative and human resources support.
<i>United States Trade Representative (USTR)</i>	USTR coordinates with CS China on trade and market access issues, as well as JCCT issues. However, USTR primarily works with the State Department in China and MAC at Commerce headquarters in Washington, D.C.
<i>Export-Import Bank (ExIm)</i>	ExIm and CS China occasionally coordinate to promote ExIm financing for U.S. exporters.
<i>U.S. Trade Development Agency (TDA)</i>	A local-hire TDA staff person works out of CS offices in Beijing. CS China and TDA coordinate to support development efforts in China that may lead to U.S. exports, including TDA funding for trade studies, training, and travel.
BUSINESS ORGANIZATIONS	
<i>American Chambers of Commerce in China (AmCham)</i>	CS China regularly cooperates with the AmCham in Beijing, Shanghai, Guangzhou, and Chengdu.
<i>U.S. China Business Council</i>	CS China regularly communicates with the U.S. China Business Council and coordinates various trade efforts with the council.
<i>U.S.-based business organizations</i>	CS China maintains productive relationships with several U.S.-based business organizations to address U.S.-China trade issues, including the U.S. Chamber of Commerce and the National Association of Manufacturers.

CS offices also regularly coordinate with the State Department’s Consular Affairs sections. CS officers can help facilitate visa applications through the embassy’s visa referral process. Additionally, although the State Department’s visa procedures in China are primarily intended to protect U.S. security and prevent illegal immigration, State has tried to help facilitate legitimate business-related visa applications by instituting programs through the AmCham in Beijing, Shanghai, and Guangzhou to expedite the visa application process for priority business visa applicants. Despite these programs and CS’ assistance on selected visa applications, many U.S. companies, business associations, and CS officers characterize the visa application process as being a significant impediment to the expansion of U.S. exports to China.

CS also has a unique asset in China that allows it the opportunity to coordinate on a daily basis with six other U.S. trade promotion organizations—its commercial center in Shanghai. The commercial center initiative is designed to bring organizations complementary to CS’ mission under one roof to develop synergy that benefits all of the operations. The Shanghai commercial center provides fully equipped office space and other resources to six partner organizations: the Association for Manufacturing Technology; the city and county of Denver; the Packaging Machinery Manufacturers Institute; and the states of Michigan, Illinois, and Washington.

¹⁴ This list is not all-inclusive, but includes the organizations that CS China most frequently interacts with.



Sign for the U.S. Commercial Center in Shanghai

American Trading Centers

In the FY 2004 Appropriations Act for the Department of Commerce and related agencies, Congress mandated the creation of American Trading Centers (ATC) to be opened in “major Chinese commercial centers” designed to “enable U.S. exporters to receive assistance while in [China] and provide for on the ground expertise, including market research capabilities.” The appropriations language also stated that the ATCs would help “enforce the commitments made by China as part of the China’s WTO accession agreement.” The Act explicitly required CS to hire at least six people to support the ATC initiative.

Figure 2: American Trading Center Offices in China



Source: CS

To fulfill the mandate, CS partnered with the Chinese Council for the Promotion of International Trade (CCPIT), a Chinese quasi-governmental entity charged with promoting investment and foreign trade. On July 12, 2005, CS signed a memorandum of understanding (MOU) with CCPIT establishing the “CCPIT-US&FCS International Partner Network.” Under the agreement, CS will use the CCPIT to deliver services to US exporters in 14 “key Chinese business centers” that do not already have CS offices.¹⁵ The MOU stipulates “CCPIT is committed to facilitating U.S. companies’ exports of goods and services to China, notably to geographic areas of China that are beyond the normal reach of existing US&FCS posts.” CCPIT

¹⁵ While considered one “business center” by CS, the Nanjing/Jiangsu Province ATC is actually covered by two distinct CCPIT offices. Thus, there are really 15 CCPIT offices that will be providing services to U.S. companies through the ATC network.

agreed to provide matchmaking services between U.S. exporters and prospective Chinese buyers, agents, or distributors under the CS Gold Key service (GKS) and International Partner Search (IPS) programs. According to the terms of the agreement between CCPIT and CS, CCPIT receives 40 percent of the total fee that is paid by American companies for these services; CS retains 40 percent and the American Chamber of Commerce in Beijing receives 20 percent for its role in facilitating the service. As of December 1, 2005, nine CCPIT offices had provided services through the ATC network. Six offices were not yet operational, including both offices in the Chengdu consular district, where the program has yet to be implemented due to the lack of a CS officer and an ATC coordinator.

CS China created 11 new local staff positions to support the ATC initiative and has hired coordinators for the ATC offices in the Shanghai and Guangzhou consular districts. CS plans to hire coordinators for the Beijing, Chengdu, and Shenyang consular districts in the near future. These positions require security clearances and must be filled by American citizens.

As part of the ATC initiative, CS also has dramatically increased its participation in major Chinese trade shows, although the ATC legislation did not explicitly mention trade show participation. Prior to the ATC initiative, only the Shanghai office actively sponsored American exhibitors at Chinese trade shows. CS China has also hired six additional commercial specialists to support the trade show initiative—two each in Beijing, Shanghai, and Guangzhou.

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OBJECTIVES, SCOPE, AND METHODOLOGY

The Commerce Office of Inspector General (OIG) conducted this inspection of the U.S. and Foreign Commercial Service (CS) and other Commerce offices in China in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency in 2005. The inspection was conducted under authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated May 22, 1980, as amended.

The intent of our inspection was to examine the effectiveness of the management, programs, and financial and administrative operations of CS China, in conjunction with an assessment of Commerce's overall mission and activities in China. Specifically, we planned to determine whether the post:

- Plans, organizes, and controls its work and resources effectively and efficiently;
- Meets the needs of U.S. exporters and increases U.S. exports and market access through effective operations;
- Maintains appropriate internal controls and financial management practices;
- Efficiently manages human resources;
- Supports Commerce's trade compliance, intellectual property rights (IPR), and market access efforts
- Works effectively with other embassy components and partner organizations; and
- Maintains adequate and secure physical infrastructure.

To meet these objectives, we:

- Reviewed the post's FY 2004 and FY 2005 performance measures, including export successes and quality assessments, and contacted a random sample of clients that utilized CS' services;
- Interviewed all appropriate Commerce and CS headquarters staff, as well as trade partners from various federal, state, and local government agencies and organizations, industry associations and business partners that regularly collaborate with the post;
- Interviewed the staff from the various Commerce agencies located in China;¹⁶
- Evaluated the post's American Trading Center (ATC) initiative and traveled to the ATC offices in Nanjing and Jiangsu province, speaking to Chinese Council for the Promotion of International Trade (CCPIT) officials from these offices, as well as representatives from the CCPIT offices in Shenzhen and Zhuhai and initial customers of the ATC network;
- Evaluated the commercial center in Shanghai and interviewed five of the six collocated trade partners;
- Assessed the post's internal controls and financial management practices including examining the collections and deposits, imprest fund/petty cash, procurements, credit card usage, travel orders and vouchers, inventory, representation fund, gifts and bequests,

¹⁶ We did not evaluate the operations or performance of the other non-CS components of Commerce in China. We only looked at their interaction and coordination with CS, as part of the overall Commerce mission in the country.

international cooperative administrative support services (ICASS), and use of government property for fiscal years 2003 to 2005.

In January 2003, CS' Office of Planning conducted a Management Performance Review (MPR) of its offices in China. An MPR is a tool for CS senior managers to review and reestablish program direction, identify and adopt systemic management and program improvements, and provide assurance that the organization is operating efficiently and effectively. The MPR team identified numerous issues in China during that review that required management attention. During our evaluation, we followed up on some of these issues to determine whether problems had been solved or whether any concerns related to the issues raised in the MPR review remained.

We conducted our fieldwork from July 25 to December 23, 2005, and conducted on-site inspections of all five Commerce offices in China from September 12 to September 30, 2005. During the course of our inspection, we met with all Commerce personnel in China who were at the post during our visit, including the secretary's special counsel and officers from CS, Import Administration (IA), Market Access and Compliance (MAC), Bureau of Industry and Security (BIS), and the United States Patent and Trademark Office (USPTO). We also met with the U.S. Ambassador to China; the Deputy Chief of Mission; the Consuls General in Shanghai, Chengdu, and Shenyang; the Acting Consul General in Guangzhou; as well as consular, administrative, economic, political and security officials at all five posts. We spoke with officials in China from the Foreign Agricultural Service and representatives from various trade and partner organizations (see Table 2) and numerous U.S. companies doing business in China. We also met with the President's Coordinator for

Table 2. U.S. and Chinese Partner Organizations Interviewed by the OIG

In addition to meeting with officials of U.S. government trade-related agencies, we met with representatives of the U.S. and Chinese business and trade associations, and the U.S. state and municipal offices listed below.

Washington D.C.

- National Association of Manufacturers (NAM)
- National Confectioners Association
- National Printing Equipment Association (NPES)
- U.S. Chamber of Commerce
- U.S.-China Business Council

Beijing

- American Chamber of Commerce (AMCHAM) Beijing
- U.S.-China Business Council Beijing
- U.S. Information Technology Office (USITO)

Guangzhou

- AMCHAM Guangzhou

Shanghai

- AMCHAM Shanghai
- AMCHAM Travel and Tourism Committee
- Association of Manufacturing Technology (AMT)
- China Aerospace Science and Industry Corporation (CASIC)
- City and County of Denver
- Overseas Real Estate Association
- Packaging Machinery Manufacturers Institute (PMMI)
- Quality Brands Protection Committee (QBPC)
- Semiconductor Equipment and Materials International (SEMI)
- State of Washington
- State of Illinois
- State of Michigan

Source: OIG

International Intellectual Property Enforcement. Finally, we consulted with the Government Accountability Office (GAO) and discussed issues related to its work on China trade.

Upon our return to Washington, D.C., we briefed the Deputy Secretary, Under Secretary for International Trade, Director General and Deputy Director General of the U.S. and Foreign Commercial Service, the Under Secretary for Industry and Security, the Under Secretary for Intellectual Property and Director of USPTO, the Director, National Institute of Standards and Technology (NIST), and the Deputy Assistant Secretary for Asia. We also discussed our findings with the CS China senior commercial officer (SCO), the Deputy Assistant Secretary for International Operations, and the East Asia and Pacific (EAP) Regional Director throughout the course of our inspection. We met with Commerce officials from various offices in the International Trade Administration (ITA), including CS, IA, MAC, and Manufacturing and Services (M&S). We also debriefed officials from other Commerce bureaus, including USPTO, BIS, and NIST.

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OBSERVATIONS AND CONCLUSIONS

I. Commerce's China Mission Faces Unique Management Challenges and Opportunities

China is not only Commerce's largest overseas mission, it is also the only overseas post with permanently assigned staff from three separate Commerce bureaus and three organizations within the International Trade Administration (ITA). The management structure of Commerce's China mission was designed for a much smaller and more limited overseas operation and this structure may not respond effectively to future growth in Commerce's China operations. Efficient coordination of Commerce's complex and varied mission with permanent staff from multiple bureaus is important for the Department's overall success there. Commerce also must address the challenges of managing the large and geographically diverse U.S. and Foreign Commercial Service (CS) operation from its post headquarters in Beijing. During our inspection of CS' four offices outside of Beijing, we found strong management in its Shanghai and Guangzhou offices, but we also found that CS faces challenges in effectively managing and staffing its more peripheral offices in Chengdu and Shenyang. We also found lengthy vacancies in several of Commerce's other positions in China that indicate the need for the Department to improve human resource planning for its positions in China.

A. *A team effort is essential to the success of Commerce's China programs*

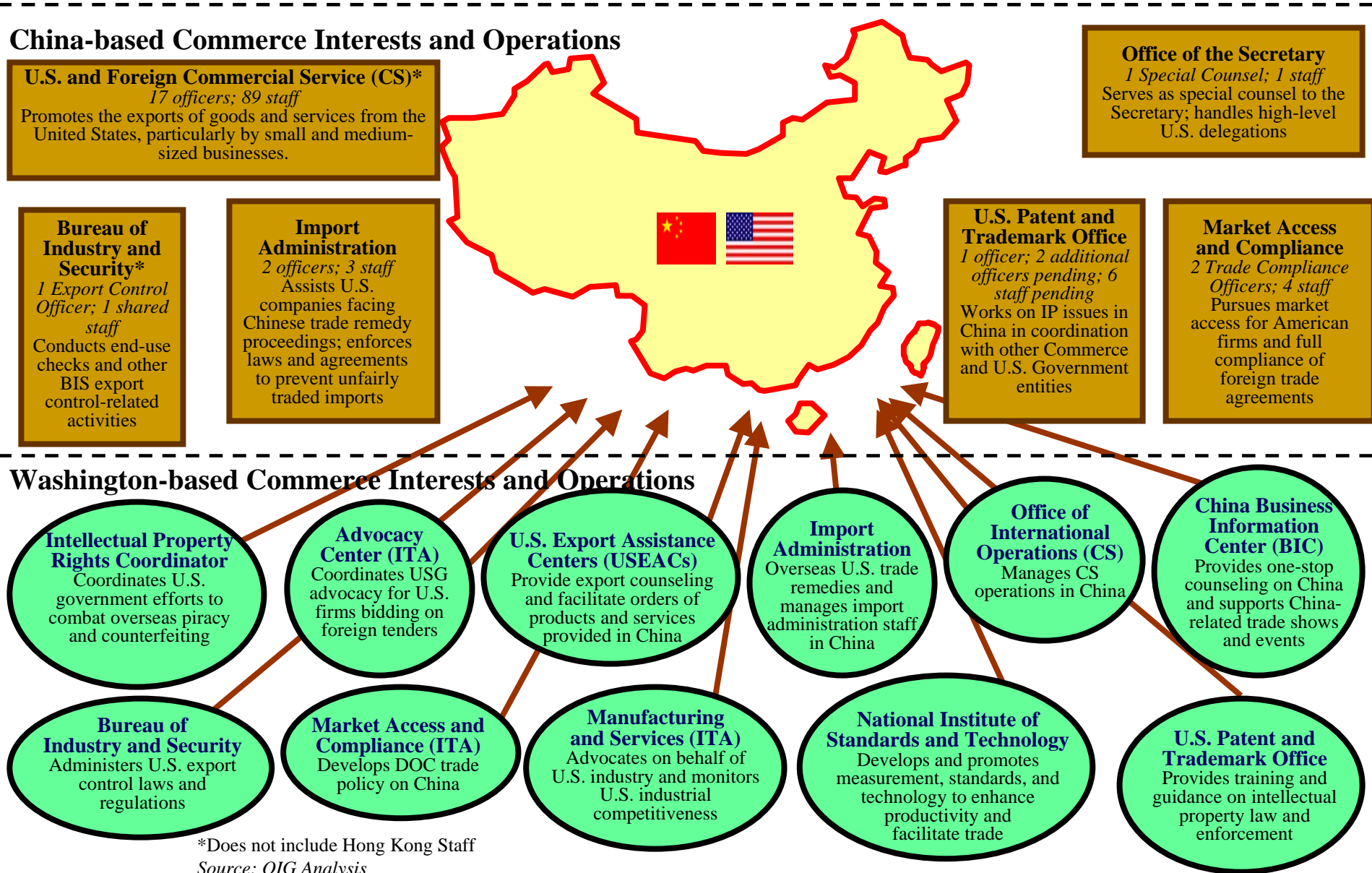
China's growing economy and the expanding U.S.-China trade deficit, which reached about \$193.9 billion in fiscal year 2005, represent substantial challenges for the Department as it seeks opportunities to promote a constructive trade relationship between China and the United States. As Commerce confronts its major challenges in China, such as promoting U.S. exports, protecting intellectual property rights (IPR), improving market access, enforcing export controls, and promoting U.S. industry standards, it must be able to depend on a seamless team effort, both from its staff on the ground in China and its various headquarters units with interests or responsibilities in China. Policy disagreements, confusing lines of authority, logistical issues, or conflicting objectives would hinder the effectiveness of Commerce's efforts in China.

The complexity of managing Commerce's China operations goes beyond the organizations with personnel in the country. As shown in Figure 3, a host of other Commerce organizations have significant interests or responsibilities in China. Other key U.S.-based Commerce organizations working on China trade issues include the Advocacy Center, the China Business Information Center, CS' U.S. Export Assistance Centers, ITA's Manufacturing and Services, and the President's Coordinator for International Intellectual Property Enforcement. Active support from and close coordination with Commerce personnel in China are keys to the success of these organizations' China-specific efforts.

The effective management and coordination of Commerce's China efforts is also a prerequisite for Commerce's constructive coordination with other government agencies and private sector organizations. Commerce should speak as one voice on complex policy issues or it will not be able to best lead the cross-organizational efforts that are needed to make progress on the substantial challenges that these organizations face in China.

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Figure 3: Commerce's Multi-Faceted Trade Efforts in China



B. Commerce should clarify its management structure in China

While most Commerce personnel in China work for CS, Commerce's other operations in China are substantial. Commerce has a Trade Facilitation Office (TFO) in Beijing with officers from both ITA's Market Access and Compliance (MAC) and Import Administration (IA). In addition, there are officers in Beijing representing both the Bureau of Industry and Security (BIS) and the U.S. Patent and Trademark Office (USPTO),¹⁷ as well as a CS officer assigned to a newly created standards portfolio who coordinates closely with the National Institute for Standards and Technology (NIST). Until recently, the Secretary of Commerce also assigned a special counsel to Beijing.¹⁸ While there are officers from BIS, MAC, and IA assigned to other posts, the unprecedented size and scope of the Department's China operations calls into question the effectiveness of a management structure that was designed for a smaller and more limited Commerce overseas missions.

Commerce's management structure in China is unclear. There is currently no one person in China, or any other Commerce overseas mission, with the undisputed authority to coordinate and organize the efforts of all the Commerce organizations represented there. Within the CS post, the senior commercial officer (SCO) is the top official, but he plays a more ambiguous role in relation to the other Commerce operations in China. The SCO reports both to the ambassador and to CS management in Washington, and the ambassador told OIG that all Commerce officials in China should report to *him* through the SCO. Despite this formal reporting structure to the ambassador, the SCO is only a nominal part of the chain of command for many of the non-CS Commerce employees, such as the TFO officers and the BIS export control officer,¹⁹ who primarily report to and coordinate with their organizational units in Washington. MAC and IA staff in China reported that they have little interaction with CS and the SCO, at least in part because the TFO office space is physically separated from the rest of the Commerce staff although located in the same building. The IPR attaché interacts regularly with CS, but this officer currently works out of the State Department's Economic Affairs section of the embassy and has complete autonomy from the other Commerce staff in China, including the SCO.

Even though Commerce's existing management structure for its China operations mirrors that of its other overseas missions, the current management structure may not be optimal considering the unprecedented size and scope of Commerce's mission in China. Commerce's China team may miss opportunities because it is saddled with a management structure designed for a smaller and

¹⁷ The IPR attaché, who represents USPTO, is officially an employee of the State Department and works out of State's Economic Affairs section. However, the position is funded by USPTO and the officer coordinates closely with USPTO management. This arrangement is changing, as USPTO has decided to post all additional officers (it has plans to put one in Beijing and one in Guangzhou) to the commercial section of the U.S. diplomatic mission, and it intends to transfer the current IPR attaché to the commercial section as well. The transition is scheduled to be completed by the end of FY 2006.

¹⁸ The Secretary of Commerce can appoint one special counsel to a CS post. Former Secretary Evans had appointed a special counsel in Beijing in October 2003. This official remained in Beijing after Secretary Gutierrez's appointment, but resigned his position in October 2005. Secretary Gutierrez has not yet named a replacement, and has not yet indicated to which post the next special counsel will be assigned, or indeed whether the position will be continued.

¹⁹ According to the memorandum of understanding between CS and BIS, the export control officer reports to the SCO for administrative issues, but reports directly to BIS headquarters on all other issues.

more limited overseas mission. While the officers currently serving in China generally appear to be coordinating their efforts in a constructive way, this cooperation is primarily based on informal working relationships. Once the current officers leave China, however, there is no guarantee that the existing level of cooperation among the various Commerce organizations will continue. Future additions to the Commerce mission in China, such as the planned expansion of the USPTO contingent in Beijing and the planned addition of a new USPTO officer in Guangzhou, will further complicate efforts to effectively manage Commerce's large and diverse staff in China. Future initiatives, crises, or policy changes might create conflicts or operational challenges that could only be effectively resolved by a robust management structure for Commerce operations in China. Commerce should not continue to rely upon ambiguous reporting structures and personal relationships to coordinate its China programs and operations, but should provide its management with the direction and authority necessary to effectively coordinate the Department's multi-faceted China efforts.

The role of the Secretary's special counsel is ambiguous. At the time of our review, we noted the Secretary of Commerce's special counsel further confused the reporting structure in China because the role of the Special Counsel was never clearly defined. The special counsel primarily worked on representation and advocacy issues while the SCO focused on day-to-day programmatic operations and management. While this arrangement was effective, by most accounts, the working relationship between the two officials was based on compatible personalities and mutual respect—not a clear delineation of the positions' responsibilities and chain of command. The heavy workload at Commerce's China mission also left more than enough work for both officials, and this helped preclude conflict and "turf battles" that some expected and feared. Despite the effective working relationship between the SCO and the former special counsel in China, the ambiguous responsibilities of the special counsel position could strain the relationship between a future SCO and a future special counsel. We note that the dual assignment of a special counsel and an SCO to the same post created real problems at another key CS post in recent years. Before assigning another special counsel to China or any other post that also has an SCO, the Department should clearly define the roles and responsibilities of the special counsel position vis-à-vis those of the SCO.

C. The Commercial Service faces challenges in managing its peripheral offices

During our inspection of the five offices of CS China, we found that the SCO was providing clear guidance to the Beijing office, and there was strong leadership of the Shanghai and Guangzhou offices by the principal commercial officers (PCOs) with adequate oversight from the SCO. Managing the smaller offices in Shenyang and Chengdu, however, presents more of a challenge for CS. CS has had difficulty in attracting qualified officers to serve in them, in part because they are distant from the more established trading centers and the U.S. mission. But both of these cities are large and serve regions not easily reached by the other CS posts. The importance of the PCO positions in Shenyang and Chengdu is amplified by the limited demand for traditional CS products and services in these cities. This limited demand necessitates that these smaller CS offices take a more proactive approach to promoting U.S. exports in their regions, thus creating further challenges for these PCOs.²⁰ The officers assigned to these

²⁰ Many U.S. businesses are less familiar with Chengdu and Shenyang, thus they tend to focus on the more developed coastal region of China.

peripheral cities cannot effectively manage the office by waiting for clients to knock on the door, but rather must search for business opportunities that can be presented to qualified U.S. businesses.

The commercial potential of the Shenyang and Chengdu consular districts appears to justify the presence of the CS offices in those locations, as strong economic growth in these regions continues and the Chinese government places emphasis on economic development in more peripheral areas. In several meetings with U.S. businesses operating in China, we found them to be particularly bullish on the economic potential of Chengdu and the Sichuan region. According to the Consul General in Chengdu, several European countries have recently opened consulates in that city, and these new consulates are primarily focused on promoting business opportunities in the Sichuan region. The Consuls General in both Chengdu and Shenyang are eager to assist CS; they both characterized the promotion of U.S. business interests as one of the primary functions of the U.S. mission.

Chronic vacancies in the PCO position in Chengdu create a management vacuum. The Chengdu office has been hampered by chronic turnover and long vacancies in the PCO position and only limited assistance and oversight from CS Beijing. According to the acting PCO, a locally-hired U.S. citizen, only one officer has served a full two-year assignment in Chengdu in the seven years that she has worked for the office. At the time of our inspection, the SCO had only been to Chengdu once since the departure of the last PCO in March 2005. Although CS Beijing has sent two administrative officers to Chengdu for brief visits, and the Deputy SCO assisted CS Chengdu with a trade show, such sporadic visits are not a satisfactory substitute for a coordinated management support effort from Beijing for a post without a PCO. The Consul General in Chengdu has been extremely frustrated by the ongoing absence of a PCO and the lack of additional support from CS Beijing to compensate for the absence of a permanent PCO.²¹ The Consul General felt that the lack of a PCO prevents the CS office from taking full advantage of the expanding commercial potential of the Sichuan region.

We also found that the lack of a PCO in Chengdu has left no one to perform some normal managerial tasks, such as organizing staff training opportunities, adjusting staff responsibilities, and ensuring proper approval of export success stories. CS Chengdu also uses an unusual matrix structure governing the staff's commercial responsibilities that may no longer be appropriate. In Chengdu, the commercial specialists have responsibility both for specific industries and for specific regions within the consular district, which contrasts with the industry-specific staff assignments of the other CS offices in China. The lack of a PCO in Chengdu also hampers the development of the planned American Trading Centers (ATCs) in Kunming and Chongqing because CS cannot hire an ATC coordinator until there is a PCO in place to supervise the new hire.

Staffing the PCO position in Shenyang is a challenge for CS. CS has also been unable to recruit a CS foreign service officer to serve in Shenyang. After the departure of the previous PCO, a limited-appointment officer from CS headquarters, no CS officer bid for the PCO position in Shenyang. A senior State Department officer whose spouse was assigned to

²¹ CS had slated a limited appointment CS officer to fill the vacancy in Chengdu starting in October 2005. However this appointment fell through and CS has been forced to start over in trying to fill the position.

Shenyang as Consul General approached CS about the position, and this officer has served as PCO for over a year. While the current PCO has worked effectively with CS Beijing to promote U.S. exports in northern China, the availability of a senior State Department officer was fortunate. CS must address its long-term personnel recruiting problems in Shenyang as well as Chengdu.

CS needs to ensure that the PCO positions in Shenyang and Chengdu are part of a coordinated strategy to recruit, retain, and develop officers with a specialization in China. Given the difficulty of recruiting qualified officers to serve in Shenyang and Chengdu, CS should use whatever tools are necessary to recruit qualified individuals, including offering enticements such as conditional promotions and bonuses. If those methods are not successful, CS should also make use of its authority to directly assign CS officers to Shenyang and Chengdu.

D. Continuity of expertise and staff in China has been problematic

The Commerce mission in China—CS, IA, MAC, BIS—relies on highly qualified personnel with the expertise to function effectively in China. Lengthy vacancies in some CS, MAC, and IA positions in China indicate the need for these organizations to improve human resource planning for these positions.

CS faces challenges in staffing its China operations. CS currently has seventeen officers²² posted to China. Many of these officers have already extended their tours of duty beyond the standard 2-year rotation, and CS will have to replace nearly three fourths of the officers currently assigned to China over the next two years. Because China is CS' largest post, CS will continue to have many vacancies to fill, including the PCO positions in Shenyang and Chengdu, which have been very difficult for CS to fill in the past (see discussion above). Developing and retaining a pool of officers with Chinese language skills and China-specific expertise will be increasingly important for CS in the coming years.²³ According to officers currently serving in China and others, language proficiency significantly improves an officer's effectiveness. Because Chinese can be a difficult language for English-speakers to learn, training officers with no previous knowledge of Chinese is expensive and time-consuming.²⁴ In order to ensure that it can meet its future staffing needs in China, CS should develop a comprehensive strategy to train, recruit, and retain officers with Chinese language skills and China-specific expertise.

MAC and IA have not planned effectively to meet staffing requirements in China. We also found that IA and MAC have not effectively managed their human resource strategy to ensure they are continually staffed at post. While neither organization has a large pool of staff serving overseas, both will have staff in China for the foreseeable future and should plan accordingly.

Two IA positions, the senior import administration officer and the import administration specialist, remained vacant during much of our review with minimal replacement planning by headquarters prior to the officers' departure. The two 3-year assignments began May 2002 and

²² As of January 2006.

²³ As of November 2005, CS had 34 officers on staff with active proficiency in Mandarin.

²⁴ According to the State Department, Chinese ranks among the "category B" group of languages that are more time-consuming for native English speakers to learn (see 13 FAM exhibit 234).

August 2002, respectively, and were scheduled to end September 30, 2005. Assignment dates are intended to allow management to forecast future staffing needs, but IA human resources failed to announce either of the vacancies until the end of July 2005, which left just two months to complete applicable diplomatic and language training for the overseas assignment and ensure continued staffing at the post. According to CS, the senior IA officer is not scheduled to arrive until March 2006 and the specialist position April 2006, although IA did send a temporary duty staff person from headquarters to the post.

We found a similar situation with one of the MAC trade compliance positions (TFO director), a critical position which oversees the entire TFO operation. The former officer was assigned to China for approximately 2.5 years and left post February 2005. However, it was 8 months later before the position was finally filled. The lack of contingency planning combined with the length of the vacancy meant that the TFO staff and the already overburdened CS China management had to oversee operations. Both MAC and IA need to improve their human resource planning to minimize future staffing disruptions in China and recruit personnel with appropriate qualifications.

Recommendations:

We recommend that the Secretary of Commerce take the following actions:

- Develop appropriate management processes and lines of authority to ensure that Commerce organizations cooperate effectively in meeting Commerce's many challenges in China.
- Clarify the roles and responsibilities of the special counsel vis-à-vis those of the SCO position before appointing a new special counsel to China or any other post.
- Ensure that Commerce bureaus with positions in China develop an effective human resource strategy that forecasts future staffing needs and provides a continuous supply of qualified officers with adequate China-specific expertise.

We recommend that the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service take the following actions to improve CS China operations:

- Immediately appoint a qualified officer to fill the PCO position in Chengdu and in the meantime, consider the use of a temporary duty officer to cover the post, preferably someone who has served in China previously. CS Beijing should also provide closer management oversight and support of CS Chengdu until a new PCO arrives.
- Take steps to ensure that staffing gaps in Chengdu and Shenyang are kept to a minimum, using inducements and directed assignments as necessary to fill these positions.



In his response to our draft report, the Secretary of Commerce concurred with our recommendation to develop appropriate management processes and lines of authority to ensure that Commerce organizations cooperate effectively in meeting Commerce's many challenges in China. The Secretary's response did not address the other two recommendations directed to him

but he noted that the International Trade Administration has submitted a comprehensive response to the findings and recommendations contained in our report. The Secretary also noted that the Department has made a substantial commitment of resources to address the growing economic and political importance of China. Specifically, the Department has expanded its presence in China and worked to ensure that U.S. companies are able to fully leverage export opportunities and have access to the China market. In addition, the Secretary said that he appreciated our report's emphasis on the need to build on and improve the coordination and cooperation between the staffs of the various bureaus in order to ensure the success of the Department's programs in China. To address this issue, the Secretary has asked that the Deputy Secretary chair a quarterly meeting of the Department's principal officials who have staff in China. The Secretary further added that the purpose of the meeting will be to provide a forum for the exchange of information, to identify emerging issues, and to improve overall coordination of the Department's China operations. We appreciate the Secretary's efforts to see that the Department continues to be flexible and innovative in its operations to ensure the continued effectiveness of its China mission.

In its response to our draft report, ITA concurred with our recommendations to improve oversight of CS Chengdu and address the PCO vacancy there, although the response noted that the past staffing gaps in Chengdu were due to health and other unexpected reasons rather than difficulties in filling the post. ITA reported that CS has selected a new officer for CS Chengdu and has assigned an officer on TDY to Chengdu for one week of each quarter, beginning in December 2005, pending arrival of the new officer. CS concurred with our recommendation to take steps to minimize future staffing gaps at CS Shenyang and CS Chengdu.

We are pleased that CS has taken steps to promptly address the management vacancy at CS Chengdu and improve oversight of that office until the arrival of the new PCO. We anticipate that these measures will improve operations at CS Chengdu and allow the post to better seize commercial opportunities in the Sichuan region. CS' commitment to seek to ensure staffing continuity at the posts in Shenyang and Chengdu is also welcome, although we encourage CS to respond more promptly to unanticipated vacancies in the future.

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II. The American Trading Center Program is New and Largely Untested

CS is currently implementing its American Trading Center (ATC) initiative²⁵ in 14 major commercial centers throughout China. At the time of our visit, the most progress on this initiative had been made in the Shanghai consular district, while many of the other offices were not yet ready to provide services to American companies. Work remains to build an effective and complete program. We found that CS will need to closely monitor the efforts of its partner for the ATC program, the state-sponsored Chinese Council for the Promotion of International Trade (CCPIT), to ensure that the local CCPIT subcouncils provide quality services to U.S. companies. While CCPIT has extensive local market knowledge, the promotion of imports from the U.S. is not one of the organization's major objectives, and the incentives for local CCPIT subcouncils to serve U.S. exporters may be weaker than CS has indicated. The limited training provided to CCPIT staff and CCPIT's inexperience in promoting foreign imports reinforces the need for CS' active and ongoing involvement in the provision of ATC services. Additionally, we noted that CS staff in both the CS Shanghai and CS Guangzhou offices were confused about the role of the new personnel hired to support CS China's trade show efforts.

A. *CS needs to be actively involved in the provision of ATC services to ensure the program's success*

CS staff should work closely with the CCPIT local subcouncils to ensure that they provide quality services to U.S. companies. CS' limited involvement in the delivery of some of the first few ATC services has affected the quality of those services. While some ATC customers told us that CS was actively involved in the ATC service delivery, others described a more hands-off approach by CS trade specialists and officers. Continued involvement by CS trade specialists and officers is fully justified both by CS' revenue collection from the ATC services and CS' receiving credit for export successes resulting from ATC services.

CS' initial cooperation with CCPIT is positive but work remains to build the program. CS hired its first ATC coordinator in Shanghai, and the coordinator and PCO have worked to develop an effective program in this district. The Consul General (CG) in Shanghai is an enthusiastic supporter of the program, and has participated in grand opening ceremonies at all four ATC offices in the Shanghai consular district (Nanjing, Jiangsu Province, Ningbo, and Hangzhou). With the support of the CG and the PCO, the ATC coordinator has done a particularly good job of cultivating relationships with the CCPIT staff in these offices. All four offices have hosted Gold Key services, with the coordinator providing support to the CCPIT officials who worked directly with the U.S. companies. CCPIT officials in Nanjing and Jiangsu province were enthusiastic about the ATC program and were eager for more American companies to participate.²⁶ We spoke with four customers of ATC services in the Shanghai consular district, and three of the four were satisfied with the services provided by CCPIT.

Table 2: Consular Districts of ATC offices and Initial Services completed

²⁵ In China, CS refers to this program as the International Partner Network (IPN). CCPIT officials were uncomfortable in referring to the offices as "American Trading Centers."

²⁶ Members of the OIG inspection team visited the Nanjing and Jiangsu Province ATC offices in September 2005.

U.S. Consular District	ATC Office	Number of ATC Services Completed (as of 1/3/06)
Beijing	Tianjin	1 (IPS) ²⁷
	Qingdao	1 (IPS)
	Xi'an	0
	Wuhan	0
Shanghai	Nanjing	2 (GKS) ²⁸
	Jiangsu Province	1 (GKS)
	Ningbo	1 (GKS)
	Hangzhou	3 (2 GKS, 1 IPS)
Guangzhou	Xiamen	0
	Shenzhen	2 (GKS)
	Zhuhai	0
Chengdu	Chong'qing	0
	Kunming	0
Shenyang	Harbin	1 (GKS)
	Dalian	1 (IPS)

Source: CS Beijing

Although CS has now completed services at some of the ATC offices in the Beijing, Guangzhou, and Shenyang consular districts, the program is not as mature outside of the Shanghai district. CS has hired an ATC coordinator in Guangzhou, and the Shenzhen ATC office completed two successful Gold Key services in November 2005. However, at the time of our inspection in September 2005, CCPIT officials from Shenzhen and Zhuhai were meeting with CS officials to get the program on track, and the ATC network in the Guangzhou district was not yet ready to service U.S. companies. CCPIT officials from Shenzhen and Zhuhai told us that they had received minimal ATC program information prior to the initial two-day training session in Beijing, and were struggling to raise awareness of the program with their local municipal governments and the CCPIT member companies.

As of January 2006, CS had not yet been able to find a qualified U.S. citizen for the ATC coordinator position in Shenyang.²⁹ Despite the lack of an ATC coordinator, both of the ATC offices in the Shenyang consular have provided services to U.S. clients. The program in Chengdu faces further challenges. As noted earlier, the PCO position in Chengdu has been vacant for almost a year, and the consulate will not hire an ATC coordinator for the office until CS has filled the PCO position. During our inspection, the CG in Chengdu expressed his opposition to the ATC program because he felt that it would be inappropriate for a Chinese-governmental organization such as CCPIT to conduct trade promotion activities on behalf of CS. The CG characterized the initiative as shipping the business of CS out to the Chinese government. Despite these concerns, CS should be able to implement the ATC program in the Chengdu consular district because the program responds to a legislative mandate and the program has the support of the Ambassador. The next PCO in Chengdu should coordinate

²⁷ The International Partner Search (IPS) service is conducted by CCPIT and the results are sent to the U.S. customer, but the customer does not travel to China.

²⁸ The Gold Key Service (GKS) involves a series of face-to-face meetings with potential business partners. These meetings are scheduled by CCPIT and are usually conducted at the potential partner's offices.

²⁹ The ATC positions require a security clearance, and thus must be filled by a U.S. citizen. As U.S. citizens, the ATC coordinators should be perceived as more credible representatives of CS to CCPIT officials.

closely with ATC officials in Shanghai and Beijing to implement the program in the Chengdu district, and should strive to gain the active cooperation of the new CG, who is scheduled to arrive in June 2006.

CS should ensure that U.S. companies using the ATC network have realistic expectations.

The success of the services offered through the ATC program depends not only on the quality of the services delivered by CCPIT but also on the preparation of U.S. companies who are using the ATC services. CS' ATC coordinators can help to ensure that CCPIT officials deliver quality services to U.S. companies, but they are not commercial specialists and should not be expected to provide extensive counseling to U.S. companies. Rather, it is the responsibility of the CS commercial specialists and officers, either within CS China or within CS' domestic U.S. Export Assistance Centers, to ensure that their clients are adequately counseled on how to make the most of the ATC service.

In at least one recent instance, a U.S. company participating in a Gold Key service in Nanjing may not have received adequate counseling from CS personnel. CCPIT officials in Nanjing expressed their concern that this company had unrealistic expectations of what could be achieved through the Gold Key service—company officials expected to make immediate sales to Chinese companies and did not come prepared with Chinese-language sales and marketing materials. While some companies using the ATC services may have experience in the Chinese market, CS should seek to ensure that all U.S. companies using ATC services have an understanding of the difficulties of doing business in China and realistic expectations of what the service can achieve. CS should also ensure that U.S. companies participating in the ATC program are given the opportunity to use CS' export counseling services.

CCPIT staff can benefit from CS' ongoing support. We found that CCPIT personnel possess detailed knowledge of their local markets. However, few of these personnel were hired to promote imports from foreign countries or service U.S. companies in China, so they are unlikely to have the same skills, experience, and knowledge of American business practices as CS China's local staff.

CS' formal training of CCPIT personnel has been limited. CS provided CCPIT personnel with two days of training in Beijing in July 2005, but this was only a general orientation on CS and did not include detailed instructions on how to provide Gold Key or other CS services. Thus, it is important for CS to work closely with CCPIT staff providing initial services to U.S. clients to ensure that CCPIT personnel fully understand how to assist U.S. companies. The ATC coordinator in Shanghai worked closely with CCPIT personnel to facilitate the first Gold Key services in Nanjing and Jiangsu Province, and remains in regular contact with CCPIT personnel from all ATC offices in the Shanghai consular district. CS should use this training model at the other CCPIT offices and dedicate time and resources to help ensure that CCPIT staff are adequately prepared to provide quality services to U.S. exporters.

Three of the seven ATC customers whom we interviewed, who had ordered services from the ATC offices in Harbin, Qingdao, Tianjin, Dalian, and Hangzhou, told us that CCPIT officials did not seem to understand their products. While only one was dissatisfied with the overall service, these customers felt that this lack of understanding hampered the ability of the CCPIT personnel

to set up worthwhile business meetings or provide useful contacts. While some of these companies offer very specialized products, the customers felt that CCPIT personnel did not make much of an effort to understand their products, even though the companies provided specific product information.

ATC offices need Chinese-language promotional materials. CS has developed a comprehensive outreach initiative to let U.S. companies know about the new ATC network and the availability of CS services in the 14 ATC locations. While this outreach effort is essential, it also important for CCPIT to reach out to the local business community in the ATC network cities. The local CCPIT subcouncils are responsible for such outreach, but CS could do a better job of supporting them by providing appropriate Chinese-language reference materials. In our meetings with CCPIT officials, they specifically requested that CS provide Chinese-language promotional materials or brochures that could be used to promote the ATC concept to the local business community and subcouncil members. One CCPIT official commented that, when calling a local company to set up an appointment for a Gold Key service, the official had to spend considerable time on the phone explaining the ATC program, and could not provide the company with any existing reference materials for assistance.

CS should be aware of CCPIT's limited role in promoting U.S. exports. CCPIT is a state-sanctioned organization headquartered in Beijing, but its regional subcouncils are relatively autonomous and receive most of their funding from local and provincial governments. The subcouncils have extensive and ongoing contacts with local Chinese businesses, detailed knowledge of the local business environment and local market opportunities, and an ongoing relationship with local and provincial governments. All of these attributes should make the CCPIT partnership valuable for American businesses seeking to export to China. However, CS should understand that promoting U.S. exports is not a priority for CCPIT and CS should remain cognizant of CCPIT's many competing interests.

CCPIT's traditional focus is on promoting foreign investment and facilitating export opportunities for local Chinese companies. In its promotional materials, the CCPIT Jiangsu province subcouncil lists as part of its primary objective the expansion of "export trade [from Jiangsu province] and investment." The CCPIT subcouncils in Nanjing and Jiangsu province told us that their goals for the ATC program were (1) to promote business exchanges and cooperation between local companies and American companies and (2) to facilitate the importation of advanced technologies from the United States. While these outcomes may coincide with an increase in U.S. exports, they would also serve to improve the competitive position of local companies. One U.S. client who recently received Gold Key services in Harbin and Qingdao noted that CCPIT in these cities organized some meetings with local manufacturers who were interested in discussing various forms of business partnerships, whereas he had requested meetings with potential distributors for his products in China. The customer attributed this to CCPIT's focus on promoting local business, and noted that CCPIT has not typically been involved in promoting imports from foreign countries.

Additionally, CCPIT subcouncils do not necessarily have a unique partnership with CS. CCPIT personnel told us that the organization also maintains relationships with the trade promotion offices of other countries, several of which have full-time local staff on the ground in Nanjing

and Jiangsu Province. CCPIT Jiangsu told us that trade offices from the European Union have been much more aggressive in Jiangsu province than CS, and that CCPIT Jiangsu supports them in much the same way as it supports CS. The promotional brochure for CCPIT Nanjing advertises that it “has established a long-term cooperative relationship with major economy [sic] and trade organizations from 65 countries including [the] U.S., Canada, France, Germany, Italy, Japan, and South Korea.”

CCPIT’s focus on attracting foreign investment and promoting Chinese exports is not necessarily incompatible with CS’ mission of promoting US exports, and its relationship with other countries’ trade organizations does not necessarily prevent it from providing quality services to U.S. companies. The differing goals of the two organizations and CCPIT’s relationships with other countries’ trade organizations, do, however, argue for vigilance from CS to ensure that CCPIT adequately serves the interests of CS clients through the ATC network.

B. Refund procedures for dissatisfied ATC customers are unclear

CS initially told us that CCPIT had agreed that it would not be paid for the ATC services unless the U.S. customer was satisfied with the service received. According to the SCO, this agreement provides the local CCPIT subcouncil with a financial incentive to ensure client satisfaction. CS staff later clarified, however, that CS does not withhold payment to CCPIT pending some indication of customer satisfaction. Rather, U.S. companies who are dissatisfied with the ATC services can request a refund through the standard CS customer satisfaction refund process, which measures customer satisfaction through automatically-generated email surveys, and can take months to gauge customer satisfaction. However, refund procedures for ATC customers are complicated by the somewhat convoluted payment structure for the ATC services. CS’ agreement with CCPIT calls for CCPIT to receive 40 percent of the usual fee for the Gold Key or International Partner Search services, while CS retains 40 percent and the American Chamber of Commerce (AmCham) in Beijing retains the other 20 percent.³⁰ The American company obtaining the ATC service pays CS, which in turn pays the AmCham for the service performed. AmCham then pays the CCPIT central committee in Beijing, which is responsible for distributing the payment to the CCPIT local subcouncil.

As of December 1, 2005, CCPIT had been compensated for all services provided through the ATC network,³¹ although CS had not yet received any quality assurance surveys from ATC customers to determine whether the ATC customers were satisfied.³² Any refunds for dissatisfied customers will therefore require that CS recover its payments from the CCPIT local councils through CCPIT in Beijing and the AmCham. However, CS’ memoranda of understanding with CCPIT and the Beijing AmCham do not specify how CS will recover funds from CCPIT for any such refunds. CS should clarify procedures with CCPIT and the Beijing AmCham on how it will process refunds for dissatisfied customers. Lacking such clear procedures, CCPIT subcouncils will have no financial incentive to ensure customer satisfaction.

³⁰ AmCham serves as the legal contracting agent for the ATC services.

³¹ For the first few services in Nanjing and Jiangsu province, the payments from CCPIT Beijing to the CCPIT subcouncils were substantially delayed. CS told us that these payment concerns have been resolved.

³² On January 3, 2006, CS indicated that all ATC customers should have received quality assurance surveys by that date, but CS had not yet received any completed surveys.

C. The roles of the ATC trade show staff in Shanghai and Guangzhou are unclear

As part of the ATC program, CS China began a coordinated effort to support U.S. companies' participation in major Chinese trade shows. While CS offices around the world regularly recruit U.S. companies to participate in major foreign trade shows and provide discounted exhibition space as part of a U.S. pavilion, such efforts had been limited in China prior to the ATC initiative. Until 2005, only CS Shanghai participated in trade show efforts because CS did not believe that the quality of trade shows in other parts of China warranted CS' involvement. With the continuing improvement of Chinese trade shows over time, however, CS has now made a major commitment to support the involvement of U.S. companies in major trade shows throughout the country. CS was involved with 38 trade shows in 2005 and plans to support 37 in 2006.

As part of the ATC trade show initiative, CS China hired two staff each in Guangzhou, Shanghai, and Beijing to support trade show efforts. The China-wide trade show program receives some degree of centralized management and oversight from an officer and a commercial specialist in Beijing, but CS Beijing does not monitor the day-to-day work efforts of the ATC trade show staff in Shanghai and Guangzhou, which are overseen by local managers. At the time of our inspection, we found that there was confusion among the staff in Shanghai and Guangzhou as to which trade show support duties were the responsibility of the new ATC trade show staff, and which were to be handled by the commercial specialists and the officers. This confusion has led to unnecessary staff frustration and the inefficient use of staff resources as commercial specialists perform tasks more suitable to trade show staffers, and vice versa.

In Shanghai, we observed that both the ATC trade show staff and the commercial specialists were uncertain about the role and responsibilities of ATC trade show staff in supporting CS' trade show efforts. In Guangzhou, where there had been no prior trade show participation, the new ATC trade show specialists found that some commercial specialists were unwilling to support their trade show efforts, even though the specialists had industry-specific knowledge and contacts that would assisted in recruiting trade show participants.

We recognize that CS has developed a checklist outlining the respective roles and responsibilities of the officers, commercial specialists, and ATC staff in supporting trade show efforts, but creating such a checklist is not sufficient to address the confusion and tensions we noted in Guangzhou and Shanghai. In order to address these concerns, CS management should ensure that CS personnel fully understand the respective roles and responsibilities of the ATC trade show staff, the commercial specialists, and the officers in supporting CS China's trade show efforts. CS management in each office with trade show staff should ensure that all personnel are fulfilling their responsibilities to support trade show efforts.

Recommendations:

We recommend that the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service take the following actions to improve CS China operations:

- Complete the roll-out of the American Trading Centers in the Beijing, Chengdu, Shenyang, and Guangzhou consular districts, following the model of the successful ATC roll-out in the Shanghai consular district.
- Require CS officers and commercial specialists to closely monitor all services performed by CCPIT as part of the ATC initiative.
- Ensure that all U.S. companies using ATC services have realistic expectations of what the service can achieve and are given the opportunity to use CS' export counseling services.
- Develop Chinese-language marketing materials for the ATC program.
- Develop clear procedures to process refunds for unsatisfied ATC customers and recover funds from CCPIT for any refunds issued.
- Ensure that CS personnel fully understand the respective roles and responsibilities of the ATC trade show staff, the commercial specialists, and the officers in supporting CS China's trade show efforts. CS management in each office with trade show staff should ensure that all personnel are fulfilling their responsibilities to support trade show efforts.



ITA concurred with most of our recommendations to improve the ATC program and its response to our draft report described some positive initiatives that CS China is taking to improve the program. ITA's response to our draft report indicated that CS China is committed to further developing the ATC network in the Chengdu and Shenyang consular districts and has already provided additional training and support to CCPIT staff. More training and continuing support are expected. The response also indicated that CS is committed to "managing client expectations" and ensuring that its ATC clients have access to CS export counseling services. In addition, ITA stated that CS would assist CCPIT in developing Chinese-language marketing materials for the ATC program. The response further noted that CS China management has "developed and disseminated a matrix of responsibilities" describing the respective roles of CS trade specialists, ATC trade show staff, CS officers, and USEACs in supporting CS China's trade show efforts.

We welcome CS China's commitment to hire Commercial Representatives in Shenyang and Chengdu, its efforts to provide additional training for CCPIT staff, and its commitment to provide counseling for ATC clients. Such efforts should help to ensure quality service delivery for U.S. companies using the ATC network. We encourage CS to discuss these initiatives in more detail as part of its action plan, particularly its commitment to ensure that ATC clients have access to counseling by CS officers and trade specialists. We also welcome the commitment of CS management to clearly define the roles of CS officers, trade specialists, ATC trade show staff, and USEACs in supporting CS' trade show efforts.

In response to our recommendation that CS develop clear procedures to process refunds for unsatisfied ATC clients, ITA reported that CS China's procedures for processing such refunds "are in accordance with [CS'] overall guidelines for providing refunds and addressing the claims of dissatisfied clients." ITA's response also emphasized that providing refunds is procedurally a "last resort" for addressing client dissatisfaction, and CS will work with a dissatisfied client to determine if additional CS services or counseling can be provided. ITA further notes that CS has not yet been asked to process such a refund. On this latter point, our report notes that, as of January 2006, CS' customer relationship management unit had not independently verified customer satisfaction for any of its ATC clients. Our report also notes that the payment structure for ATC services is unique, and CS' standard reimbursement procedures are not adequate. Because CS only retains 40 percent of the user fees paid for ATC services, CS must either develop a process to recover the remainder of the user fees from CCPIT and the Beijing AmCham or commit to reimbursing 100 percent of the user fees even if it cannot recover its partners' shares of these fees. Therefore, we request that, in its action plan, CS clearly define its procedures for reimbursing user fees for dissatisfied ATC clients and clarify the extent to which it relies on financial incentives to ensure the quality of CCPIT's service delivery.

III. CS Should Evaluate the Future Direction of the Commercial Center Program

The commercial center in Shanghai opened in July 1996 and was one of four commercial centers created under the Jobs Through Exports Act of 1992.³³ Six trade partners are currently collocated with the CS office in Shanghai as part of this program. CS originally anticipated that cooperation with these collocated partners would bolster CS' export promotion efforts by leveraging trade promotion resources. The Shanghai center has successfully brought several U.S. trade promotion organizations to China that might not otherwise have been able to open a full-time office there. While the collocated partners have added to overall efforts to promote U.S. exports, the program has not achieved the anticipated substantial synergies because there is limited cooperation between the partners and CS. Additionally, CS has done little to promote and market the commercial center and its trade partners. CS should maximize the value of the commercial center by improving communication and collaboration with its trade partners and promoting the center and its services to CS' customers. Because two out of the original four centers have closed and the remaining centers may be affected by planned CS office moves into U.S. consulate compounds in the future, CS management in headquarters also needs to determine its long-term strategy for the entire commercial center program.

A. *CS anticipated that cooperation between CS offices and commercial center partners would create synergies*

The Jobs Through Exports Act of 1992 called for the creation of U.S. commercial centers in Asia, Latin America, and Africa. CS opened commercial centers in São Paulo, Brazil (April 1994), Jakarta, Indonesia (November 1994), Shanghai, China (July 1996), and Johannesburg, South Africa (March 1998), although the São Paulo and Jakarta commercial centers have since closed. The legislation creating the commercial centers anticipated that they would provide additional resources for promoting U.S. exports and would help familiarize U.S. exporters with the industries, markets, and the customs of the host countries.

At the time the commercial centers were established, CS touted the program as a tangible way to focus attention on developing trade in the big emerging markets³⁴ and expanded the commercial center concept to include the collocation of federal, state and private sector trade partners with CS personnel. Collocation with trade partners is a unique feature of the commercial centers and, according to CS, one of the most important operational aspects of the program—sharing the same space with other trade partners allows CS to conduct operations jointly, facilitate cooperative efforts, leverage trade promotion resources, integrate service delivery, and share the costs of operating the commercial centers.

³³ 15 USC § 4723a.

³⁴ The Big Emerging Markets (BEMs) are those that ITA believed held the greatest potential for dramatic increases in U.S. exports and included the Chinese Economic Area (China, Hong Kong, and Taiwan), India, South Korea, Mexico, Brazil, Argentina, South Africa, Poland, Turkey, and the Association of Southeast Asian Nations (Indonesia, Brunei, Malaysia, Singapore, Thailand, the Philippines and Vietnam). At the time the commercial centers were established, the BEMs were a priority of the Administration and the Department.

While the collocation of CS and its trade partners cannot guarantee better export assistance to U.S. companies, the commercial center concept does provide the opportunity for closer ties and better communication between CS and its trade partners and additional resources to help promote U.S. exports.

B. *The Shanghai Commercial Center has brought trade partners to China but has not created many synergies*

The tremendous potential of the Chinese market has created a strong demand for space in the Shanghai Commercial Center. All of the center's available space is occupied, despite CS' recent rent increase. The convenience, cost savings, and legal advantages³⁵ provided by the commercial center have allowed six trade partners to open offices in China who might otherwise be unable to have a full-time presence there. All of these partners have a role in promoting U.S. exports to China, and the center has thus been successful in furthering CS' mission to promote U.S. exports. The current six commercial center trade partners (also called cooperators), all of which have been with the commercial center for at least five years, include the State of Illinois, the State of Washington, the State of Michigan, the City and County of Denver, the Association for Manufacturing Technology (AMT), and the Packaging Machinery Manufacturers Institute (PMMI).³⁶

Because the commercial center concept envisioned close collaboration between CS and the partners, we would have expected to find regular contact and coordination between CS and its collocated partners. However, both during our post inspection in 1998³⁷ and our current review, we found that the coordination between the partners and CS was neither particularly close nor mutually supportive. We noted that the partners' operations appear to be generally distinct and separate, with only infrequent coordination with CS staff and management.

Interviews with the partners indicate that although they are generally pleased to be in the commercial center and in China, they do not feel that they are considered to be part of the CS Shanghai team. With the notable exception of AMT³⁸, the partner organizations do not interact frequently with CS Shanghai management and staff. The partners noted that they used to be invited to the commercial section's staff meetings, but approximately a year or two ago that stopped. As a result, they are often unaware of projects and initiatives that CS is working on, which hampers their ability to coordinate their efforts with CS. The PCO, the director of the commercial center (effectively the deputy PCO), and the deputy director of the commercial

³⁵ It can be difficult and costly for small operations to establish a legal presence in China. Being part of the commercial center allows the partners to overcome some of these legal barriers. For example, when the Shanghai center opened in 1996, it was the only vehicle for U.S. states to open representative offices in China. These prohibitions certainly fueled the demand for space in the commercial center. There are still some hurdles for U.S. states to overcome in registering as independent entities in China, but it is easier than it was in the past.

³⁶ There have been other partners collocated in the commercial center since its inception, such as the State of Maryland, but they have since moved out.

³⁷ *US&FCS China Is Meeting the Demands of Its Clients, but Internal Operations Need Attention*, IPE-10915, September 1999.

³⁸ We noted that there is frequent interaction and coordination between the AMT representative and the CS officer responsible for machine tools and his team of commercial specialists. Such interaction and coordination is a good example of the type of cooperative relationship the commercial center concept envisioned.

center (a locally-hired American) agreed that CS had limited interaction with the commercial center partners, but that they were not planning any substantive changes. The PCO told us that he would consider including the partners in CS staff meetings again. He was unsure when or why that participation was stopped, but saw no reason why the partners should not be included.

The partners also noted that they are required to submit quarterly activity reports to CS detailing the number of clients counseled, number of products (Gold Keys, etc.) delivered, number of trade events and trade missions, and number of export successes. We found, however, that CS has largely ignored these reports, even though the information in them might help CS identify efforts that would benefit from increased collaboration. CS Shanghai managers agreed that CS has little interest in the information in the partners' quarterly reports. They felt that the most important information contained in the reports—the export successes—are usually reported to CS through other means. They stated that since not all partner export successes qualify under the requirements in the *CS Operations Manual*, CS cannot take credit for many of the successes reported in the quarterly reports. Given this information, we question why CS is requiring the partners to submit the information in the first place and suggest that the post assess the continuing need for the quarterly reports or mutually decide on a reporting arrangement that would strengthen cooperation between CS and the partners.

There also seemed to be a general consensus among many CS staff, both officers and FSNs, that the partners were not routinely sharing export successes, even when CS might have provided some value-added assistance. Just like the partners, many CS staff felt that the relationship was one-sided and not cooperative. Each side (the partners and CS) views the relationship in terms of what they can get from the other, instead of what they might be able to accomplish if they worked together as a team. The partners want new computers, high-speed Internet access, and to be included in staff meetings, while CS wants the partners to better share and report their export successes. CS' limited interaction with its partners has prevented the development of the closer cooperation and the synergies that CS initially envisaged when it opened the commercial center. CS Shanghai should improve communications with its partners and renew efforts to cooperate effectively with them.

C. *CS should consider the future direction of the commercial center program*

In the decade since the implementation of the commercial center program, there have been numerous changes in CS management and two of the four original commercial centers have closed. Over time, headquarters support for the program appears to have eroded. At present, there is no one person or office responsible for overseeing the program. This contrasts starkly to the large, multi-unit management team that was directing the program at its inception. At that time, headquarters officials had significant responsibilities for coordinating and implementing the commercial centers' marketing plans, recruiting collocated partners, and tracking other issues relevant to the centers, such as performance measurement. With only the Shanghai and Johannesburg centers still operating, the program now lacks any type of centralized headquarters support, and responsibility for the centers has been moved to the responsible OIO regional office. In the case of Shanghai, the deputy director of the East Asia and Pacific region is responsible for negotiating and signing the memorandums of understanding with the partners. However, the

regional offices have little time to address commercial center issues and the posts has been left to define (and redefine) the commercial centers as CS officers come and go on regular rotations.

Without support from headquarters, the responsibility for recruiting partners or promoting services offered by the centers is left up to each post's discretion. While recruiting partners is not necessarily an issue for the Shanghai Commercial Center right now, it could be in the near future if current partners require additional space and move out of the commercial center. Recruiting partners is certainly an issue for the Johannesburg commercial center, which has additional, unoccupied space for partners.

CS Shanghai receives no headquarters support in promoting and marketing the center's services. No CS website mentions either the commercial centers in Shanghai or Johannesburg or CS' collocated partners. CS Shanghai has no marketing plan or printed marketing materials to inform existing or prospective clients about the commercial center and its services, although the services of the Shanghai Commercial Center are briefly mentioned in CS' *Contact China* booklet, which is a resource guide for U.S. companies seeking to do business in China. CS headquarters and the post should work together to develop appropriate bilingual materials to market the center in both the U.S. and China to exporters who could benefit from the services of both CS and its collocated partners. Additionally, the marketing materials can highlight the Shanghai Commercial Center's sizable conference room space that can be rented by U.S. companies, on a cost-recovery basis, for events and product or company promotions. Currently, potential renters rarely hear about the space unless a CS officer or commercial specialist happens to mention it.

The CS offices in Shanghai and Johannesburg are scheduled to move into the new consulates planned for those cities in 2008 and 2009, respectively, but it is likely that the date of the Shanghai move will be extended since a suitable site for the new consulate has not yet been identified. While these dates are not firm, the anticipated office moves complicate CS' planning for the commercial center program. The partners will not be able to move with CS into the U.S. diplomatic compound. When faced with this same situation in São Paulo, CS chose to close the commercial center rather than keep the commercial section out of the consulate.

CS management should evaluate the future direction of the commercial center concept and take appropriate action based on the results. For example, if CS determines that the commercial centers continue to provide value, it should take steps to maximize that value by providing marketing or promotional materials to support the centers. In addition, CS must also decide whether it will try to keep the centers open even after new consulates are built or plan for their eventual closure. Without guidance and direction from headquarters, the Shanghai Commercial Center (and likely the Johannesburg center too) will continue to languish as a concept of the 1990s that has been all but forgotten in the new century.

Recommendations:

We recommend that the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service take the following actions to improve CS China operations:

- Assess the need for the quarterly reporting requirement for the Shanghai commercial center's partners or work with the partners to decide on a reporting arrangement that would enhance cooperation.
- Maximize the value of the commercial center in Shanghai by improving communications and collaboration between CS and the partners, and promoting and marketing the services of the commercial center in both the U.S. and China.
- Evaluate the future direction of the commercial center program and take appropriate action based on the results.



In responding to our draft report, the Deputy Under Secretary for International Trade outlined several initiatives to improve the operations of the Shanghai commercial center. These actions meet the intent of our recommendations. Specifically, ITA stated that it agrees with our recommendation to assess the reporting requirements for commercial center partners. It will develop changes in the reporting requirements, in consultation with the partners. In the short term, CS will eliminate the quarterly report, which was characterized as an irritant to the partners and of limited value to CS management. The response to our draft report also stated that the relationship between CS and the partners is not as distant as the OIG described—the post always refers potential clients for the partners and frequently assists with VIP visitors from the partners' organization. However, to further increase collaboration and cooperation, the post agreed to resume including the partners in general staff meetings and will add appropriate language and linkages to the CS China website. With regard to the future direction of the commercial center program, ITA stated that CS is considering adding one or two partner states to the current representation at the center. However, given its limited personnel and budgetary resources, CS has no plans to revolutionize its approach to the functions and purposes of the commercial center. In fact, ITA states that when the commercial section in Shanghai is brought back into a new consulate building in approximately three years, CS expects to discontinue operation of the commercial center.

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IV. Export Success Reporting, CS' Critical Performance Metric, Continues to be a Recurring Problem

CS' primary performance goal is to "expand [the] U.S. exporter base." Measuring progress toward that goal relies on verified numbers of export transactions facilitated by CS among new and existing U.S. exporters. We found CS China, with the exception of its Shanghai office, has few verification procedures in place to support its claimed performance results, which show yearly increases. Nor did we find that new quality control and verification measures taken by CS and ITA to ensure effective performance-measure oversight have been successful in ensuring adequate support of CS China's performance data.

Our analysis of 126 export success stories for CS China shows that approximately 44 percent were not adequately supported by written documentation. Documentation and success story verification issues are not new. This is a recurring problem that the OIG has noted in its last 3 CS overseas post inspections—CS Turkey,³⁹ CS Greece,⁴⁰ and CS India⁴¹—and its review of the Pacific Northwest USEAC network.⁴² Before performance statistics are presented to Congress and OMB, CS must confirm they are reliable and meet the reporting guidelines outlined in the *CS Operations Manual*. However, the guidelines in the manual are not specific enough to provide adequate guidance on maintaining supporting documentation of the export success stories prepared by CS trade specialists.

A. *CS China has reported significant increases in its export success stories over the last two years*

The *CS Operations Manual* specifies the actions necessary to claim an export success, which it defines as both (1) an actual, verified export sale or other significant export-related benefit to the U.S. exporter and (2) a CS value-added service that significantly facilitated the export success. The *CS Operations Manual* goes on to list eight definitions of actions that can be claimed as export-related benefits and requires that any export success story must be reported within 2 years of the client's export-related benefit and within 3 years of CS' value-added assistance (see Figure 4).

³⁹ *The Commercial Service Needs to Improve Management of its Operations in Turkey*, March 2003, IPE-15370.

⁴⁰ *Generally Sound Operations at Commercial Service Greece Are Compromised by Key Weaknesses*, September 2003, IPE-15804.

⁴¹ *Commercial Service India: Challenges Remain for Management of a Large and Economically Diverse Post*, September 2004, IPE-16808.

⁴² *Pacific Northwest USEAC Network Generally Operates Well, but Export Success Reports Need More Management Scrutiny*, March 2004, IPE-16507.

Figure 4. The 8 export-related benefits that qualify as an export success

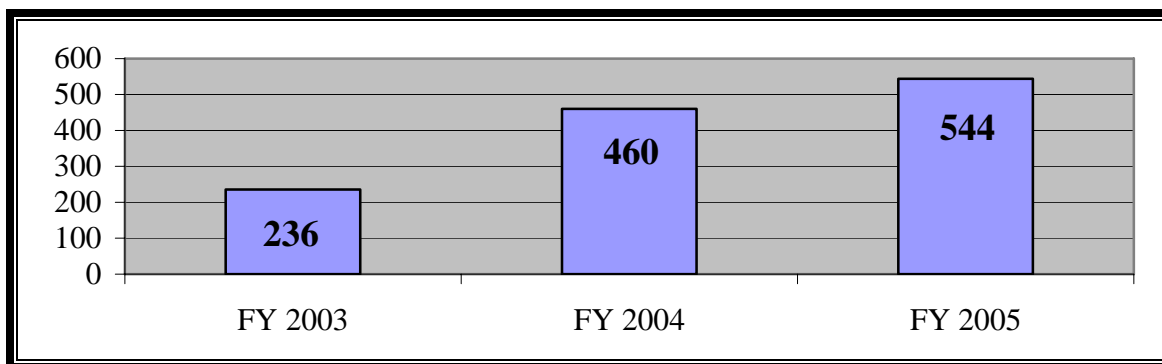
- An actual, verified export sale, lease, or rental of U.S. goods or services.
- An export-related agreement such as an agency distribution agreement, joint venture arrangement, licensing agreement, franchise, etc.
- Opening an overseas office or other forms of substantive overseas investment that directly support a client's U.S. export activities (e.g., a regional sales office).
- Avoidance of financial loss or other significant harm to a client's U.S. export activities as a result of direct intervention of CS staff or programs.
- Removal of a market access barrier (such as standards, regulations, testing and certification), whether or not an export sale immediately follows.
- Resolution of an export trade complaint.
- Purchase of U.S. education by foreign students.
- Obtaining foreign publicity for a U.S. travel/tourism client.

Source: CS Operations Manual, FY 2005

In addition, once CS reports an individual client's export success story, the agency is prohibited from claiming additional success in that market unless it documents new and different value-added assistance. The export success narrative must include all these elements and illustrate a clear link between CS assistance and the reported benefit to the U.S. exporter, and each should be clearly documented in the narrative to demonstrate the validity of the export success story.

CS China's reported numbers of export successes indicate a growing demand for CS products. The post reported a rise in export successes from 236 in FY 2003 to 544 in FY 2005, an increase of 131 percent. In fact, CS China's performance target for fiscal year 2005 was 527 export success stories, and it exceeded that by 17 successes, or 3 percent. At that rate, it is reasonable to expect the post's export success numbers are likely to continue rising as China opens its markets and U.S. exporters capitalize on emerging opportunities.

Figure 5: CS China's Reported Export Successes



Source: e-Menu, CS, January 2006

B. CS China, with general exception of CS Shanghai, is not following CS guidelines for verifying export successes

During our inspection, we selected a 20 percent random sample from each post (a total of 185 export successes from fiscal years 2004 and 2005) to determine CS China's compliance with CS'

export success guidelines.⁴³ We first sent satisfaction surveys to each client in our sample to verify the information in the export success narratives and assess CS China's performance. Of the 185 clients surveyed,⁴⁴ we received 32 responses and only two expressed dissatisfaction with the quality of service received from CS China, both stating timeliness as the primary issue. The remaining 30 respondents either stated they were "very satisfied" (22), or "satisfied" (7); one provided mixed comments about the adequacy of CS' services.

We then performed our own "spot-check" and reviewed CS China's supporting documentation for all 185 export success stories during our onsite inspection. We found that four of the five offices—CS Beijing, CS Chengdu, CS Guangzhou, and CS Shenyang—in most cases, had maintained little or no documentation to support the client's export benefit or its dollar value, or CS' value-added assistance. As a result, we could not verify the facts of the majority of CS China's claimed export successes or determine whether they complied with CS guidelines.

CS Shanghai, by contrast, maintains a central file for all its export success stories and the corresponding documents to support the information in the narrative reports, such as emails and letters from the client. The deputy PCO said all export success stories reported and approved by CS Shanghai require separate documentation as verification and these documents are then reviewed as part of his approval process. In fact, CS' export success quality control officer says Shanghai is "unquestionably" the "shining star among these posts." We did find some instances where CS Shanghai's documentation did not verify all the elements contained in the narrative (dates or dollar values), and a few export successes that did not have any documentation (because the post did not authorize the export success), but overall, we found the Shanghai office files are reliable and well-organized, and it maintains an efficient review process.

We discussed our findings with the SCO and he acknowledged the post generally does not maintain or review separate documentation to support the narrative report prepared by a trade specialist for each export success story. The SCO argues that CS guidelines do not "require" separate documentation but merely suggest staff obtain the information if possible. Instead, the post relies on the second-level review process—CS' export success quality control officer—to ensure each report is accurate and held to the highest standard. However, *CS Operations Manual* says the first-level reviewer (CS officer, SCO, or USEAC director) is responsible for spot-checking the accuracy of the export successes, including reviewing the background files and contacting the client. The quality control officer confirmed this process and told us that as a second-level reviewer, it is not realistic for him to validate the facts of each export success because the first-level reviewer knows the facts and has verified the details. Instead, he reviews the written narrative to identify duplicate stories and grammatical errors.

It appears the SCO is not ensuring that a thorough first-level review is done at the post. Any "spot-check" performed at the post probably would not include a review of documentation, with the exception of CS Shanghai, because the SCO does not require CS China to maintain documentation—so there are no files to review. It also appears that the first-level reviewers do not regularly call clients to reconfirm the accuracy of the export successes given limited time and resources. Outside of reading export success narratives and occasionally speaking to the authors

⁴³ The OIG stratified the sample by post and industry.

⁴⁴ We could only contact 171 clients because of missing contact information in the export success.

during the routine approval process, most officers don't do any other required spot checks, thereby minimizing any internal controls.

C. CS guidelines and export success reporting have been a recurring issue in OIG post inspections

Documentation and success story verification issues revealed during OIG's recent inspection of the CS China post are not new. This is a recurring problem that OIG has noted in reports on other CS overseas posts, as well as some U.S. export assistance centers. CS had promised corrective action and revised its reporting guidelines to try to address this issue when we raised it previously.

When we reported similar problems in our report on CS India, CS recognized it needed to enhance its guidelines and require accountability to ensure the validity of its reported performance results. CS published new language in its *CS Operations Manual* (valid until April 1, 2005) and told us that it held training sessions to inform staff of new requirements that all success stories should have accompanying documentation showing CS assistance. The new manual language stated:

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

According to the former Deputy Assistant Secretary for Office of International Operations, before an export success can be approved, there should be verification documentation. In her performance measure guidance,⁴⁵ she specifically stated each post must keep an office file of export successes with verification documentation. This clearly indicates that separate documentation is required to validate each export success; first the manual states that an export success author or the CS post should maintain a record that verifies the company's communication of the success and the information it provided (CS' value-added assistance facilitated a benefit to their company) and then the former Deputy Assistant Secretary's guidance further adds that each post must maintain independent documentation.

However, on April 1, 2005, CS updated its operations manual and provided conflicting guidance. In section VII, *Maintaining Client Records*, the revised manual states that the primary record is the actual export success and it should include enough information to support the exporter's success and how CS assistance supported the claim. The manual still requires each export success be directly confirmed with the client but the updated version loses the former Deputy Assistant Secretary's original interpretation and now says, “It is recommended that written confirmation from the client (letter, fax, email, etc.) be obtained if possible,” further adding that confirmation from the client only needs to be recorded in the narrative. However, section IX of the manual, *Writing the ES Narrative*, does not list client confirmation under its “essential

⁴⁵ *OIO DAS Guidance: Implementation of New Performance Measures*, FY 2004, eMenu.

components” of a narrative, while section X, *Reviewing/Approving ES Reports*, goes on to state that *the export success author is responsible for confirming and clearing the export success with the client and maintaining appropriate support documentation* (emphasis added). The current guidance does nothing to clarify the documentation requirement but instead provides conflicting guidance left up to the post’s or a USEAC’s interpretation.

Some current CS managers in headquarters argue that the guidelines *never* required written documentation and simply *suggest* that a telephone conversation or other verbal communication with the client is sufficient to support an export success. However, we believe the intent of the *CS Operations Manual*, in both the 2004 and 2005 versions, is clear that *written documentation should always be maintained*; and relying on a client confirmation in the narrative is only acceptable in those few cases where extenuating circumstances make it impossible to get written confirmation from the client. We further note that during our inspection of CS China’s narratives, we only found approximately 78 narratives in a sample of 126 that actually attempted to include some reference to the client’s confirmation. In addition, as mentioned previously, in late 2004, CS reported to OIG that it informed *all* CS staff, including SCOs, that each export success must be documented and that the first-level reviewer should be using this information during his or her spot-checks. Realistically, if supporting documents are indeed not available, recording the client’s confirmation of the reported benefit and CS assistance provided in the narrative may be appropriate, but this confirmation should also be supported by CMS records or other documentation of the CS assistance provided and its link to the export success. However, we believe written verification from the client, such as a letter, fax, or email, confirming the details of the narrative (not just the sale) is a record that can be used by the approving officer, or other quality control official, for spot-checks to confirm claims of export success.

D. *OIG sample shows nearly 44 percent of CS China’s export success stories were not verifiable*

After the OIG’s onsite inspection found that very few export successes had independent support or were adequately verified by the first-level reviewer other than in Shanghai, we gave the post a second opportunity in October 2005 to contact a smaller sample of clients (126 of the original 185) and obtain documentation to support the information in the narrative. Since the manual states “each ES must be directly confirmed by the client or the client’s customer...verifying the details of the success,” we asked CS China to provide the OIG with verification from its clients to support the elements in the export success: CS value-added assistance facilitated a benefit to a U.S. exporter and the reported dollar value, if applicable. In response to our request, the SCO complained that obtaining this documentation would require an extreme amount of effort and time, and that “we are being retroactively held to a higher standard of documentation than we were at the time the success story was recorded.” However, we note there were only 20 export successes in our sample that were reported under the new guidelines (i.e., after issuance of the April 1, 2005 guidelines, under which the SCO claims the export success is the primary record and any additional documentation is not required).

Table 3. OIG methodology for verifying CS China’s export successes

OIG Finding	Definition
Verified	The post and/or CS HQ could provide written verification* from the client that confirmed the following 6 points to a high degree of certainty: (1) CS value-added assistance (2) occurred within three years and (3) significantly contributed to (4) a firm benefit to the U.S. exporter (5) within two years and (6) a claimed dollar value, if applicable.
Partially Verified	The post and/or CS HQ could not provide written verification from the client that confirmed <u>each</u> of the above 6 points that would verify an export success.
Unverified or Invalid	The post and/or CS HQ could not provide written verification that confirmed <u>any</u> of the above 6 points, OR the ESS did not qualify under CS guidelines.
*The export success narrative does not qualify as written verification of itself.	

Source: OIG and CS Operations Manual, FY 2005

Our second review confirmed 40 of 126 export successes based on additional documentation provided by the posts. However, we could not adequately verify 86 (68 percent) of CS China’s export successes, either because of missing or inadequate documentation provided by the post.⁴⁶ Fifty-two of the 86, valued at more than \$403 million, did not have *any* supporting documentation and were unverifiable. At least 14 of these were not authored by CS China but the post still could not provide, at a minimum, some type of documentation that verified its own value added assistance.⁴⁷ At least 30 of the 86 export successes were only partially verified because the post did not have documentation that supported one or more elements of the narrative, such as the actual reported success or the assistance provided by CS China.⁴⁸ The post provided some reports that documented CS’ counseling efforts, such as a record of a conversation with the client or copies of generic emails notifying CS China that they were credited by another office, but these were not detailed enough to serve as documentation of CS China’s value-added assistance or whether the counseling was linked to the export success. For example, the email might state “This is a courtesy email, generated by eMenu, informing you that a new Export Success has been compiled into the eMenu Performance Measures Repository which may be of interest to you.”

On January 27, 2005, OIG notified the Deputy Director General of the U.S. and Foreign Commercial Service that we could not verify at least 60 percent of CS China’s export successes, and he subsequently asked his staff to follow up with CS China’s clients a third time and directly confirm and document the elements of the export success. The regional director of the East Asia and Pacific region and his staff were assigned to follow-up and attempted to confirm the 82 of the 86 export successes we identified that were partially verified or unverified.⁴⁹ Their calls to clients and other follow-up successfully verified another 30 export successes in addition to the 40 already verified by the post’s documentation, but they could not provide full support for 30, and

⁴⁶ This includes several export successes for which the post did not have adequate documentation but which were already confirmed by the companies responding to the OIG survey.

⁴⁷ This does not include the export successes for which the post did have some documentation for its contribution toward export successes submitted by a USEAC or a different post.

⁴⁸ This does not include 4 export successes for which the post did have some documentation but which the OIG found invalid.

⁴⁹ The OIG identified an additional 4 export successes that were invalid prior to this third survey and did not request CS provide additional information

could not provide any support for 10 because in several cases the company was no longer in business or CS' contact was no longer with the company. We also identified 12 invalid export successes, in addition to our previously mentioned 4, that did not meet CS guidelines as a valid export success.

Table 4. OIG's verification of CS China's export successes

	Post's Documentation as of January 12, 2006		CS' HQ Review as of February 24, 2006	
	#	%	#	%
Verified	40	32%	70	55%
Partially Verified	30	24%	30	24%
Unverified	52	41%	10	8%
Invalid*	4	3%	16	13%
Total	126	100%	126	100%

*This includes 4 export successes the OIG identified as invalid and did not request further documentation from CS.

One of export successes that the regional director and his staff found was unverified stated that the U.S. company won a contract to supply \$2 million worth of equipment to a Chinese metro project. But, CS found the U.S. contact information was invalid, indicating no follow-up with the client, the information on the company's website did not correlate to the details in the narrative, and CS could not verify a signed sales contract for this project. Also during its follow-up, CS regional staff identified several export successes they originally questioned because visa assistance was claimed as the primary service without any pending sale. According to the *CS Operations Manual*, visa assistance can only be claimed as an export success if it directly supports an export sale or signed agreement. CS should consider revising the *CS Operations Manual* to ensure it specifically identifies scenarios under which visa assistance qualifies as an export success, such as if CS is contacted primarily for visa assistance that results in a sale or export benefit. The following are examples of three export success that OIG found to be invalid:

- CS performed due diligence for a U.S. company pursuing a Chinese partner and as a result of CS' findings decided not to pursue the partnership. CS guidelines state "An Export Success may *not* be claimed under this category for cases in which a client elects not to fill an export order, appoint an export rep, etc. on the basis of feedback from...CS assistance." Under this rule, the reported success should be removed.
- A U.S. company, in cooperation with a Chinese university, opened a healthcare testing center in 2001. However, the *CS Operations Manual* states "an ES must be reported within two years of the export sale, contract signing, or other qualifying benefit to the exporter" and thus disqualifies this export success.
- CS China reported free foreign publicity for a financial services industry client. According to CS, the "ad equivalency" export success, or free foreign publicity, only applies to travel and tourism clients and has not been approved for any other industries.

In summary, CS's primary performance measure must have appropriate checks and balances to ensure accuracy and reliable reporting. Even with additional documentation provided by CS headquarters, we ultimately found that 56 (44 percent) of 126 CS China export successes could not be adequately supported by written documentation and remained partially verified or unverified. And, 26 of the 56 export success stories did not have any support or did not meet the criteria for a valid export success. The current verification system, both internal and external, leaves much to be desired.

E. Discrepancies in CS China's reported export success dollar values reveal little or no client verification

CS China reports dollar values for its export successes but is unable to verify the specific amount through documentation or confirmation from the client. For example, the post reported five export successes for one company with a total value of \$1.456 billion.⁵⁰ Two of these, each valued at \$12 million, were reported as what is known as 'close the deal' successes, where Chinese company officials traveled to the U.S. and attended training. This training was reportedly required to take possession of the equipment. The total sale value had already been claimed in a separate export success, so training and travel to the U.S. alone could not possibly be valued at \$12 million. The post could provide only one document to support any of the five reported successes: a letter from one of the Chinese buyers requesting the embassy assist with visas for staff to attend training in the U.S. This document shows CS likely provided visa assistance, but it does not help the post support its reported \$1.456 billion worth of export successes.

Client feedback in our OIG survey revealed further dollar value discrepancies. The survey listed several dollar ranges for each client to estimate the value of its export sale resulting from CS assistance. Four companies reported the value of their export success was less than the value CS claimed, while seven companies reported the value of their export success was greater than the value CS claimed. Our calculations show CS overstated its export successes by \$2.3 million (see Table 3).

⁵⁰ We note only three of these five export successes were in our sample.

Table 5: Export Success Dollar Value Discrepancies Between CS and CS’ clients

Over Reported			
Export Success	Reported in Survey	Claimed by CS	Discrepancy
1	\$10,000 to \$100,000	\$120,000	\$20,000
2	No Export Sale	\$388,500	\$388,500
3	\$100,000 to \$500,000	\$3,500,000	\$3,000,000
4	No Export Sale	\$3,000	\$3,000
Total Over Reported			(\$3,411,500)
Under Reported			
Export Success	Reported in Survey	Claimed by CS	Discrepancy
1	\$10,000 to \$100,000	\$1,200	\$9,000
2	\$10,000 to \$100,000	\$0	\$10,000
3	\$1 million to \$5 million	\$36,298	\$964,000
4	\$100,000 to \$500,000	\$60,000	\$40,000
5	\$10,000 or less	\$0	\$10,000
6	\$10,000 to \$100,000	\$0	\$10,000
7	\$100,000 to \$500,000	\$80,000	\$20,000
Total Under Reported			\$1,063,000
TOTAL Discrepancy			(\$2,348,500)

Source: e-Menu, CS and OIG survey of CS China’s clients

During our inspection, the export success quality control officer revised several of the post’s export success dollar values based on second-level review. Specifically, CS China over reported one export success by \$360 million—the quality control officer changed the success from \$1.3 billion to \$1.04 billion. The quality control officer found CS China also under reported two additional export successes by \$924 million. They were revised from \$96 million to \$768 million and \$36 million to \$288 million, respectively.

F. CS’ quality control procedures do not adequately assure veracity of reported performance results

The *CS Operations Manual* holds only the author of the export success story responsible for “ensuring the accuracy and integrity of all ES [export success story] content, compliance with all ES Guidelines, confirmation and clearance of the ES by the client, and maintenance of appropriate support documentation.” However, section VII, *Maintaining Client Records*, states all CS employees who have direct contact with clients should maintain accurate and complete counseling records in CMS, in addition to hard copies of key communications to and from the client. Despite conflicting language, the manual seems to suggest that only the export success author is responsible for maintaining documentation even if other posts or U.S. Export Assistance Centers (USEACs) participated in the export success. But regardless of where authorship originates, an office receiving credit for “significant” value-added service should confirm its role through supporting documentation.

As stated previously in this chapter, the approving officer, or first-level reviewer, is responsible for “spot-checking” the accuracy of the export success narrative through telephone calls to

confirm success claims with clients and a review of background files. The first-level reviewer is also responsible for applying good judgment as to whether the export success is reasonable before approving it as part of the post's official reporting statistics. However, there are no clear requirements on how and when these spot-checks must be performed. For example, we found no CS China officers were reviewing supporting documentation for the export success narratives, with the exception of CS Shanghai which reviewed documents it kept in a separate file, and no first-level reviewers appeared to be following up with clients to ensure the export success narratives were qualified representations of what actually occurred. This was largely because the SCO did not require his staff keep any supporting documentation.

As noted above, the second-level reviewer—the quality control officer in the U.S.—is supposed to regularly sample export successes from all offices to ensure compliance with the *CS Operations Manual*. This review should identify deficient export successes—not in compliance with how to write an export success—and is intended to train staff on correct procedures to follow in preparing export successes. According to the quality control officer, he relies on the first-level reviewer to verify the details of the export success since that person is in a better position to understand the chain of events. The quality control procedures currently in place, combined with inconsistent guidance on maintaining documentation, render the review process essentially null and do not ensure true internal controls. The export success story author is left as the primary responsible party for ensuring the validity and confirmation of each of his or her own export successes.

Responsibility for the veracity of CS' primary performance measure should not rest exclusively on the shoulders of the author of an export success story. To ensure the integrity of CS' performance statistics, each post should be required to provide adequate documentation of the assistance provided and obtain written verification from the client confirming the export benefit and CS' value-added assistance and that it played a significant role in the success. As provided on occasion by CS Shanghai, this could be an email to the client with the export success narrative cut and pasted into the body of the email text, requesting verification that the details provided are an accurate reflection of the export success. Simply providing an invoice or a general thank you note does not indicate CS provided significant value-added assistance nor does it confirm dates or dollar values, or CS' association to the reported success. Because of this systematic problem, CS' and the department's performance and accountability reporting is unsubstantiated and unreliable.

Recommendations:

We recommend that the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service take the following actions to improve CS China's and all CS export success reporting:

- Revise the *CS Operations Manual* to include clear and precise requirements for written documentation and verification of each element of an export success, including written verification from the client confirming CS assistance, and the reported benefit to the exporter, the date of the success, and any reported dollar value, and inform all staff of the changes.

- Enhance the first- and second-level review process for export successes to include specific requirements, such as frequency, sample size, and follow-up guidance, to ensure a reliable verification, quality control, and oversight program.
- Require each individual and office receiving credit for an export success to maintain documentation that supports the claim of significant value-added assistance.
- Revise the *CS Operations Manual* to ensure it specifically identifies scenarios under which visa assistance qualifies as an export success, and when it does not.
- Remove the invalid CS China export successes from CS' database.



Commercial Service concurred with most of our recommendations to ensure CS' primary performance metric provides reliable performance data and adequately represents its programs and services. However, in response to our recommendation to revise the *CS Operations Manual* and include clear requirements for written documentation for each element of an export success, CS stated it "does not anticipate any change in this guidance," except for visa facilitation services, even though it agrees that "more precise requirements are needed." CS reported that it will maintain the CMS record as the primary documentation, and it should be supplemented by other documents, including core service participation agreements, Gold Key Service schedules, IBP delegation lists, and International Partner Search reports as necessary to establish the linkage between service provided and benefit to the exporter. ITA's response also noted that CS does plan to revise its export success reporting form which will "reinforce these ES record-keeping requirements." Senior CS management reportedly approved recommendations made by CS' Performance Measures Advisory Group and will implement them "in the near future." Based on these recommendations, the export success record will include a mandatory verification field and cannot be approved by a reviewing supervisor unless one of the approved verification options is satisfied.

CS maintains that the proposed verification and approval procedures for export successes should provide more accountability. The first requirement will reportedly ensure all facts in the export success story have been substantiated by CMS records with supplementary documentation required to establish the linkage between CS' value-added service and the benefit to the exporter. This should provide adequate support for CS' value-added service. The second requirement provides four verification methods and the author of the export success must choose one of them and then the approving official must review file documents supporting the designated verification procedure. The following verification options are available:

1. Draft ES approved by the client including facts of transaction, year of sale and transaction value;
2. Written confirmation of ES authored by client, including facts of transaction, year of sale and transaction value;
3. ES verification in person or by phone contact with client and recorded in CMS;
4. Copies of original transaction documents including contracts, purchase orders, sales agent agreements.

We found three of the four options provide adequate accountability. However option number 3, “ES verification in person or by phone contact with client and recorded in CMS,” does not provide the same level of documentation requirements as the other three options. Specifically, it should also require that the client confirm the facts of the transaction, year of sale and transaction value and then this information should be recorded in CMS. While this method does not guarantee confirmation from the client in writing, it does provide more detail than previously required. The lack of documentation that we found for many claimed export successes during our current review, as well as in prior post inspections, indicates the need for more stringent requirements to support CS’ export success performance data.

CS concurred that its administrative controls should include specific requirements for periodic verification by the first-level reviewers and stated that future guidelines will “require first-level supervisors to randomly select and review ten percent of the ESS...no later than the end of the following quarter of the fiscal year.” The future guidelines will also require supervisory review of all export successes valued at \$100 million or more. CS management reports that this review will include a call to the client and a review of export success file documentation. While this procedure will be an improvement upon the current verification procedures, it does not provide internal controls for those export successes for which the supervisor had direct involvement. This should also be addressed in the future guidance.

In response to our recommendation that CS require each individual and office receiving export success credit to maintain documentation that supports the claim of value-added assistance, CS reports that the Client Relations Management System, which is expected to replace the existing CMS record-keeping system in 2007, will provide domestic and overseas ITA staff with the option to view all client activity leading up to an export success. While CS reports individuals claiming credit for being involved in the delivery of a core fee-based service will still be required to maintain records, it is important that all individuals participating in an export success justify their involvement in order to receive credit. The CRM system should be an improvement for communication and record-keeping purposes but does not meet the full intent of our recommendation because some CS staff or offices receiving credit for export successes may not have direct interaction with the client and therefore may not document their significant value-added assistance in the CRM System.

In conclusion, CS management concurred with OIG’s designation of 16 of CS China’s export successes as invalid and agreed to remove them from CS databases by April 30, 2006. We acknowledge CS’ further effort to clarify export success guidelines at the upcoming Senior Commercial Officer conferences, however the core problems we identified occurred in large part because of the lack of clarity and specificity of the guidelines themselves. Without including in the *CS Operations Manual* clear and precise requirements for written documentation and verification of each element by the client, we anticipate that CS will continue to report performance data that is not reliable to the Secretary, Congress, OMB, and others. For that reason, we request that ITA and CS revisit its decision to not revise CS’ export success reporting guidance and requirements, as outlined in the *CS Operations Manual*.

V. CS China’s Products and Services Satisfy Most of Its Clients

CS has multiple products and services to help U.S. exporters reach the global market, including customized market research, trade events, international partner matching, and one-on-one counseling. During fiscal years 2004 and 2005, CS China provided clients more than 600 products and services.

We reviewed customer surveys performed by both OIG and CS’ customer relationship management (CRM) unit to determine if these efforts met the needs of U.S. exporters. In addition, we reviewed CS China’s market research reports (planned and unplanned) to gauge the quality of the post’s written products. We also reviewed the marketing materials CS currently uses to reach prospective U.S. exporters to China and expand its potential client base. We found the post’s efforts are satisfying most of its clients but it should continue to monitor the quality of its products and services.

A. *Customer surveys show satisfaction with most of CS China’s products, but some services need management attention*

CS offers several products and services to assist U.S. exporters either entering the global market or expanding overseas. CS relies on quality products and exceptional customer service as its primary tools for leveraging the business of small, medium, and large-sized companies and meeting its client’s expectations. Posts tailor products and services to best fit the requirements outlined in the client’s participation agreement (see Table 6).⁵¹

Table 6: CS China’s Product and Service Descriptions

For the Product and Service:	CS China will:
Gold Key Service	<i>Identify and arrange appointments with key players in the Chinese market.</i>
Platinum Key Service	<i>Support the U.S. company’s long-term exporting goals with ongoing assistance.</i>
International Buyers Program	<i>Promote major U.S. trade exhibitions to Chinese buyers</i>
International Partner Search	<i>Locate, screen, and assess potential qualified overseas sales representatives.</i>
International Company Profile	<i>Report on potential business partners to help reduce risk to the U.S. company</i>
Customized Market Research	<i>Prepare customized market research designed to fit the needs of the U.S. company.</i>

Source: www.buyusa.gov/china/en/programs

We surveyed 132 CS China clients and found 27 of the 33 respondents were satisfied to highly satisfied with the service they received. Of the remaining six respondents, three clients gave *unsure* or *dissatisfied* opinions of CS China, and three clients reported they were *very dissatisfied* with their overall experience. One of the three very dissatisfied clients stated “follow through

⁵¹ A participation agreement documents the services CS will provide to the client for the recorded amount due.

was slow and painful,” while another stated “I just can’t believe that ... [the] U.S. consulate can employ such a rude person.” The third client was dissatisfied with the quality of the Gold Key service meetings. The client said CS provided a list of meetings one day prior to the scheduled appointments, but the list did not meet the customer’s requirements. By that time, it was too late to suggest any changes.

We also reviewed the client surveys performed by CS’ CRM unit in fiscal years 2004-05. In those surveys, 10 of the 169 respondents⁵² expressed dissatisfaction or extreme dissatisfaction with CS China’s products and services, while the remaining 159 were generally satisfied with the service they received. While overall rather insignificant, 50 percent or five of the 10 dissatisfied clients were specifically unhappy with the Gold Key service.⁵³ One in particular was a former U.S. Assistant Secretary of State who utilized the services of CS China and expressed concern over the quality of the product, stating “Having known from first hand experience...of the potential high value the services of the CS can provide, we were very disappointed in the 1) weakness (boiler plate) of the outsourced CMR [Customized Market Research] and 2) the lateness of the product(s) delivery.”

Table 7: Gold Key service and the extremely dissatisfied comments received by CS’ CRM in FY 04-05

Product	FY Year	Location	Comments
Gold Key Service (GKS)	2004	Guangzhou	“Worst experience I’ve had with DOC.”
GKS	2004	Guangzhou	“Not happy with the meetings,” “waste of time.”
GKS	2004	Guangzhou	Post “did not take [this] seriously enough.”
GKS	2004	Shanghai	“Very poor communication,” “totally inflexible on dates,” “basically a disaster and a waste of our travel time and money.”
GKS	2004	Shanghai	Meetings were not in the client’s industry and client was not sure it will use GKS again.

Source: eMenu

To demonstrate its responsiveness to displeased customers, either CS headquarters or the SCO issued refunds in fiscal year 2005 for 16 of 397 (4 percent) products and services.⁵⁴ According to CS, justification for a refund includes: (1) an accounting adjustment; (2) client cancels participation prior to CS expending any funds; (3) the post could not process the request due to a high-priority event or other competing demand; (4) service failed to meet delivery requirements, as defined in the participation agreement; or (5) other extraordinary circumstances which justify a refund.⁵⁵ Our review of CS China’s refunds revealed the post provided these 16 performance-

⁵² Two additional platinum key service responses are not included.

⁵³ Customers also expressed dissatisfaction with CS China’s Customized Market Research (1), International Company Profile (2), and International Partner Search (2) products and services.

⁵⁴ This includes all active, cancelled and completed products and services.

⁵⁵ CRM does not consider accounting adjustments, client cancellation, or political and economic implications to be factors in determining CS’ level of customer service.

based refunds for untimely delivery of the service, incomplete service, and inability to deliver the product due to competing demands.

Overall, it appears that CS China is meeting the needs of most of its clients, but it should review the reasons for dissatisfaction among some clients and address them. In addition, if CS implements the next phase of its full cost recovery plan to meet the Office of Management and Budget's (OMB) Circular A-25,⁵⁶ exporters to China could see a 122 percent fee increase for Gold Key services and price hikes for other CS products and services. According to CS China staff, they are concerned that many small and medium-sized companies may not then be willing to pay for or able to afford CS China's products and services. When prices rise, customer satisfaction is critical to maintaining a strong customer base. Clearly, CS China will need to enhance its levels of customer service to make sure they are satisfied.

B. CS China cannot meet ITA's demand for market research

CS has two new market research products, planned (formerly Industry Sector Analysis) and unplanned (formerly Industry Market Insight) market research. The new reports are designed to be more responsive to client needs and market developments. Instead of long broad industry reports, the new planned research reports are five- to ten-page reports, requested by ITA units, that contain industry information and critical facts for a U.S. exporter to gain a better understanding of the market. The new unplanned market research reports will be developed by OIO staff in the field and provide timely information on narrow topics. These new reports will be short one- to seven-page reports prepared at a post's discretion in response to market developments.

ITA also has adjusted how it determines the number of planned market research reports each post must complete. ITA components request a specific number of planned market research reports and then the SCO is permitted to accept as many of these he feels the staff can reasonably complete. ITA reported 300 requests for research products from CS China, an indication of the growing demand for information on China. However, CS China only accepted a goal of 72 planned market research reports for calendar year 2005 and completed 70, or 97 percent. In addition, the post provided 26 unplanned market research reports to the business community, giving them timely information on hot topics. Several staff noted they were unsure they could meet their goal because of other work priorities and, in their opinion, unreasonable timeframes.

We reviewed 48 planned and unplanned market research reports to assess the quality of the research and the staff's English language proficiency in written materials, based on concerns CS officers noted during our interviews with them at the post. The reports included most of the recommended elements for market research as set forth by ITA, with two of the 48 reports written in a confusing mix of English and Chinese. Two may seem like an insignificant number, but this reveals some reports are not being thoroughly reviewed and do not represent CS'

⁵⁶ Circular A-25 calls for agencies to collect user fees to cover all direct and indirect costs associated with services that "convey special benefits to recipients beyond those accruing to the general public." CS planned to implement stage two of its full cost recovery plan on October 1, 2005. However, the Senate and House appropriations committees exempted CS from Circular A-25 for FY 2006. As a result, it is unclear if and when CS will have to implement full cost recovery.

professional image. As will be noted in chapter VI, although officers reported they review and edit market research reports multiple times to ensure the best possible product, at least two slipped through. Each officer is responsible for the quality of the market research and grammatical accuracy of all reports in his or her industry sector. CS officers should better review market research to ensure all reports meet ITA's recommended guidelines for market research.

C. Other CS materials for prospective U.S. exporters to China are readily available

Given the importance of the China market, CS has developed several other means to provide information and assistance to U.S. exporters specifically interested in this market. This outreach extends beyond CS China and USEAC services, but is also useful to the post and domestic network. The China Business Information Center (CBIC) is a worldwide web portal for U.S. companies looking to do business in China and represents one of several new CS-wide China initiatives that benefits U.S. exporters. The CBIC web site (www.export.gov/china) offers numerous resources to help companies face challenges in the Chinese market. The site includes frequently asked China questions and an "Are You China Ready" guide for those new to the Chinese market. The web site also features links to multiple U.S. government projects of interest, including the China intellectual property rights advisory program, STOP Fakes, and a list of best prospect industries.

CS China also maintains its own web site www.buyusa.gov/china/en, which is in both English and Mandarin and is a tool to reach the Chinese market. The web site provides specific information on CS programs in China including, the American Trading Centers, electronic publications such as the country commercial guide, an Olympics 2008 "hot sheet", free market research, and a host of other trade-related publications.

CS recently began distributing *Commercial News USA* in Mandarin. The catalog-style magazine is designed to assist U.S. companies promote their products and services to buyers in more than 145 countries. The magazine is distributed bi-monthly and is also available online. The Mandarin edition includes translated descriptions of American companies offering products and services in various industry sectors.

The *Contact China 2005* handbook is another example of CS' effort to reach out to prospective U.S. exporters to China. Marketed as "a resource guide for doing business in the People's Republic of China," *Contact China 2005* provides valuable and compact information on CS' industry contacts and commercial information for companies looking to explore the Chinese market. Some of the topics covered in the handbook include, how the Commercial Service can help you, how the Embassy can help you, best prospects for each industry, useful websites, U.S. export controls, and key contacts in various professional service sectors.



To further reach U.S. exporters, several of CS' domestic U.S. export assistance centers have sponsored special workshops or information sessions on China trade. For example, the

Philadelphia USEAC held an *Exporting to China: Seizing Opportunity and Managing Risk* conference in May 2005, which gave local businesses the opportunity to hear about trends in the Chinese market. Officials from the Department and business community presented information on customs and logistics, export controls, and protecting intellectual property, and a private sector panel discussed the “dos and don’ts” of doing business in China. Given the complex nature of doing business in China, CS should explore similar opportunities to reach out to local companies and bringing together different business leaders to share their experiences in the China market.

Recommendations:

We recommend that the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service take the following actions to improve CS China operations:

- Evaluate the reasons why some CS China services are not meeting the needs of some clients and address them.
- Improve CS officers’ review process for market research to ensure all reports meet ITA’s recommended guidelines.



In response to our draft report, ITA noted that the level of dissatisfaction with the Gold Key service, as reported in our finding is “remarkably low,” although it reported that CS has worked with CS China to improve the timeliness of its handling of requests for Gold Key and other services. We agreed with this comment and made some adjustments in the report and recommendation so as not to imply that the level of client dissatisfaction with the Gold Key service was more significant than it was. CS management also agreed with our recommendations to improve its review process for market research. Specifically, CS recognized the need to improve CS China’s coordination of Gold Key services with the USEACs and has since implemented new procedures introduced by CS’ Customer Management Unit. The product enhancement program is designed to improve communication and coordination between CS China, the USEACs, and CS’ clients. CS management also agreed that CS China’s market research process is a concern and ITA stated that CS will ensure that individuals approving market research will more carefully review the reports in the future. ITA also reported that the new market research production guidelines, released by the Deputy Director General in February 2005, should standardize the process and provide consistency in report format. In addition, CS expects its new market research planning and tracking tool, released November 2005, should address some of the difficulties encountered in the market research planning process. ITA’s response also noted some inaccuracies in our report with regard to our description of CS China’s research production and the types of CS market research. We made adjustments to the body of the report to reflect these clarifications.

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VI. Human Resource Issues Should Be Addressed to Maximize Commerce’s Effectiveness in China

CS China’s success largely relies on its human resource capabilities and its ability to effectively utilize those resources and adequately plan for the future of Commerce operations in China. Adequate language training for Commerce’s foreign service officers and foreign service nationals is critical to effective communication at the post and with U.S. exporters. Similarly, the complex nature of business in China requires that CS staff have in depth knowledge of industry sectors in order to effectively service U.S. exporters. In addition, CS should evaluate its officer staffing level in Guangzhou to determine if any adjustments are needed.

A. Commerce’s foreign service officers need language and industry sector training

Commerce’s foreign service officers need to be trained to effectively communicate with the Chinese government and business community. Understanding Mandarin Chinese (Mandarin) will also help them to effectively relay critical information to the U.S. export community. The U.S. Department of State’s Foreign Service Institute provides a language proficiency rating scale in the *Foreign Affairs Manual*⁵⁷ that is based on tests in two skill areas: speaking and reading. All foreign service officers are tested and evaluated against this scale (see Table 9).

Table 9: The Foreign Language Proficiency Rating Scale

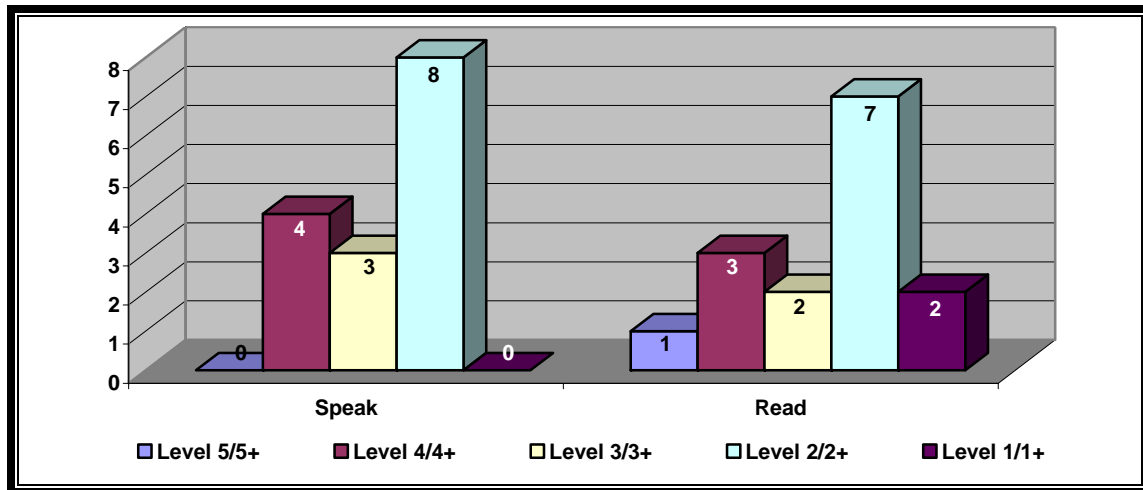
Level	Skill Level	Description
0	No Proficiency	<i>Unable to function in the spoken language.</i>
0+	Memorized Proficiency	<i>Able to satisfy immediate needs using rehearsed phrases.</i>
1	Elementary Proficiency	<i>Able to satisfy minimum courtesy requirements and maintain very simple face-to-face conversations on familiar topics</i>
1+	Elementary Proficiency, Plus	<i>Able to initiate and maintain predictable conversations and satisfy limited social demands.</i>
2	Limited Working Proficiency	<i>Able to satisfy routine social demands and limited work requirements. May have some difficulty understanding native speakers in situations that require specialized or sophisticated knowledge.</i>
2+	Limited Working Proficiency, Plus	<i>Able to satisfy most work requirements with language usage that is often, but not always, acceptable and effective. May miss cultural and local references.</i>
3	General Professional Proficiency	<i>Able to speak with sufficient structural accuracy and participate in most formal conversations. May restrict the professional contexts to matters of shared knowledge.</i>
3+	General Professional Proficiency, Plus	<i>Able to satisfy professional needs in a wide range of sophisticated and demanding tasks.</i>
4	Advanced Professional Proficiency	<i>Able to fluently and accurately engage on all levels normally pertinent to professional needs.</i>
4+	Advanced Professional Proficiency, Plus	<i>Proficiency is regularly superior in all respects, usually equivalent to that of a well educated, highly articulate native speaker.</i>
5	Functionally Native Proficiency	<i>Proficiency reflects the cultural standards of the country where the language is natively spoken.</i>

Source: 13 FAM 222.2

⁵⁷ See 13 FAM 222.2.

The Assistant Secretary and Director General of the U.S. Commercial Service, in consultation with the Chief of Mission, is responsible for determining what CS positions require language proficiency and what level of proficiency is required.⁵⁸ Most of the CS China officer positions are designated at a level 2/1 language proficiency for speaking and reading. We reviewed the language proficiency scores for CS' 15 officers⁵⁹ and found all demonstrated at least a limited speaking (level 2) and elementary reading (level 1) in Mandarin. Only six officers tested at the professional level 3/3+ to advanced level 4+/5 for both skills (see Figure 6).

Figure 6: CS China Officer's Mandarin Proficiency Levels (0-low to 5-high)



Source: e-Menu

According to the proficiency scale, proficiency at levels 2/2+ and 3/3+ demonstrates an officer can satisfy most work requirements, but an officer's effectiveness can be adversely impacted at below the 3+ level. Commerce officers in China must comprehend complex political and economic discussions, but the mission must rely on only four officers with advanced proficiency in both speech and reading to handle matters in the Chinese language. Considering the importance of communicating with local dignitaries and participating in complex discussions, understanding the nuances of Mandarin is critical to an effective mission.

CS officers also participate in language training to acquire the necessary language skills prior to arriving at the post or to enhance their current proficiency. According to FAM, foreign service officers who do not have the required level of language proficiency should attend language training prior to assuming post duties. But it does not specify any length of training that is required. If the officer does not test at the required level by the end of the language training, the officer is expected to continue training at the post until the required proficiency is reached.

While the FAM does not require any specific length of language training for officers on their second or third posting, it does set a benchmark of 24 weeks for officers on their first assignment that do not have a tested proficiency of 2/2. We found 9 CS officers who tested below level 3 for either speaking or reading. Of these, 4 received an average of only 8 weeks of language training

⁵⁸ 13 FAM 221.

⁵⁹ As of September 2005.

prior to arriving at the post, while 5 received a minimum of 24 weeks. A large number of officers told us that the training they received was not enough to prepare them to effectively participate in technical discussions or understand the idiosyncrasies of the language—some of the most important elements to facilitating trade promotion in China. Several officers said they had to terminate their planned training early or never had an opportunity to attend language training because of early assignments. Regardless of their proficiency level, CS officers could benefit from lengthier training and more opportunities for refresher training to be effective in their roles.

CS China officers also are responsible for promoting specific industry sectors such as aerospace, medical equipment, and information technology and could benefit from more industry-related training. Several CS officers told us that they are eager to have industry training to enhance their understanding of the Chinese markets and be better equipped to communicate industry trends to the US business community. CS headquarters does offer industry training for its officers to supplement daily experience gained on the job. But we found only three CS China officers attended industry seminars covering coal and power, the Export-Import Bank, and petroleum and gas. CS China does not make training a priority for its officers when the opportunities to attend training are available. The post should encourage more professional development despite the heavy workload and immediate demands at the post.

CS China officers also reported that they would like to have additional training in standards and intellectual property rights. As mentioned previously, there is an IPR attaché and a standards liaison in China, but they have limited resources. The large contingent of CS officers at post could provide a greater impact in IPR and standards if appropriate training were available to them. One of the major initiatives outlined in the Secretary of Commerce's May 2004, report titled "Standards and Competitiveness: *Coordinating for Results, Removing Standards-Related Trade Barriers Through Effective Collaboration*," included plans to provide basic training on standards and conformity assessment to CS domestic and overseas officers, FSNs, MAC, and M&S specialists. In FYs 2004 and 2005, the ITA standards liaison in headquarters coordinated general standards training for CS staff, but at the time of our review did not expect to continue the program in fiscal year 2006 because of funding limitations.

However, on our return from China, the new NIST director told us that he would be willing to have his staff provide additional standards training for CS officers and other ITA staff. ITA should evaluate its current effort to train staff on basic standards-related issues and IPR and should more fully utilize both NIST's and USPTO's expertise.

B. FSN staff require training in English writing, industry sectors, and U.S. business practices

CS China has a total of 89 FSNs and personal service agreement (PSA) staff, the most of any CS post. The post needs to invest in these employees and develop their abilities to better service U.S. exporters. During discussions with CS China staff and a review of the post's market research reports and products, we identified several areas where increased training might benefit CS operations and improve customer satisfaction.

As noted in chapter V, in reviewing the quality of CS China's research products, we found at least two reports that did not meet ITA's recommended guidelines for market research. CS China's local staff is responsible for writing many of the post's research reports. Several officers told us they and their staffs often have to revise market research multiple times because of the poor language usage. CS China's staff needs better English language skills to write clear and grammatically correct market research reports and reduce the amount of time spent on report review and revision. The post should consider investing in more English writing courses for its staff.

The CS commercial specialists and commercial assistants also need some technical or industry expertise. Staff members said they occasionally consult experts outside of CS rather than relying solely on internal expertise but they would also like to have more first-hand knowledge of major industry players, be able to follow market trends, and be prepared to counsel clients on business strategies and understand U.S. business practices. Some FSNs or local staff have been able to gain some technical expertise and knowledge of basic U.S. business on the job, but they also move between industries frequently. As such, additional industry training and basic business courses, such as private sector conferences and seminars, should help provide FSNs acquire the necessary skills to independently consult with a U.S. exporter and improve customer service.

C. Computer-aided job evaluation should result in some FSN grade increases

Computer Aided Job Evaluation (CAJE) is a worldwide job evaluation tool the State Department is currently using to review and revise the current FSN position classifications and grade levels. CAJE is used to objectively review the content of each job based on several factors, including job responsibility; the knowledge, skills and abilities required to perform the job; the level of interaction with others; and the work environment. If the CAJE review determines the position classification is inaccurate or out-of-date, the position classification will be revised taking into consideration reorganizations or technological advancements to reflect any discrepancies identified during the review.

As a result of the CAJE review, CS China anticipates grade increases for some FSN staff. One CS China post anticipates increases for as many as five positions. Such upgrades, and potentially others throughout CS China, could dramatically impact the post's budget and thus its future operations. CS headquarters must allocate sufficient funds to cover FSN staff upgrades imminent in China.

D. The second officer position in Guangzhou needs to be addressed

For the last 3 years, CS Guangzhou has only had one officer covering what had traditionally been a two-officer post. According to the acting Consul in Guangzhou, the area represents a huge market and seizing opportunities now will pave the way for U.S. exporters in the future. The Guangzhou consular district services four provinces, an area in excess of 200 million people. CS reports this region houses some of China's richest cities and is fueled by its proximity to the Hong Kong Special Administrative Region. In addition, CS reports the concentration of people within the area has led to an increased initiative to develop transportation infrastructure such as roads, bridges, and mass transit facilities.

In 2002, a commercial officer assigned to CS Guangzhou was scheduled to arrive at the post for a regular tour of duty. However, just prior to departure to post, the commercial officer was reposted to a vacant position in Beijing and a new junior officer position was created in Shanghai as the result of an internal reallocation of resources. Since then CS has not pursued a second officer for the post. To relieve the strain of a one-officer post, the current PCO adopted the concept of a deputy PCO. He restructured the office so that an FSN with more than 11 years of CS experience could fill the role of a “quasi” commercial officer. However, the FSN cannot perform many of the responsibilities restricted to officers. For example, the consular section will only accept visa referrals from a commercial officer. When an officer is out of the country on home leave, CS Guangzhou is restricted from performing any visa referrals, which lengthens the process for many potential applicants. CS Guangzhou is also actively pursuing the ATC initiative. Many of the responsibilities, include managing the relationship with CCPIT and leading the new trade show initiative, all which will require time away from the office and managing the regular day-to-day activities. CS plans to place one of three new IPR attachés funded by USPTO in CS Guangzhou. However, this position will most likely focus on IPR-related issues rather than traditional export promotion and may not provide the type of assistance for a region of this size. An additional commercial officer could relieve the PCO of some responsibilities and step in when necessary to ensure critical tasks are administered in a timely manner. We understand that many CS posts have only one officer, but reevaluating the second officer position should be considered for the overall effectiveness of the post and the demands of the entire U.S. mission in Guangzhou.

Recommendations:

We recommend that the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service take the following actions to improve CS China operations:

- Evaluate CS China’s current language designations to determine their adequacy.
- Provide extended Mandarin language training to CS officers prior to their arrival at the post, and provide time for in-country language training, as needed.
- Provide periodic industry team training to ensure it effectively leverages staff resources.
- Provide regularly scheduled English writing, industry and U.S. business practice training to the FSN staff to improve customer service.
- Ensure financial resources will be available to fund the staff position upgrades indicated by CS China’s CAJE results.
- Address the officer vacancy in CS Guangzhou and determine the future status of the position.
- Develop a regular standards and IPR training program in cooperation with NIST and USPTO and ensure that CS officers and other staff attend the training.



The Deputy Undersecretary for International Trade, in responding to our draft report, concurred with most of our recommendations in this section of the report and outlined some actions taken or planned to address our concerns. However, ITA took issue with our questions about the adequacy of language training and language designations for CS China officers. ITA reported that the review of language designations by proficiency level takes place periodically and involves both the SCO and headquarters staff. The response noted that CS China's language designations, reviewed most recently in the Spring of 2005, reflect a consensus that a 2/1 language score, achievable in a minimum of 24 weeks for an individual without significant prior proficiency, is adequate for most positions at post. However, the response also notes that officers with this proficiency require assistance from native speakers among post staff for all professional interaction with Chinese nationals.

ITA further maintains that the limited universe of CS officers and pool of officers who bid on an assignment to China inevitably constrain CS' ability to provide more extensive language training and require CS to have its own language policy which differs from that of the State Department, as outlined in the Foreign Affairs Manual. ITA notes that CS provides a maximum of one year of language training to CS China officers. CS has agreed to investigate the cases cited in our report of current officers at post who received an average of only 8 weeks of language training prior to the start of their CS China tour. If those cases are accurate, CS stated that it will make every effort to ensure that this lapse in training does not happen again.

We understand the difficulties that CS faces in assigning officers to China, and we recognize its reliance on some incoming officers who already have attained a high level of proficiency in Chinese rather than training officers without Chinese-language skills and bringing them to the desired level of proficiency. However, the pool of Chinese-speaking officers is limited and given CS China's workload and the additional demands placed on its officers, relying on local staff in this capacity neglects other duties required at the post. In addition, current CS China officers firmly believe that some of their language abilities were limiting their performance. Thus, we believe the minimum language designation should be reevaluated. We also recognize the difficulties of filling vacancies in China and the urgency to get new officers to post. Hence, CS should ensure ongoing in-country training is available and that time is allotted for officers with inadequate language skills to take the training instead of just relying on a select few officers with the highest level of proficiency.

The USPTO response to our recommendation that CS develop a regular standards and IPR training program, in cooperation with NIST and USPTO, outlined several initiatives currently underway or planned in the near future. Specifically, USPTO stated that last year, the USPTO and the State Department jointly organized a two-day "primer" on China's intellectual property issues. The program was intended for foreign service officers going to China and other DC-based USG officials, but USPTO reported few officers attended the seminar. USPTO plans to make the program an annual event and already has scheduled a seminar for June 15-16, 2006. USPTO further suggested that CS China's annual "All Hands Meetings" would be an appropriate venue to provide IPR training to all CS China staff or such training could be provided during a

visit to post by USPTO officials. Finally, USPTO recognized that when USPTO IPR attaches are fully operational on the ground in China, USPTO intends to have them interacting with CS officers on a regular basis, coordinating on IPR issues, and attending the commercial section's staff meetings.

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VII. CS China is Challenged by the Growing Number of Visitors

China's growing economy and its expanding trade with the United States prompts many business or trade organizations, congressional staff, state governors, mayors, and other high-ranking government officials to travel to China on trade missions or commercial delegations. In 2005, CS China co-hosted 219 major events, including more than 50 trade missions. CS officers and staff are nearly always required to provide logistical support for these events, which reduces resources available for some of CS' core products and services. CS does a tremendous job of accommodating its visitors and organizing events, and, of course, many trade missions and delegations involve Gold Key services and often bring in new clients for the post. But several improvements could help CS manage visitors and events more efficiently, such as evaluating its logistical support for major events and visits to ensure the most efficient use of resources, reporting events to CS headquarters through CS' eMenu, and recovering all costs it incurs in supporting certified trade missions.

Supporting official visitors requires a major commitment of CS staff time. CS staff devote a substantial amount of time and effort in developing agendas for official visitors; arranging hotels, transportation, and other logistical support issues; and accompanying visitors to meetings and other events. In order to ease the burden on CS officers and trade specialists, CS should evaluate its current coordination processes to provide logistical support for these types of events and ensure the most efficient use of resources. Support for high-level delegations will always require the involvement of officers, but more efficient use of staff resources, such as the delegation of more logistical tasks to local CS staff or making one staff member responsible for coordinating logistical support, could alleviate some of the administrative tasks associated with planning and supporting such delegations.

CS China underreports its major events. CS China is substantially underreporting its events and delegations in CS' eMenu. Currently, it is not reporting any of its VIP delegations in eMenu and does not appear to be regularly updating its event and trade mission statistics. CS China's eMenu records as of October 2005 included only 44 of the 219 events (20 percent) on its 2005 internal calendar, and it reported only 11 of the more than 50 trade missions it hosted in 2005. CS Beijing alone hosted approximately 41 events in the 3-month period from September to November 2005, including such time-consuming events as the trade delegation led by the governor of California, the Beijing international hardware show, the Deputy Secretary of Commerce's visit, and the OIG inspection.

In order for CS management to effectively gauge CS China's visitor workload, the post should report all events. Because eMenu is CS' primary tool for planning future budgets and resource allocations, CS China would benefit by regularly updating its eMenu records with a current listing of visitors, delegations, missions, and other official events. Such reporting would allow CS management to better understand and quantify the tremendous amount of time and resources that CS China devotes to hosting official visitors and major events.

CS is not collecting all costs for some certified trade missions. CS China reports that state trade missions and state gubernatorial visits require substantial CS assistance and support but not all costs are reimbursed by all delegations. Several officers noted that some state trade missions

pay for traditional CS products and services as part of a certified trade mission, but other state delegations expect CS China to provide its staff services at no cost. According to CS' product and service standard, there is no cost to become a certified trade mission but the group is expected to cover services offered by the post on a cost-recovery basis. However, it appears CS has not identified all costs associated with these events, particularly the cost of CS' staff time. Preparing for major state trade missions and gubernatorial delegations requires a large amount of resources dedicated to preparation and logistics for these missions, CS should identify and recover all the costs it incurs in supporting certified trade missions.

Recommendations:

We recommend that the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service take the following actions to improve CS China operations:

- Evaluate CS' current coordination process to provide logistical support for official visitors and ensure the most efficient use of resources.
- Develop a process to identify and recover all costs incurred, direct and indirect, in supporting all certified trade missions.



In its response to our draft report, CS management agreed that the large number of official visitors to China is one of the heaviest burdens that CS China faces as CS' highest-profile post. ITA further acknowledged that the constant demand for post's attention and the many visiting delegations require accommodation regardless of the post's other obligations, as recognized in our report. While ITA agreed with our recommendation to evaluate its current logistical support process, CS believes that improvements may be achieved through better internal coordination and assignment of duties and the post will continue to consider making such changes. ITA indicated that this matter is best left to the determination of the SCO and his staff and stated that the post has had remarkable success in satisfying the requirements of its heavy visitor workload. We agree that the post has achieved remarkable success but only to the extent that the SCO and his staff do not become overburdened and can still meet their core duties of serving the needs of U.S. exporters. As such, we suggest that CS management, along with the SCO and his staff, further consider our recommendation and ensure the most efficient use of resources to meet the visitor workload as well as CS' core objectives.

CS did not concur with our recommendation to ensure that CS China reports all its trade events and trade missions in eMenu, stating that the additional, extensive reporting recommended in our report represents a considerable expenditure of record-keeping time that is in short supply at post. CS further stated that CS China has an established process for obtaining approval in eMenu for its trade missions and events, develops event-specific budgets in eMenu, and continues to work closely with the Global Trade Programs unit in supporting certified trade fairs. While CS China has an internal calendar to track these events, it is in CS China's best interest to also record the large number of visitors and events in eMenu, CS' primary reporting tool, so CS management at headquarters is provided with an accurate reflection of the demands placed on CS China as it reviews the post's workload for future staffing and planning needs. However, given

that CS is, at a minimum, recording this information internally and seeking appropriate authorization in eMenu, we recognize CS' concern regarding scarce resources and thus have removed this recommendation from our report.

ITA's response to our recommendation that CS develop a process to identify and recover all costs incurred, direct and indirect, in supporting all certified trade missions, states that in September 2005 CS' Office of Planning released a cost-recovery template describing the components of a strategy to systematically identify all costs associated with a post's support of certified trade missions and other trade events. ITA reports that CS China has implemented this scheme. We would like to get additional information on CS China's implementation of full cost recovery in its action plan.

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VIII. CS China is Not Using the Established Process to Hire Temporary Workers

CS China, particularly in Beijing and Guangzhou, frequently uses temporary workers to help with the post's special events, such as single company promotions and trade delegations. These workers typically work for a short period of time—a few days to a few weeks—and perform such tasks as recruiting attendees, issuing invitations, setting up appointments, arranging receptions, and managing RSVP lists. In some cases, temporary workers are used to update CS' databases and assist permanent staff with general administrative support, such as answering phones, making copies, and maintaining files.

Certainly a post as busy as CS China will occasionally need additional help to meet deadlines and ensure the success of its events. But the process being used to employ temporary workers is problematic because proper security and human resources procedures are not always being followed. In our discussions with the security, administrative, and/or human resources officers in Beijing, Shanghai, and Guangzhou, they expressed concern about CS hiring temporary workers outside the established hiring process.

Current hiring practices circumvent security and human resource controls. CS offices in China use a variety of means to obtain temporary help. Currently, CS Beijing uses the AmCham to hire temporary workers. There is no memorandum of understanding between CS Beijing and AmCham, rather concept papers and letters were exchanged when the arrangement was defined in 2003. Under the arrangement, CS recommends a temporary worker and AmCham hires the person and pays taxes to the local tax bureau. AmCham is paid a 10 percent fee (calculated on the worker's salary plus taxes) and CS is responsible for the quality of the work produced by the temporary worker. CS China hired 19 temporary workers through the AmCham arrangement between November 19, 2003, and September 30, 2005. Of the 19 temporary workers hired, only two had clearance from the Regional Security Officer (RSO) to work in the CS office.⁶⁰ After OIG's inquiry, the RSO checked the remaining names and in February 2006, the RSO informed us that they had all been cleared, albeit after the fact.

Another concern lies in the fact that CS Beijing's temporary workers are acting very much like CS employees. CS Beijing calls them contractors and insists that AmCham employs them. However, CS provides the temporary workers with instructions on how the work is to be done, the supplies and equipment to perform the work, and in most cases, office space within CS' facility. While AmCham hires and pays the temporary workers, it does not supervise or oversee their work. If a temporary worker should be injured while working in CS offices, AmCham believes it would be responsible for paying compensation, but without a contract clearly delineating responsibility between CS and AmCham, the liability for an injured temporary worker is not clear.⁶¹

⁶⁰ One temporary worker did not enter the CS offices and instead worked out of his home, so RSO clearance was not needed. We could not find any RSO clearance documentation for the 16 other temporary workers.

⁶¹ CS Beijing's temporary workers are not covered under the U.S. government's workers' compensation program because they were hired outside the established hiring process.

CS Guangzhou hires temporary workers directly and pays them through the petty cash fund. Between August 2004 and August 2005, CS Guangzhou hired 12 temporary workers in this manner. While the petty cash records do not always clearly describe where the temporary workers actually performed their assigned duties, we were able to discern that many of them worked in the CS offices (versus at an off-site trade show, for example). No RSO clearance was obtained for any of the temporary workers. Similar to CS Beijing, CS Guangzhou's practice of hiring temporary workers does not mitigate any of the potential liability issues. These workers are afforded no protections and employment taxes are not remitted to the local tax bureau. CS Shanghai has been forbidden by its consulate to hire temporary workers outside the consulate's established hiring process and has not done so since October 2003.

CS should use the PSA-Temporary hiring authority. The State Department has an established hiring process that takes into account all host country and U.S. government employment requirements. For example, in China, the embassy and its consulates must hire all local staff through the Ministry of Foreign Affairs' Diplomatic Security Bureau (DSB), which the established hiring process takes into account. CS needs to use the established process, specifically the Personal Services Agreement (PSA)-Temporary hiring authority, to hire all temporary workers. The PSA-Temporary hiring authority allows posts to employ individuals for a brief period in a manner that replicates the simplicity of a purchase order, yet documents the true employer-employee relationship.

Under PSA-Temporary hiring authority, CS will have to classify positions using the FSN classification system, issue a vacancy announcement, make a selection, and obtain RSO clearance for the selected employees.⁶² However, from that point on, employees from this pool of pre-cleared temporary workers would be paid only "when actually employed" and for no more than 30 workdays in a fiscal year.⁶³ PSA-Temporary employees are not eligible for leave, health insurance, severance pay, retirement, premium pay for working on a U.S. holiday, FSN allowances, or any other non-cash benefits. However, PSA-Temporary employees are eligible for federal workers' compensation benefits in the event of a job-related death or injury. And, as with other local-hire employees, the U.S. government withholds taxes, pays required social security insurance, and reports wages to the host government. Additionally, PSA-Temporary authority can be used to hire on an emergency basis for periods of 21 consecutive days or less without a formal vacancy announcement, which could be particularly helpful to CS China if an unforeseen need arises or if the pool of pre-cleared employees were exhausted.

We recognize that using the PSA-Temporary hiring authority will require some initial time and effort to set up, which is why CS has avoided using it in the past. But, once the initial work is completed, it will afford CS a group of cleared temporary workers that can quickly be called upon to respond when CS needs extra help. Additionally, using PSA-Temporary authority will

⁶² Several positions that CS might want to utilize are pre-classified, such as clerk, translator, and receptionist. If the work to be done by the temporary workers fits into one of these positions, then CS can be saved the step of classifying the position.

⁶³ Nearly all temporary workers employed by the various CS offices worked less than 30 days total, with the exception of the one long-term temporary worker in Shanghai, so limiting each worker to 30 days in a fiscal year should not pose a problem.

ensure CS China is in compliance with all security and human resources requirements and restrictions, which will better protect both the post and the workers themselves.

Recommendation:

We recommend that the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service take the following actions to improve CS China operations:

- Ensure that CS Beijing, Shanghai, and Guangzhou work with their respective human resources offices to set up a cleared PSA-Temporary workforce available as needed to meet CS China's need for temporary help with events and other short-term needs. CS China offices also should take advantage of the emergency PSA-Temporary authority to hire for periods of 21-days or less without a formal vacancy announcement when appropriate.



In responding to our draft report, the Deputy Under Secretary for International Trade acknowledged the merit of the above recommendation and stated that CS will seek its implementation. In its action plan, we would appreciate receiving an update on the status of the post's progress in setting up a cleared PSA-Temporary workforce.

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IX. Post Financial and Administrative Operations Are Generally Well Managed but Could Be Improved

CS China has effectively managed most of its financial and administrative operations, but there are several areas where management and oversight should be improved. The post is doing a good job of managing its budget and tracking obligations and liquidations in eMenu. It is also properly monitoring its use of the State Department-provided International Cooperative Administrative Support Services (ICASS), using representation funds and purchase cards appropriately, and ensuring that CS vehicles are only used for official CS business. The post also hired an administrative manager in Beijing in July 2005 who is improving coordination and management of CS China's financial activities. As previously recommended in the CS' January 2003 Management and Program review (MPR) report, we found that the new administrative manager is taking a stronger oversight role in managing the administrative operations of the constituent posts. Whereas previous oversight of the constituent posts appeared limited to telephone and e-mails between the posts and CS Beijing, at the time of our fieldwork, the new administrative manager had visited or had plans to visit each of the constituent posts to analyze each post's business processes and establish standardized systems for processing and recording financial data across the five CS China offices. The administrative manager is working closely with CS China's seven FSNs who are responsible for the post's financial transactions and assets. The financial and administrative FSN staff members are experienced, conscientious, and have done a good job of keeping up with the increasing workload.

Despite having generally sound financial and administrative operations, we did find that some issues warrant review and action. For example, procedures for petty cash and collections are not always followed, and CS officers do not properly authorize all critical financial and administrative documents. We also found that the post's inventory records were not adequately managed and reconciled and the commercial libraries in Shanghai and Guangzhou are not being fully utilized.

We also performed a limited financial and administrative review of the MAC and IA offices collocated in the TFO in Beijing. Based on a restricted sample, we found petty cash was appropriately reconciled and documentation was adequate and properly approved for purchase requests, travel orders and vouchers, and vehicle logs. It also appeared that internal controls and financial management practices were adequate. Finally, we reviewed the physical security of CS China offices and found no security vulnerabilities. The Regional Security Officer (RSO) in Beijing confirmed that four of the five CS offices in China meet the physical security standards set by the Overseas Security Policy Board. Security upgrades to the Shanghai office were underway as part of an office renovation at the time of our visit in September 2005. The RSO in Shanghai was monitoring the project and assured us that the office would meet all physical security requirements when the construction is completed.

A. Procedures for petty cash and collections are not followed

CS Beijing, CS Shanghai, and CS Guangzhou each have petty cash funds for approved payments not exceeding \$500. The use of the funds must be pre-authorized and are available to pay

vendors, reimburse employees for local transportation, or advance funds to employees for small purchases. CS Chengdu and CS Shenyang do not have petty cash funds because their offices are collocated in consulates and can utilize the consulate's cashier for petty cash payment.

Our unannounced petty cash verifications in the CS offices in Beijing, Shanghai, and Guangzhou found properly supported cash on hand and approved expenditure receipts. However, we found that CS officers do not perform unannounced verifications at least once a month as required by the *CS Operations Manual*. In CS Beijing, the administrative manager, who is not a CS officer, routinely performs these verifications. By contrast, in CS Shanghai, the last unannounced verification documented by an officer was in April 2003. In CS Guangzhou, the PCO performed unannounced verifications in April, June, and August 2005, an improvement over the previous PCO, who only performed one in May 2003, during his two-year tenure that started in July 2002 and ran to September 2004. To adequately safeguard the cash assets and ensure appropriate internal controls, the authorized officers should perform and properly document these periodic reviews.

We also followed up on the MPR report's finding that there were multiple petty cash irregularities in Guangzhou. The MPR team found that there were inadequately documented purchases, purchases were split to bypass the \$500 purchase threshold, receipts were not itemized or verifiable, and an individual was "hired" inappropriately and paid through the petty cash fund. We only found the last practice, using the petty cash fund to pay for employees hired outside the established consulate process, to be a continuing problem. This problem is discussed in more detail in chapter VIII of this report.

CS China also does not follow the *CS Operations Manual* procedures for collections, which requires the post to maintain a written log of daily cash collections, issue pre-serialized receipts to the payee, endorse checks received, send collections to the ITA lockbox in the United States, reconcile records once a month, and consult any local post collection policies and procedures specific to its operations. CS China does not maintain written daily collection logs because its computer system records each collection as it generates a receipt for the client. However the system does not automatically generate a list of all collections, making reconciliation difficult. CS China should be reconciling to verify that all collections have been properly recorded and deposited within the appropriate timeframes. The post should also ensure these collection and reconciliation duties are separated and performed by different individuals. We found that, in some cases, the employees who record cash collections also deposit the funds at the embassy or consulate and reconcile the reports. The post should work to improve internal controls over its collections by having different employees record and then reconcile collections.

As first reported in the 2003 MPR report, CS China deposits cash and check payments with the embassy or consulate cashier ostensibly because local currency cash and checks cannot be converted into U.S. dollars to send to ITA. However, CS China currently only accepts checks from U.S. banks and payable in U.S. dollars, so it should be able to send those checks to the lockbox. The MPR report stated that the MPR team would follow up to consider whether CS China is exempt from processing collections through the lockbox system. However, we were unable to determine what, if anything, had been decided on this point. The post's administrative manager and FSN staff stated that cash collections must be deposited through the embassy or

consulate and that CS headquarters instructed them to also deposit the few U.S. dollar checks received each year with the embassy or consulate cashier. However, since CS has to pay an ICASS charge for using the cashier's services, CS China should either follow the *CS Operations Manual* or obtain written policies from the Embassy Management Section on local policies and guidance for collections to support why it cannot send currency to ITA's lockbox. CS China should also endorse its checks for deposit upon receipt to safeguard them from unauthorized use or misappropriation.

B. Officers should sign and date critical documents, customer agreements, time and attendance, and performance evaluations

We reviewed CS China's financial and administrative documents and found that the majority were properly approved. However, our review also identified several critical financial and administrative documents, such as customer participation agreements, employee time and attendance and personnel records, and procurement documents that were not authorized or dated. For example, we found participation agreements without an approving CS officer signature and others without the customer's signature. The participation agreement between CS and the customer documents what services CS will provide and records the amount due. Without documented approval, CS and the customer cannot ensure that appropriate fees and services are properly collected and recorded or that funds are safeguarded against loss or misappropriation.

We also found that some of CS China's time and attendance records were not properly approved and adequately documented. Several employees' time and attendance certifications and leave requests were not approved or dated, and compensatory time that was recorded did not have a corresponding authorization form. In particular, at CS Shanghai employees complete leave forms, but they do not prepare time and attendance certifications documenting the hours worked or leave taken. The *CS Operations Manual* prescribes that time and attendance forms and supporting documents must be maintained on every employee along with the supervisor's signature and that an authorized approving official must sign requests for leave.

Our review of the CS China employees' official personnel files identified many performance evaluations that were not signed by the reviewing officials and many performance plans and performance evaluations that were not dated by the employees, raters, or reviewers. Based on our review of the files, we believe that all employees have a current performance plan on file and have been rated within the last year, but without proper signatures and dates, CS cannot ensure that employees' performance plans and evaluations are properly approved and completed in a timely manner, or that appropriate performance evaluation discussions have been held with all employees.

Finally, our review of the post's purchase orders found that CS China is generally following appropriate guidelines for its procurement activities. However, we did note that CS China does not date stamp invoices when they are received and in some instances did not document when and if the purchased goods or services were received. These dates are necessary to calculate interest in accordance with the Prompt Payment Act in case the government does not pay the vendor within the statutory time period. CS China should always date stamp its invoices.

C. *Inventory records need improvement and excess equipment should be surplused*

Inventory records serve as a basis for accountability and support budget estimates for replacement costs, but those in CS China were not complete, accurate, or timely reconciled. According to the *CS Operations Manual*, property custodian responsibilities include initiating, processing, and maintaining all required documentation, conducting a quarterly inventory and resolving discrepancies, and submitting an SCO-certified inventory to the OIO inventory manager each year.

None of the CS China post offices conduct quarterly inventories. Instead, when ITA sends an annual inventory listing, the post completes a physical inventory, notes any discrepancies with ITA's inventory list, and certifies the inventory. Yet, we still found that CS Beijing, CS Guangzhou, CS Chengdu, and CS Shenyang all have inventory problems. During our inspection, we did a spot check of the inventory in each office and found that there were a number of discrepancies between ITA's inventory list (which should be mostly accurate because the posts had certified them within the last year) and the actual physical inventory, including items that had been disposed of or new acquisitions. CS Shanghai reported they did not perform a physical inventory in FY 2005, but planned to do so following the completion of the planned office renovation in early FY 2006. Thus, our spot check there revealed significant discrepancies that hopefully were cleared up when CS Shanghai finally did its physical inventory.⁶⁴ At all CS China offices, we found items, including old computers and obsolete cell phones, which should be disposed. These items could be sold, donated, or transferred through the embassy or consulate's General Services Office upon approval from OIO. CS China should get rid of excess equipment still carried on the inventory and conduct physical inventories as required.

D. *The commercial libraries in Shanghai and Guangzhou are not being fully utilized*

The commercial libraries in CS Shanghai and CS Guangzhou are not being fully utilized and informational materials in CS Chengdu and CS Shenyang are not easily accessible.⁶⁵ CS Shanghai estimates (it maintains no visitor logs) that about two to three people outside CS use the library per week. One potential user noted the library has great resources, but attributed low usage of the library to Shanghai traffic congestion, which makes the library more difficult to get to, and information being readily available on ITA's website. CS Guangzhou's library also is infrequently used. The PCO estimates that the commercial assistant only spends between 20 percent to 30 percent of her time as the part-time librarian. CS should evaluate the costs and benefits of maintaining the libraries in Shanghai and Guangzhou. We note that in responding to our inspection report on CS India⁶⁶ where a similar issue was raised, CS management stated that it would purchase subscriptions to online services and databases, as well as evaluate options for "virtual" libraries. That could certainly be an option in both Shanghai and Guangzhou.

⁶⁴ We are unable to independently verify whether the inventory is accurate without visiting the office again.

⁶⁵ CS Beijing recently closed its library when office space became an issue. The post is now using the space for interns.

⁶⁶ *International Trade Administration, Commercial Service India: Challenges Remain for Management of a Large and Economically Diverse Post*, IPE-16808, September 2004.

We also noted that both CS Chengdu and CS Shenyang maintain large collections of reference materials, which would be better accessible if moved to the public libraries maintained in these consulates by the Public Affairs department. Moving the reference materials would also free up office space for CS staff. Currently office space in both locations is extremely limited and there is no option for growth because they are located inside consulates filled to capacity.

Recommendations

We recommend that the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service take the following actions to improve CS China operations:

- Require CS China to follow petty cash and collection procedures prescribed in the *CS Operations Manual* or obtain written collection policies from the Embassy Management Section where local currency laws do not permit it to send currency to ITA's lockbox.
- Ensure officers sign and date all documents in accordance with CS policies and procedures.
- Ensure that CS China updates its inventory listings and performs physical inventories as required by the *CS Operations Manual*. In addition, CS China should request approval from CS headquarters to surplus obsolete and excess inventory items.
- Evaluate the costs and benefits of maintaining commercial libraries in CS Shanghai and CS Guangzhou, and if the costs are not justified close them. CS headquarters should document its decision and justification. In addition, CS should consolidate the reference materials from CS Chengdu and CS Shenyang in the existing Public Affairs libraries.



ITA's response concurred with most of our recommendations to improve CS China's financial and administrative operations. We welcome ITA's efforts to ensure that CS China complies with all petty cash and inventory procedures, as outlined in the *CS Operations Manual*, and that CS officers sign and date all official documents, as required by CS policies and procedures. CS will instruct the post to perform required inventories, and CS headquarters has authorized the post's requests to dispose of surplus inventory and will encourage prompt disposal of surplus items. Finally, we also welcome ITA's commitment to conduct a formal evaluation of the costs and benefits of maintaining CS' commercial libraries in Guangzhou and Shanghai, to consider establishment of an online library at both those posts, and to move excess reference materials stored in CS' Chengdu and Shenyang offices to the consulates' existing public libraries. CS did not agree to move all of its reference materials in CS Chengdu and CS Shenyang to State's Public Affairs department. The significant position of those materials that is intended for use by the FSN staff in those offices will not be moved.

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SUMMARY OF RECOMMENDATIONS

We recommend that the Secretary of Commerce take the following actions:

1. Develop appropriate management processes and lines of authority to ensure that Commerce organizations cooperate effectively in meeting Commerce's many challenges in China (see page 13).
2. Clarify the roles and responsibilities of the special counsel vis-à-vis those of the SCO position before appointing a new special counsel to China or any other post (see page 13).
3. Ensure that Commerce bureaus with positions in China develop an effective human resource strategy that forecasts future staffing needs and provides a continuous supply of qualified officers with adequate China-specific expertise (see page 13).

We recommend that the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service take the following actions to improve CS China operations:

4. Immediately appoint a qualified officer to fill the PCO position in Chengdu and in the meantime, consider the use of a temporary duty officer to cover the post, preferably someone who has served in China previously. CS Beijing should also provide closer management oversight and support of CS Chengdu until a new PCO arrives (see page 13).
5. Take steps to ensure that staffing gaps in Chengdu and Shenyang are kept to a minimum, using inducements and directed assignments as necessary to fill these positions (see page 13).
6. Complete the roll-out of the American Trading Centers in the Beijing, Chengdu, Shenyang, and Guangzhou consular districts, following the model of the successful ATC roll-out in the Shanghai consular district (see page 23).
7. Require CS officers and commercial specialists to closely monitor all services performed by CCPIT as part of the ATC initiative (see page 23).
8. Ensure that all U.S. companies using ATC services have realistic expectations of what the service can achieve and are given the opportunity to use CS' export counseling services (see page 23).
9. Develop Chinese-language marketing materials for the ATC program (see page 23).
10. Develop clear procedures to process refunds for unsatisfied ATC customers and recover funds from CCPIT for any refunds issued (see page 23).
11. Ensure that CS personnel fully understand the respective roles and responsibilities of the ATC trade show staff, the commercial specialists, and the officers in supporting CS China's trade show efforts. CS management in each office with trade show staff should ensure that all personnel are fulfilling their responsibilities to support trade show efforts (see page 23).

12. Assess the need for the quarterly reporting requirement for the Shanghai commercial center's partners or work with the partners to decide on a reporting arrangement that would enhance cooperation (see page 31).
13. Maximize the value of the commercial center in Shanghai by improving communications and collaboration between CS and the partners, and promoting and marketing the services of the commercial center in both the U.S. and China (see page 31).
14. Evaluate the future direction of the commercial center program and take appropriate action based on the results (see page 31).
15. Revise the *CS Operations Manual* to include clear and precise requirements for written documentation and verification of each element of an export success, including written verification from the client confirming CS assistance, and the reported benefit to the exporter, the date of the success, and any reported dollar value, and inform all staff of the changes (see page 37).
16. Enhance the first- and second-level review process for export successes to include specific requirements, such as frequency, sample size, and follow-up guidance, to ensure a reliable verification, quality control, and oversight program (see page 37).
17. Require each individual and office receiving credit for an export success to maintain documentation that supports the claim of significant value-added assistance (see page 37).
18. Revise the *CS Operations Manual* to ensure it specifically identifies scenarios under which visa assistance qualifies as an export success, and when it does not (see page 37).
19. Remove the invalid CS China export successes from CS' database (see page 37).
20. Evaluate the reasons why some CS China services are not meeting the needs of some clients and address them (see page 49).
21. Improve CS officers' review process for market research to ensure all reports meet ITA's recommended guidelines (see page 49).
22. Evaluate CS China's current language designations to determine their adequacy (see page 55).
23. Provide extended Mandarin language training to CS officers prior to their arrival at the post, and provide time for in-country language training, as needed (see page 55).
24. Provide periodic industry team training to ensure it effectively leverages staff resources (see page 55).
25. Provide regularly scheduled English writing, industry and U.S. business practice training to the FSN staff to improve customer service (see page 55).
26. Ensure financial resources will be available to fund the staff position upgrades indicated by CS China's CAJE results (see page 55).
27. Address the officer vacancy in CS Guangzhou and determine the future status of the position (see page 55).
28. Develop a regular standards and IPR training program in cooperation with NIST and USPTO and ensure that CS officers and other staff attend the training (see page 55).
29. Evaluate CS' current coordination process to provide logistical support for official visitors and ensure the most efficient use of resources (see page 63).

30. Develop a process to identify and recover all costs incurred, direct and indirect, in supporting all certified trade missions (see page 63).
31. Ensure that CS Beijing, Shanghai, and Guangzhou work with their respective human resources offices to set up a cleared PSA-Temporary workforce available as needed to meet CS China's need for temporary help with events and other short-term needs. CS China offices also should take advantage of the emergency PSA-Temporary authority to hire for periods of 21-days or less without a formal vacancy announcement when appropriate (see page 67).
32. Require CS China to follow petty cash and collection procedures prescribed in the *CS Operations Manual* or obtain written collection policies from the Embassy Management Section where local currency laws do not permit it to send currency to ITA's lockbox (see page 71).
33. Ensure officers sign and date all documents in accordance with CS policies and procedures (see page 71).
34. Ensure that CS China updates its inventory listings and performs physical inventories as required by the *CS Operations Manual*. In addition, CS China should request approval from CS headquarters to surplus obsolete and excess inventory items (see page 71).
35. Evaluate the costs and benefits of maintaining commercial libraries in CS Shanghai and CS Guangzhou, and if the costs are not justified close them. CS headquarters should document its decision and justification. In addition, CS should consolidate the reference materials from CS Chengdu and CS Shenyang in the existing Public Affairs libraries (see page 71).

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APPENDICES

Appendix A: Acronyms and Abbreviations

APEC	Asia-Pacific Economic Cooperative
AmCham	American Chamber of Commerce
AMT	Association for Manufacturing Technology
ATC	American Trading Center
BIS	Bureau of Industry and Security
CAJE	Computer-Aided Job Evaluation
CBIC	China Business Information Center
CCPIT	Chinese Council for the Promotion of International Trade
CG	Consul General
CMR	Customized Market Research
CRM	Customer Relationship Management
CS	U.S. & Foreign Commercial Service
DSB	Diplomatic Security Bureau
EAC	Export Assistance Center (same as USEAC)
EAP	East Asia and Pacific
Econ	State Department Economic Affairs Section
ES	Export Success
ExIm	Export-Import Bank of the United States
FAM	Foreign Affairs Manual
FSN	Foreign Service National
GDP	Gross Domestic Product
GKS	Gold Key Service
HR	Human Resources
IA	Import Administration
IBP	International Buyers Program
ICASS	International Cooperative Administrative Support Services
ICP	International Company Profile
IPR	Intellectual Property Rights
IPS	International Partner Search
ITA	International Trade Administration
JCCT	U.S. China Joint Commission on Commerce and Trade
M&S	Manufacturing and Services
MAC	Market Access and Compliance
MPR	Management Performance Review
MOU	Memorandum of Understanding
NIST	National Institute of Standards and Technology
OIG	Office of Inspector General
OIO	Office of International Operations (part of CS)
OMB	Office of Management and Budget
PCO	Principal Commercial Officer
PKS	Platinum Key Service

PMMI	Packaging Machinery Manufacturers Institute
PSA	Personnel Services Agreement
RSO	Regional Security Officer
SCO	Senior Commercial Officer
SME	Small to Medium sized Enterprise
TCC	Trade Compliance Center
TDA	Trade Development Agency
TFO	Trade Facilitation Office
USEAC	U.S. Export Assistance Center
USPTO	U.S. Patent and Trademark Office
USTR	United States Trade Representative
WTO	World Trade Organization


Appendix B: Secretary's Response to Draft Report



THE SECRETARY OF COMMERCE
Washington, D.C. 20230

April 13, 2006

MEMORANDUM FOR: Johnnie E. Frazier
Inspector General

FROM: Carlos M. Gutierrez 

SUBJECT: Commercial Service China Inspection Report

Thank you for the draft report (*No. IPE-17954/March 2006*) of your inspection of the Commercial Service's operations in China and related matters. The report presents a detailed assessment of the strengths, weaknesses, and opportunities for improvement in the Department's China mission.

The Department has made a substantial commitment of resources to address the growing economic and political importance of China. We have expanded our presence in China and worked to ensure that U.S. companies are able to fully leverage export opportunities and have access to the China market.

I appreciate the report's emphasis on the need to build on and improve the coordination and cooperation between the staffs of the various bureaus in order to ensure the success of our programs in China. In order to address this issue, I have asked that the Deputy Secretary chair a quarterly meeting of the Department's principal officials who have staff in China. The purpose of the meeting will be to provide a forum for the exchange of information, to identify emerging issues, and to improve overall coordination of our China operations. As you know, a comprehensive response to the findings and recommendations contained in your report has been submitted by the International Trade Administration.

As the China mission increases in importance and size, the Department will continue to be flexible and innovative in its operations to ensure continued effectiveness. Your assessment of the China post is an important part of this process.

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Appendix C: ITA's Response to Draft Report



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

MAR 31 2006

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

FROM: Michelle O'Neill *MO*

SUBJECT: Response to Draft OIG Report – CS China Generally
Performs Well, but Opportunities Exist for Commerce to
Better Coordinate its Multiple China Operations
(IPE-17546)

Thank you for your thorough, thoughtful and timely report. The Chinese market is of critical importance to us and advancing our U.S. commercial objectives in China is one of our principal goals. We appreciate your effort and the fact that you worked so closely with ITA during your review.

Attached is ITA's response to the Office of the Inspector General's draft report on Commercial Service operations in China.

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



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

Recommendation # 1: Develop appropriate management processes and lines of authority to ensure that Commerce organizations cooperate effectively in meeting Commerce's many challenges in China.

Answer:

CS China is an exceptional post not only by the size of its staff but because of the number of Commerce agencies integrated into the commercial section. To improve upon this integration and facilitate communications both internally and with headquarters, the SCO will be instructed to implement the following measures:

- 1) hold a monthly meeting with the head or designated member of each of the Commerce units (other than the core CS unit) represented at post (and separate meetings to review special projects with inter-unit reach involving non-core CS units);
- 2) meet in person and hold an entry interview with each new officer joining a Commerce unit at post, either on permanent assignment or TDY; and
- 3) introduce matrix management for greater Embassy coordination.

Recommendation # 2: Clarify the roles and responsibilities of the special counsel vis-à-vis those of the SCO position before appointing a new special counsel to China or any other post.

Answer:

The appointment of a new special counsel is under consideration through the approval process. A new position description for the special counsel will be proposed within 30 days from the submission of this report. The Special Counsel position manages special projects and initiatives of the Secretary, Deputy Secretary and Under Secretary in China, serving as the lead contact person for political trade missions and Congressional Delegations. In addition, the Special Counsel is paid by, and works closely with, the United States and Foreign Commercial Service to develop a strategy and methodology for greater China coordination. The functions of the special counsel should neither duplicate nor infringe upon those of the SCO.

Recommendation # 3: Ensure that Commerce bureaus with positions in China develop an effective human resource strategy that forecasts future staffing needs and provides a continuous supply of qualified officers with adequate China-specific expertise.

Answer:

To minimize the risk of staffing gaps, we will instruct the IA and MAC units to take the following measures:

- 1) request that the IA and MAC officers in China each notify their headquarters unit, at the start of the fiscal year, of their intention to seek an extension of their assignment or to terminate their assignment at the end of their current tour;
- 2) request that the Assistant Secretary for Market Access and Compliance and the Assistant Secretary for Import Administration analyze the unit's workload for the fiscal year and determine whether additional staff is required in China in light of the anticipated workload.

Recommendation # 4: Immediately appoint a qualified officer to fill the PCO position in Chengdu and, in the meantime, consider the use of a temporary-duty officer to cover the post, preferably someone who has served in China previously. CS Beijing should also provide closer management oversight and support of CS Chengdu until a new PCO arrives.

Answer:

As of March 8, a new officer has been assigned to CS Chengdu and is awaiting a security clearance.

In the meantime, after the OIG team's inspection of CS Chengdu, an informal agreement was reached between the Consul General and the SCO., assigning an officer on TDY to Chengdu for one week of each quarter beginning in December 2005. The CS recognizes that CS Chengdu should be receiving closer oversight following the PCO's departure in summer 2005.

Recommendation # 5: Take steps to ensure that staffing gaps in Chengdu and Shenyang are kept to a minimum, using inducements and direct assignments as necessary to fill these positions.

Answer:

There have been gaps between assignments to CS Chengdu, as noted in the report. However, it has not been particularly difficult to fill this post. Since the late 1990s, the tour of each of the CS officers assigned to this post was curtailed for health or other unexpected reasons. These unforeseen curtailments, not insufficient provisions by headquarters management, have been the cause of the gaps identified in the report.

CS Shenyang has been more difficult to fill, although the previous PCO served nearly five years on a limited appointment. Every effort will be made, within existing regulations, to fill this position in timely fashion upon the departure of the current incumbent, a State detailee.

Recommendation # 6: Complete the roll-out of the American Trading Centers in Beijing, Chengdu, Shenyang, and Guangzhou consular districts, following the model of the successful ATC roll-out in the Shanghai consular district.

Answer:

American Commercial Representatives (ACRs) were hired by CS Guangzhou in April 2005 and by CS Beijing in November 2005. Together with CS Shanghai, these three posts have an ongoing cooperative program with CCPIT offices in their respective consular districts, where the ATC initiative is making good progress.

As noted in the report, the ACR positions at CS Chengdu and CS Shenyang remain unfilled. In Chengdu, also as noted in the report, the Consul General has reiterated his objection to hiring an ACR so long as post remains without a PCO. We hope to resolve this with the arrival of a new PCO as noted above. In Shenyang, where there is no such impediment, post must continue its search for a qualified ACR candidate. Post must see to it that such a candidate is hired this year, and preferably by this summer.

Recommendation # 7: Require CS officers and commercial specialists to closely monitor all services performed by CCPIT as part of the ATC initiative.

Answer:

WE realize that some CCPIT personnel need additional training to reliably match the quality of standard services delivered by our experienced commercial specialists. We also recognize that the CCPIT's primary mission is to attract foreign investment and to promote China's exports. We agree and we have taken several actions in response to this recommendation.

In December 2005, CS China led a four-hour session with CCPIT representatives from most ATC sites, focusing on best practices and on the initiatives taken by various CCPIT subcouncils to promote the ATC program. CS China is planning to hold at least one more such session in the coming months (probably August 2006). Meanwhile, the three ACRs in Beijing, Guangzhou and Shanghai have provided direct personal guidance to their CCPIT counterparts. The record of satisfaction of U.S. companies served through the ATC network (17 IPSs and GKSs have been provided as of March 1, 2006) indicates a level of service quality comparable to that of the established posts in China.

The Chinese government has instructed the CCPIT leadership to help U.S. exporting companies enter the Chinese market. In this sense, the CCPIT is fulfilling a dual

function, not unlike that of Japan's JETRO. Our staff will continue to monitor CCPIT's performance for responsiveness and quality.

Recommendation # 8: Ensure that all companies using ATC services have realistic expectations of what the service can achieve and are given the opportunity to use CS's export counseling services.

Answer:

CS China is committed to ensuring a matching level of quality among all CS services provided in China, including those provided by the CCPIT under the supervision and guidance of CS staff. Our policy is to manage client expectations and avoid unrealistic engagements. We do not, however, want to undermine the program by implying that it is second rate relatively to our standard service delivery. The participation of an ACR in CCPIT's service delivery is aimed at ensuring quality control and client access to export counseling by CS staff. The money-back guarantee offered by CS China is a testament to the post's commitment and confidence regarding its ability to manage this joint undertaking.

Recommendation # 9: Develop Chinese-language marketing materials for the ATC program.

Answer:

These materials will make the ATC program better known among Chinese companies. We believe that the responsibility for developing such materials should be the CCPIT's, which has greater capability to produce a translation suited to the understanding and interests of the Chinese clientele, and will so propose. We will provide input to the CCPIT and verify that the program description is accurate, and will consider making funds available to defray part of the CCPIT's costs.

Recommendation # 10: Develop clear procedures to process refunds for unsatisfied ATC customers and recover funds from CCPIT for any refunds issued.

Answer:

CS China procedures for refunding unsatisfied ATC customers are in accordance with the CS's overall guidelines for providing refunds and addressing the claims of dissatisfied clients. Providing refunds is procedurally a last resort for addressing client dissatisfaction. CS guidelines regarding dissatisfied clients are to explore other options first with the clients to determine if additional services or counseling can be provided in addition to the initial service(s).

The CCPIT has been trained in and has accepted CS customer service standards..

Please note that as of March XX, no ATC customers have requested refunds, nor have any submitted Quality Assurance Surveys (QASS) through the CS's normal customer service system indicating dissatisfaction with ATC services.

Recommendation # 11: Ensure that CS personnel fully understand the respective roles and responsibilities of the ATC trade show staff, the commercial specialists, and the officers in supporting CS China's trade show efforts. CS management in each office with trade show staff should ensure that all personnel are fulfilling their responsibilities to support trade show efforts.

Answer:

CS China's updated trade event program was rolled out in 2005, and the past year has been a significant period for validating the processes required to ensure its success. There is complexity in managing a new, multi-post program involving over thirty exhibitions each year and we concur with your recommendation regarding the importance of effectively communicating specific roles for all CS personnel.

In response, CS China has developed and disseminated a matrix of responsibilities outlining specific roles for specialists, ATC trade show staff, officers and USEACs for trade events.

CS China will ensure that CS personnel fulfill their individual responsibilities for trade promotion. In addition, ATC trade promotion managers will conduct supplemental training at post to reinforce this process.

Recommendation # 12: Assess the need for the quarterly reporting requirement for the Shanghai commercial center's partners or work with the partners to decide on a reporting arrangement that would enhance cooperation.

Answer:

We agree to develop changes in reporting requirements, in consultation with the partners, and in concert with the direction of the commercial center program. In the short term, we can take some simple steps, such as eliminating the quarterly report, which has been an irritant to the partners and has provided information of limited value to CS management.

Recommendation # 13: Maximize the value of the commercial center in Shanghai by improving communications and collaboration between CS and the partners, and promoting and marketing the services of the commercial center in both the U.S. and China

Answer:

The relationship with the partners is not as distant as described in the report. CS staff at post always refer potential clients for any of the partners, and post frequently assists VIP visitors from the partners' organizations. Post will also resume including the partners in its general staff meetings and add appropriate language and linkages to our website.

The commercial center has had a full complement of partners since 2001, and in that sense has been more successful than any of the other commercial centers created under the Jobs Through Exports Act of 1992. This is largely due to the appeal of the China market to American trade associations and states. It is also the result of Chinese legal restrictions which until recently precluded states from seeking official representation except under the auspices of the U.S. federal government. Our longtime partners have obviously found it worthwhile to stay at the commercial center when they could have moved elsewhere after the legal restrictions were lifted. Moreover, the SCO maintains a good collaborative relationship with 16 state offices in China and regularly addresses messages to their organization to inform them of post activities in which they are invited to participate.

To the extent that states wanting to open their own offices in China no longer need to operate under the umbrella of the federal government, it may be more difficult to recruit them than previously.

This is the main reason why the operation of the commercial center, which was conceived as an incubator that would rotate partners in and out of this facility, has come somewhat short of the original intent. It has nonetheless served a useful purpose and, by the account of the current partners themselves, continues to do so.

Recommendation # 14: Evaluate the future direction of the commercial center program and take appropriate action based on the results.

Answer:

Improvements can be made to the operation of the commercial center by integrating the partners more effectively into the activities of the commercial section (and vice versa). We would be very pleased to add one partner state, and possibly two, to the current representation (the State of Colorado is considering joining the City/County of Denver at the center). Given our limited personnel and budgetary resources, however, we don't see the need to revolutionize our approach to the functions and purposes of the center, and when the commercial section is brought back into a new Consulate building approximately three years hence we expect to discontinue the operation of the center.

Recommendation # 15: Revise *CS Operations Manual* to include clear and precise requirements for written documentation and verification of each element of an export success, including written certification from the client confirming CS assistance, reported benefit to the exporter, the date of success, and any reported dollar value and inform all staff of the changes.

Answer:

The Commercial Service agrees that more precise requirements are needed and CS will use the following as our method of achieving this end. The CS Export Success Guidelines, issued April 1, 2005, state, "All CS employees who have direct contact with clients should maintain accurate and complete counseling reports on CMS. Key communications such as substantive e-mails . . . should be copied into the CMS record. In addition hard copies of letters, faxes, and similar communications to and from the client should be kept on file." CS does not anticipate any change in this guidance. However, we will be making changes to the export success reporting form, which will reinforce these ES record-keeping requirements and integrate them with other ES verification elements.

Senior CS management recently approved recommendations made by the Performance Measures Advisory Group regarding export success report verification. In the near future, the ES record will contain a mandatory verification field. Methods of verification will be restricted to the following options. No other options will be permitted and if one of the options cannot be satisfied, the supervisor reviewing the draft ES may not approve the draft ES report. ES verification and approval will require:

- A. All facts referred to in the ES that describe assistance provided to client must be substantiated by CMS counseling records and should be supplemented by other documents including core service participation agreements, GKS schedules, IBP delegation lists, and IPS reports as necessary to establish the linkage between service provided and benefit to the exporter.
- B. In addition, one of the following verification methods must be checked in the verification form and the approver must review the file documents associated with the form of verification selected:
 - 1. Draft ES approved by the client including facts of transaction, year of sale and transaction value;
 - 2. Written confirmation of ES authored by client, including facts of transaction, year of sale and transaction value;
 - 3. ES verification in person or by phone contact with client and recorded in CMS;
 - 4. Copies of original transaction documents including contracts, purchase orders, sales agent agreements.

Recommendation # 16: Enhance the first- and second-level review process for export successes to include specific requirements such as frequency, sample size, and follow-up guidance to ensure reliable verification, quality control, and oversight program.

Answer:

In addition to the above description of changes to be instituted concerning ES verification, CS Management agrees that its administrative controls should include specific requirements with regard to periodic verification by first-level review supervisor. Future guidelines will require first-level supervisors to randomly select and review ten percent of the ESs prepared by professionals under their direct supervision no later than the end of the following quarter of the fiscal year. The supervisor's review must also include all ES with an export sale value of \$100 million or more. The method of review shall include a call to the client and checking ES file documentation. The sample chosen by the supervisor may not include ESs already known to be valid due to the supervisor's direct participation.

Recommendation # 17: Require each individual and office receiving credit for an export success to maintain documentation that supports the claim of value-added assistance.

Answer:

The current guidelines require the author of the export success to maintain all verification documentation. They do not impose record-keeping requirements on individuals who may receive credit for a contribution to an export success. Individuals who receive ES credit and are involved in delivery of a core fee-based service will continue to be required to maintain records. ES credits are an internal administrative tool, not a performance measure intended for external reporting. The launch of the Client Relations Management Systems (CRM) in 2007 will replace existing CMS records. ITA staff working in the United States or abroad will share client records and be able to see all client-related activity. This improvement should address some of the OIG's concern about documentation of ES credits.

Recommendation # 18: Revise the CS Operations Manual to ensure it specifically identifies scenarios under which visa assistance qualifies as an export success and when it does not.

Answer:

We agree with the OIG's observation that the guidelines regarding visa facilitation are unclear. The Commercial Service does not have a formal role in adjudicating visa applications. This rests under the dual control of the U.S. State Department and U.S. Department of Homeland Security abroad. Future revisions to the CS Operations Manual

will specify that visa facilitation, in any form, is not deemed a “value-added service” or “business facilitation service” that may be claimed as a basis for an export success report.

Recommendation # 19: Remove invalid CS China export success reports from the CS China database.

Answer:

The Commercial Service agrees with the OIG’s designation of sixteen export success reports as invalid and will remove them from the Office of Domestic Operations and the Office of International Operations databases by April 30, 2006. We plan to take the opportunity presented by upcoming Senior Commercial Officer Conferences to clarify the ES guidelines. Interim remedial measures have been taken by OIO/EAP management to ensure CS China’s ES documentation improves immediately and to reinforce current ES record-keeping requirements and standards of verification.

Although we agree to remove the ES records designated as invalid, CS Management notes that we disagree with the OIG’s application of CS guidelines. The primary area of disagreement concerns the OIG’s approach to client verification of the export success and the linkage between value-added service and benefit to the exporter. Applying CS’s interpretation of its guidelines, 32 percent, not 44 percent, should be categorized as unverified.

Recommendation # 20: Evaluate CS China’s Gold Key Service program to determine why it is not meeting some client expectations and take action to ensure better quality and improved performance.

Answer:

The level of dissatisfaction identified by the report in its survey of responses by GKS clients is remarkably low (five clients out of 169 respondents). There have been complaints from the domestic side of the CS that post has been slow in dealing with requests for GKS and other services, and we have worked with post to improve coordination with USEACs and their clients. The new procedures put in place by the CS’s Customer Management Relationship Unit under its Product Enhancement recommendations require that each post and USEAC hold a conference call with any client requesting a service like the GKS, and this systematic approach to managing client expectations will improve overall performance and satisfaction. CS China has made a strong commitment to that end, especially in light of the addition of the ATC network and CCPIT staff to its service providers.

Recommendation # 21: Improve CS officers’ review process for market research to ensure all reports meet ITA’s recommended guidelines.

Answer:

CS management agrees with the OIG recommendation. We share the OIG's concern for product quality and will ensure that individuals approving market research will more carefully review the reports in the future. On February 9, 2005, Deputy Director General Thomas Moore released new guidelines for production of planned and unplanned market research. Both types of reports will be produced using a template with consistent branding and appearance. Also, a new market research planning and tracking tool was released on November 10, 2005, which we expect to correct some of the difficulties encountered in the market research planning process for FY 2004.

Clarification of Market Research Production by CS China

In FY 2004 the ITA Strategic Planning Group decided to move toward a *calendar* year planning process for market research. The draft OIG report incorrectly states that CS China failed to reach its *fiscal*-year objectives. CS China agreed to produce seventy-two planned market overviews by December 31, 2005. Market research tracking records maintained by OIO/EAP indicate that seventy of seventy-two planned reports were completed, though three reports were completed one month late. In addition to seventy planned market research reports, CS China produced twenty-six unplanned market research reports to provide the business community with timely information on narrow hot topics. CS China committed to produce the largest number of market research reports in calendar year 2005, seventy-two of 307 planned for the East Asia and Pacific region.

The draft OIG report states that the CY-2005 market research planning process produced 300 initial requests for China market research and post accepted only seventy-two due to resource constraints. The market research planning process in 2004 was unique in the history of market research planning at HQ and coincided with the reorganization of ITA. The ITA Strategic Planning Group aggressively reached out to all ITA units (MAS, ODO, ODO/OIO Teams, and MAC) and encouraged interested parties to submit market research proposals. In CY 2006, CS China received 82 market research proposals and accepted fifty-nine. Some proposals were not accepted because they were duplicative of topics already planned by post or were inappropriate for the market.

Clarification of Market Research Types

The draft OIG report inaccurately describes the types of market research produced by the Commercial Service and the planning process. Reports previously referred to as "IMIs" were designated as unplanned market research reports in 2004. The draft OIG report incorrectly states that unplanned reports are produced at the request of clients. Market research produced at the request of clients is a core fee-based service referred to as "Customized Market Research." Commercial officers and commercial specialists in the OIO field determine the unplanned market research topic and substance of the report in response to market developments. Posts produce unplanned market research reports at

their own discretion. The length of the unplanned market research varies from one to seven pages, depending on the topic.

The planned Industry Overview reports will range from five to ten pages and replace ISAs. CS management believes that this new approach to market research will help OIO posts balance time allocation and encourage a more customized approach to serving the client's market research needs.

Recommendation # 22: Evaluate CS China's current language designations to determine their adequacy.

Answer:

The review of language designations by proficiency level takes place periodically, at least every other year, and most recently in the spring of 2005. This process includes each post's SCO and headquarters staff, notably each region's Director and country managers, the Senior Advisor for Career Development and Assignments, and the Director of the Office of Foreign Service Human Resources. The assignment of language designations is therefore a product of consensus between the overseas field and CS headquarters.

With regard to CS China specifically, succeeding SCOs have agreed that a 2/1 language score, achievable in a minimum of twenty-four weeks for an individual without significant prior proficiency, is adequate for most positions at post. It is also understood that this level of proficiency requires assistance from native speakers among post staff for all professional interaction with Chinese nationals. The limited universe of CS officers and pool of officers who bid on an assignment to China inevitably constrain our ability to provide more extensive language training. This issue is also addressed in our answer to the following recommendation.

Recommendation # 23: Provide extended Mandarin language training to CS officers prior to their arrival at post, and provide time for in-country language training, as needed.

Answer:

The CS has its own language policy, which differs from the Foreign Affairs Manual regarding language training. The CS provides a maximum of one year (usually forty-four weeks) of language training to any officer assigned to a country whose language represents the highest level of difficulty (Arabic, Chinese, Japanese, Korean) to non-speakers. In most cases, the training is administered by the Foreign Service Institute or a private language school like the Diplomatic Language Service. In some cases, officers have been cleared to study in country (either in China or Taiwan, as regards Chinese-language studies), in consideration of the benefits of "total immersion." Cost, usually higher overseas than stateside, has to be taken into account relative to the benefits of this accommodation. The report cites the case of four officers currently at post who received

an average of only eight weeks of language training before starting their tour. We will investigate and, if the report's statement is accurate, we will make every effort to ensure that this lapse in training does not happen again.

Funds for in-country language training are made available to post over the course of the year. In many cases, the workload precludes officers from taking advantage of this opportunity. The ideal solution of providing two years of Chinese-language training is adversely affected by the limited number of officers available for assignment to China, who are urgently needed at post. Thus we have to rely on incoming officers who already have attained a high level of proficiency in Chinese rather than on training officers without Chinese-language skills and bringing them to the desired level of proficiency.

Recommendation # 24: Provide periodic industry team training to ensure it effectively leverages staff resources.

Answer:

We recognize the benefits of employee training in general, and of industry-focused training in particular, especially to support effective counseling and a strong market-research program, two areas where we add the greatest value to client. The CS supports industry training through the Centralized TDY (CTDY) and Industry Teams Program. The CTDY Program, managed by the CS Office of Professional Development (OPD), is designed to provide CS employees with cross-unit professional development, work assignments of increased complexity, and opportunities to apply technical and professional skills in new settings. In FY 2006, the CTDY Program funded eight FSNs' travel to the U.S. to work with USEAC and headquarters colleagues and gain expertise in their industry portfolios. Since OPD has a line item for industry training, we can ensure that China FSNs/PSAs specifically benefit from this training.

OPD supports the ODG-administered Global Teams Program by funding opportunities for FSNs to work closely with U.S.-based colleagues to increase their industry expertise at trade events and seminars. In FY 2006, OPD supported professional development opportunities for fourteen different industry/regional-focused Teams.

Recommendation # 25: Provide regularly scheduled English writing, industry and U.S. business practice training to the FSN staff to improve customer service.

Answer:

We recognize the value of this training, and aim to facilitate the local staff's attendance of English-language classes, notably those concentrating on their areas of professional specialization.

In FY 2006, specialized training for FSNs includes business-writing training, account-executive training, industry case studies, and trade finance training as integral components of the Professional Development Forum, scheduled for July 2006. In addition, the CS will pilot test a customized FSN training program, scheduled for September 2006. Themes and topics will be designed based on consultation with FSN advisors and OIO regional directors and field specialists.

Recommendation # 26: Ensure financial resources will be available to fund the staff position upgrades indicated by CS China's CAJE results.

Answer:

The salaries and benefits of locally-hired employees in China have risen steeply from a low base, commensurately with the country's economic development and the growing competitiveness of the labor market. This represents a considerable increase in personnel costs for a post with almost 100 local staff. The CAJE review will add to this cost, and the CS is prepared to meet the financial consequences of this process that better recognizes employee skills and performance and is expected to improve staff retention and morale.

Recommendation # 27: Address the officer vacancy in CS Guangzhou and determine the future status of the position.

Answer:

Until 1998, CS Guangzhou was designated a three-officer post. By the end of 2004, it had *de facto* become a one-officer post. This was in part the result of an internal reallocation of resources, with CS Shanghai, a more active post, gaining at CS Guangzhou's expense. There is enough activity in Guangdong Province to justify a second-officer position in Guangzhou, and EAP regional management has tentatively recommended its restoration. However, budget constraints in the present fiscal year have forced a postponement of this action. The importance of filling the second-officer position in Guangzhou has not been sufficiently compelling against other priorities.

Recommendation # 28: Develop a regular standards and IPR training program in cooperation with NIST and USPTO and ensure that CS officers and other staff attend the training.

Answer:

For the first time, a standards officer was posted to CS China in the summer of 2005, and two new USPTO officers have been assigned to CS Beijing and CS Guangzhou (one at each post) as intellectual-property rights monitors. These new officers will effectively

educate their colleagues as they work side by side on standards and IPR issues. The ITA-headquartered Standards Liaison Office (SLO) also maintains contact, directly and indirectly, with CS officers designated as reporters on in-country standards developments, who have received training through SLO webinars.

We will also work with NIST and USPTO to make broad-based and comprehensive training available to CS China staff, preferably including LES staff and therefore to be provided in-country.

Recommendation # 29: Evaluate CS's current coordination process to provide logistical support for official visitors and ensure the most efficient use of resources

Answer:

Receiving a very large number of official visitors is unquestionably one of the heaviest burdens that CS China, as the highest-profile post in the CS organization, must shoulder. The constant and unrelenting demand for post's attention and support effectively precludes coordination except to the extent that post is able to impose chronological priorities dictated by its calendar. Many visiting delegations must be accommodated regardless of post's other obligations. That post is able to satisfy the requirements of such a large and highly visible clientele is a remarkable achievement, as noted in the report. Post's strategy to address this unremitting pull on its resources has proved effective. Improvements may be achieved through better internal coordination and assignment of duties, and post will continue to consider making such changes. This is a matter best left to the determination of the SCO and his staff.

Recommendation # 30: Ensure that CS China reports all its trade events and trade missions in eMenu.

Answer:

With regard to trade missions and trade events, CS China has an established process for obtaining approval in eMenu through the EAP staff at headquarters. In addition, CS China works closely with the Global Trade Programs (GTP) unit in supporting Certified Trade Fairs at Post. Where appropriate, event-specific budgets are developed and referenced in eMenu, and post-event reports are attached to document the key activities performed. The additional, extensive reporting recommended by the report represents a considerable expenditure of record-keeping time that the report recognizes is in short supply at this exceedingly busy post.

Recommendation # 31: Develop a process to identify and recover all costs incurred, direct and indirect, in supporting all certified trade missions.

Answer:

In September 2005, at the time of the OIG team's inspection of CS China, the CS Office of Planning released a cost-recovery template, attached to this draft, describing the components of a strategy for systematically identifying all costs associated with a post's support of certified trade missions and other trade events. CS China is applying this cost-recovery matrix, as are all other CS posts.

Recommendation # 32: Ensure that CS Beijing, Shanghai and Guangzhou work with their respective human resources offices to set up a cleared PSA-Temporary workforce available as needed to meet CS China's need for temporary help with events and other short-term needs. CS China offices also should take advantage of the emergency PSA-Temporary authority to hire for periods of twenty-one days or less without a formal vacancy announcement when appropriate.

Answer:

We acknowledge the merit of this recommendation and will seek its implementation, on the assurance that once a group of temporary workers has received clearance from the RSO, these same workers will become available when called.

Recommendation # 33: Require CS China to follow petty cash and collection procedures prescribed in the *CS Operations Manual* or obtain written collection policies from the Embassy Management Section where local currency laws do not permit it to send currency to ITA's lockbox.

Answer:

Post will be instructed to comply with petty-cash and collection procedures as set out in the *CS Operations Manual*. One-officer posts may have to be exempted from the requirement to perform unannounced verifications at least once a month during the PCO's absence on home leave. Likewise, post will send currency collections to ITA's lockbox, or obtain the requisite policies from the Embassy's Management Section to ascertain that such deposits are not permitted.

Recommendation # 34: Ensure officers sign and date all documents in accordance with CS policies and procedures

Answer:

Post will be so instructed.

Recommendation # 35: Ensure that CS China updates its inventory listings and performs physical inventories as required by the *CS Operations Manual*. In addition, CS China should request approval from CS headquarters to surplus obsolete and excess inventory items.

Answer:

Post will be instructed to perform said inventories as required by internal CS rules. CS headquarters has received and authorized requests to dispose of surplus inventory, and will encourage post to expedite the disposal of surplus items.

Recommendation # 36: Evaluate the costs and benefits of maintaining commercial libraries in CS Shanghai and CS Guangzhou, and if the costs are not justified close them. CS headquarters should document its decision and justification. In addition, CS should consolidate the reference materials from CS Chengdu and CS Shenyang in the existing Public Affairs libraries.

Answer:

We will conduct a formal evaluation of the costs and benefits of maintaining commercial libraries by CS Guangzhou and Shanghai. Both posts already have modified the librarians' position descriptions and cut back the time they spend on library-related work to make them available for other duties within the commercial section. The option of establishing an on-line library is under consideration by both posts. They will need to keep some reference materials for internal use, but the space relinquished through a contraction of the library rooms will be profitably used by the current staff.

With regard to the recommendations pertaining to CS Chengdu and Shenyang, we agree in part only with the report's recommendation, inasmuch as a significant portion of the reference materials is intended for the use of the FSN staff. Some materials could be moved to the Public Affairs department, but not all.

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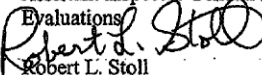
Appendix D: USPTO's Response to Draft Report



UNITED STATES PATENT AND TRADEMARK OFFICE

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

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

FROM: 
Robert L. Stoll
Director, Office of Enforcement

SUBJECT: Comments on OIG Draft Report: "*CS China Generally Performs Well, But Opportunities Exist for Commerce to Better Coordinate its Multiple China Operations,*"
No. IPE-17546

Thank you for the opportunity to review and comment on this draft report. USPTO's comments are related to Recommendation #28, "Develop a regular standards and IPR training program in cooperation with NIST and USPTO and ensure that CS officers and other staff attend the training."

- Take advantage of available USPTO's IPR Training for USG Officials: Last year, the USPTO and the State Department jointly organized a two-day "primer" on China's intellectual property rights issues. Though the program was intended for foreign service officers headed for China and other DC-based USG officials, not too many FSC officers attended the seminar. USPTO plans to make the program an annual event to provide basic IP training to all trade and IP officials working on China issues. This year's program is scheduled for June 15-16, 2006.
- Request USPTO to provide IPR training to all personnel's (commercial officers and FSN) in China. Training can be conducted during CS China's annual "All Hands Meetings" or during a visit to Posts by USPTO officials.
- When USPTO IPR attaches are fully operational on the ground, the attaches should interact regularly with CS officers, coordinating on IPR issues and attending commercial section's staff meetings.

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Appendix E: Briefings for Commerce's Travelers to China (FOR OFFICIAL USE ONLY)
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**Appendix F: Clearance Process for Commerce's Staff Assigned to China (SECRET/
NOFORN) *To be provided under separate cover***