INTERNATIONAL TRADE ADMINISTRATION

CS China Operations Highlight Need to Strengthen ITA Management Controls

FINAL REPORT NO. OIG-16-041-A

AUGUST 9, 2016

U.S. Department of Commerce
Office of Inspector General
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UNITED STATES DEPARTMENT OF COMMERCE
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Washington, D.C. 20230

August 9, 2016

MEMORANDUM FOR: Kenneth E. Hyatt
Acting Under Secretary for International Trade

Arun M. Kumar
Assistant Secretary for Global Markets and Director General of the U.S. & Foreign Commercial Service

Carol N. Rice

FROM: Carol N. Rice
Assistant Inspector General for Economic and Statistical Program Assessment

SUBJECT: *CS China Operations Highlight Need to Strengthen ITA Management Controls*
Final Report No. OIG-16-041-A

Attached is our final report on OIG's audit of CS China operations. We conducted this audit as part of our FY 2015 audit plan given the level of Department resources dedicated to this important post. Our audit objectives were to (1) assess the roles and responsibilities of Commerce staff components in China and the adequacy of cost-sharing agreements; (2) assess the adequacy of controls over personal property inventory at CS China's six offices; and (3) review the responsiveness of USFCS staff with respect to client service delivery.

As a result of our fieldwork, we identified ITA management control issues highlighted by CS China operations. Compliance with the terms of the memorandums between ITA and with BIS and USPTO varied. While BIS and USPTO roles and responsibilities were clearly stated, the payment and recovery of certain costs did not fully adhere to the terms of the agreements. With respect to personal property, we found problems with property acquisitions, procedures for disposing of obsolete property, and outdated USFCS policies. Finally, we compared CS China's client service delivery with that of other comparable posts and found that CS China's performance in this regard was low in comparison. However, because data was unavailable, we were unable to clearly identify the causes that resulted in late or canceled client services.

We have summarized ITA's response to our draft report and included it as appendix C. The final report will be posted on OIG's website pursuant to section 8M of the Inspector General Act of 1978, as amended.

In accordance with Department Administrative Order 213-5, please provide us your action plan within 60 days of this memorandum. The plan should outline the actions you propose to take to address each recommendation.

We appreciate the cooperation and courtesies extended to us by your staff during this audit. If you have any questions or concerns about this report, please contact me at (202) 482-6020 or Eleazar Velazquez, Supervisory Program Analyst and audit manager, at (202) 482-0744.

Attachment

cc: Judy Reinke, Deputy Director General of the U.S. & Foreign Commercial Service, ITA
Patrick Santillo, Deputy Assistant Secretary for China, ITA
Jennifer Sargeant, Audit Liaison, ITA

Report in Brief

AUGUST 9, 2016

Background

As the lead trade and investment promotion agency in the federal government, the Department of Commerce's mission is to create the conditions for economic growth and opportunity. To help achieve its trade and investment goals, the Department maintains a large personnel presence in the People's Republic of China (China), the country's third largest export market between FY 2012 and FY 2014, to carry out activities in the areas of trade promotion and compliance, intellectual property rights, and export controls. Such activities are carried out by several Departmental bureaus—the International Trade Administration (ITA), U.S. Patent and Trademark Office (USPTO) and the Bureau of Industry and Security (BIS).

Why We Did This Review

We conducted this audit of CS China operations as part of our FY 2015 audit plan given the level of Department resources dedicated to this important post. Our objectives were to (1) assess the roles and responsibilities of Commerce staff components in China and the adequacy of cost-sharing agreements; (2) assess the adequacy of controls over personal property inventory at CS China's six offices; and (3) review the responsiveness of U.S. & Foreign Commercial Service (USFCS) staff with respect to client service delivery. We reviewed memorandums of understanding (MOUs) between ITA and two other Department bureaus (BIS and USPTO), existing internal control over personal property, and relevant documents and policies.

INTERNATIONAL TRADE ADMINISTRATION

CS China Operations Highlight Need to Strengthen ITA Management Controls

OIG-16-041-A

WHAT WE FOUND

As a result of our fieldwork, we identified ITA management control issues highlighted by CS China operations. Compliance with the terms of the memorandums between ITA and with BIS and USPTO varied. While BIS and USPTO roles and responsibilities were clearly stated, the payment and recovery of certain costs did not fully adhere to the terms of the agreements. With respect to personal property, we found problems with property acquisitions, procedures for disposing of obsolete property, and outdated USFCS policies.

Finally, we compared CS China's client service delivery with that of other comparable posts and found that CS China's performance in this regard was low in comparison. However, because data was unavailable, we were unable to clearly identify the causes that resulted in late or canceled client services.

WHAT WE RECOMMEND

We recommend that the Assistant Secretary for Global Markets and Director General of the U.S. & Foreign Commercial Service

1. Revise the MOUs with BIS and USPTO for posting staff in China and at other applicable overseas posts to clarify each bureau's responsibilities regarding the payment of Capital Security Cost Sharing Program (CSCSP) charges.
2. Apply a 12 percent overhead rate for BIS' program in China and at other applicable overseas posts or work with BIS to negotiate and document an exemption or an overhead rate that reasonably approximates costs and is reviewed periodically.
3. Provide training and information to BIS and USPTO overseas program officials on the International Cooperative Administrative Support Services (ICASS) program and help them develop ICASS specific policies.
4. Update USFCS' policy manuals related to property and provide property custodians at CS China with refresher training on their procedural responsibilities.
5. Ensure there is an adequate separation of duties and management accountability when conducting the annual physical inventory at CS China and other posts as applicable.
6. Ensure that reasons for service delivery delays and cancellations are documented in the eMenu system by USFCS staff at CS China and other overseas posts.

Contents

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

Acronyms and Abbreviations

BIS	Bureau of Industry and Security
CS China	U.S. & Foreign Commercial Service in China
CSCSP	Capital Security Cost Sharing Program
E&C	Enforcement and Compliance
ECO	export control officer
FY	fiscal year
GAO	Government Accountability Office
GM	Global Markets
ICASS	International Cooperative Administrative Support Services
IPR	Intellectual Property Rights
ITA	International Trade Administration
LES	locally engaged staff
MOU	memorandum of understanding
OCIO	Office of the Chief Information Officer
USEAC	U.S. Export Assistance Center
USFCS	U.S. & Foreign Commercial Service
USPTO	U.S. Patent and Trademark Office

Introduction

As the lead trade and investment promotion agency in the federal government, the Department of Commerce's (the Department's) mission is to create the conditions for economic growth and opportunity. To help achieve its trade and investment goals, the Department maintains a large personnel presence in the People's Republic of China (China), the country's third largest export market between fiscal year (FY) 2012 and FY 2014, to carry out activities in the areas of trade promotion and compliance, intellectual property rights, and export controls. Such activities are carried out by several Departmental bureaus—the International Trade Administration (ITA), U.S. Patent and Trademark Office (USPTO) and the Bureau of Industry and Security (BIS).

The Department's trade promotion activities are carried out by the U.S. & Foreign Commercial Service (USFCS), part of the ITA's Global Markets (GM) business unit. GM combines country-specific and regional trade experts, overseas and domestic field staff, and certain trade promotion programs to assist American businesses. USFCS operates posts in 77 countries and territories and maintains partnership posts with the Department of State (State) in an additional 55 countries.[1] As its largest post, USFCS in China (CS China) has a complement of 138 foreign service officers (hereafter, commercial officers) and locally engaged staff (LES), and has offices in the cities of Beijing, Chengdu, Guangzhou, Shanghai, Shenyang, and Wuhan (see figure 1).

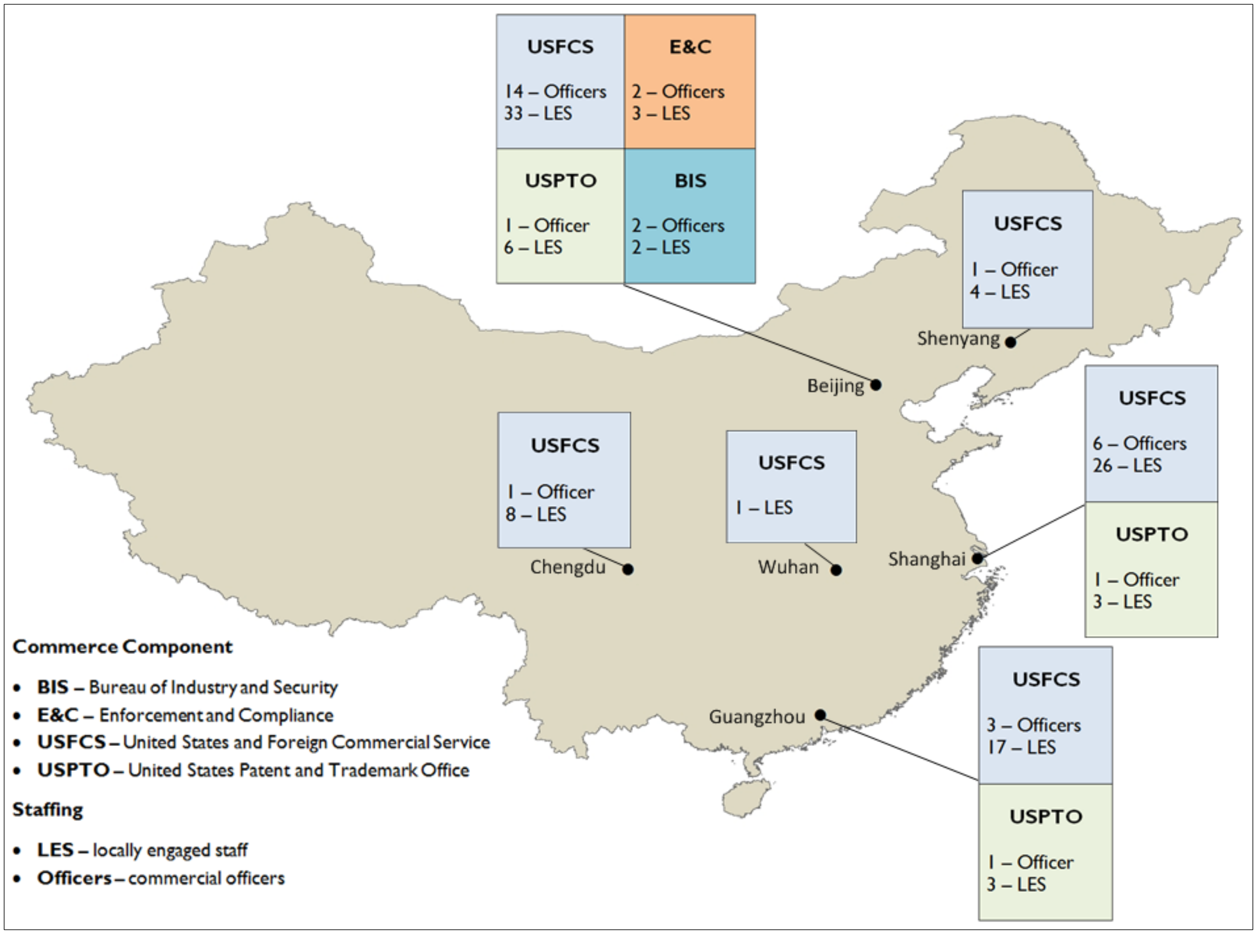
The Department's trade compliance activities are carried out by ITA's Enforcement and Compliance (E&C) business unit. Its mission is to eliminate trade barriers and protect U.S. companies against unfair trade practices by enforcing U.S. antidumping duty and countervailing duty trade laws and ensuring compliance with trade agreements. E&C personnel stationed in Beijing assist visiting E&C teams that travel from headquarters to carry out in-country verifications as part of antidumping and countervailing duty investigations and administrative reviews.

The USPTO's Overseas Intellectual Property Rights (IPR) Attaché Program advocates for U.S. government IPR policy, interests, and initiatives and assist U.S. businesses on IPR protection and enforcement. This program operates in eight countries, including China, with personnel stationed in Beijing, Guangzhou, and Shanghai.

Finally, BIS serves to advance U.S. national security, foreign policy, and economic objectives by ensuring an effective export control and treaty compliance system. The bureau operates its export control officer (ECO) program, placing personnel in six countries—including China—to conduct end-use checks of host country companies and conduct outreach on U.S. export controls. BIS personnel are stationed in Beijing and conduct end-use checks throughout that country.

[1] Under the Foreign Service Act of 1980, the Secretary of Commerce may utilize the Foreign Service personnel system. 22 U.S.C. § 3922(a)(3). This authority is delegated to the Under Secretary for International Trade under Section 4.01(jj) of Commerce Department Organization Order 10-3 (effective September 18, 2013).

Figure 1. Department Staffing in CS China as of the end of FY 2014



Source: USFCS staffing data, fourth quarter FY 2014

To effectively manage the Department's interests in China, ITA, as the lead bureau, has entered into memorandums of understanding (MOUs) with BIS and USPTO to detail personnel from those bureaus at post under USFCS authority. BIS and USPTO detailees are placed as limited appointment commercial officers who are assisted at post by LES. The MOUs—each of which is valid for up to 5 years—specify the responsibilities of BIS and USPTO officers and prescribes which party pays what costs. Each year, the parties to the MOU sign annual amendments that detail the costs of the respective programs for that year. As a constituent business unit of ITA, E&C does not have such a formal agreement with GM, but nonetheless operates under USFCS authority in China. With USFCS hosting other components while also working with non-Commerce agencies at post, it is imperative that management, administrative, and financial controls are in place to minimize duplication of efforts, ensure financial arrangements are equitable, and safeguard agency assets.

Summary of Objectives, Scope, and Methodology

We conducted this audit of CS China operations as part of our FY 2015 audit plan given the level of Department resources dedicated to this important post. Our objectives were to (1) assess the roles and responsibilities of Commerce staff components in China and the adequacy of cost-sharing agreements; (2) assess the adequacy of controls over personal property inventory at CS China's six offices; and (3) review the responsiveness of USFCS staff with respect to client service delivery. We reviewed MOUs between ITA and two other Department bureaus (BIS and USPTO), existing internal control over personal property, and relevant documents and policies. For additional information regarding our scope and methodology, see appendix A.

Findings and Recommendations

As a result of our fieldwork, we identified ITA management control issues highlighted by CS China operations. Compliance with the terms of the memorandums between ITA and with BIS and USPTO varied. While BIS and USPTO roles and responsibilities were clearly stated, the payment and recovery of certain costs did not fully adhere to the terms of the agreements. With respect to personal property, we found problems with property acquisitions, procedures for disposing of obsolete property, and outdated USFCS policies. Finally, we compared CS China's client service delivery with that of other comparable posts and found that CS China's performance in this regard was low in comparison. However, because data was unavailable, we were unable to clearly identify the causes that resulted in late or canceled client services.

I. Commerce Components are not Effectively Managing Intra-agency Agreements to Place Staff Overseas

Our first objective was to assess the roles and responsibilities of Commerce components at post and the adequacy of cost-sharing agreements. To place staff in China, BIS and USPTO use the Economy Act and the Patent and Trademark Office Efficiency Act, respectively,[2] to enter into MOUs with USFCS, part of ITA. BIS' MOU covers its entire export control officer program, which includes China, while USPTO signs separate MOUs with ITA covering each location in China—Beijing, Guangzhou, and Shanghai. Under these MOUs, BIS and USPTO each agreed to pay nearly all costs associated with placing staff in China.[3] Along with direct costs—such as personnel salary, benefits, and travel—BIS and USPTO further agreed to incur the following costs as part of their overseas programs:

- Overhead charges to cover general management and administrative expenses, not directly attributed to salaries and benefits;

[2] 31 U.S.C. § 1535 and 35 U.S.C. § 2(b)(5), respectively.

[3] Under the terms of the MOU, BIS does not pay for USFCS-related representational costs, travel expenses, and special act or service awards. USPTO pays all program costs except USFCS-related representational costs.

- Costs for the Capital Security Cost Sharing Program (CSCSP) administered by State that allocates on a per capita basis the costs associated with building new diplomatic facilities (such as embassies and consulates) to agencies with an overseas presence; and,
- Costs for the International Cooperative Administrative Support Services (ICASS) program administered by State that shares the cost of providing common administrative support services (such as health services, IT support, and security) at post. Services, referred to as cost centers, are provided locally by State personnel or by vendors under contract with State and are billed to the user as cumulative (i.e., based on usage) or static (i.e., based on the number of employees) costs.

We reviewed BIS' and USPTO's memorandums with ITA, including the annual amendments containing costs, that applied during the period FYs 2012–2015.[4] We also interviewed Commerce staff responsible for carrying out the terms of the MOUs (where available) at headquarters, as well as Commerce staff posted in China. We also analyzed agency policies' and data for the CSCSP and ICASS. We found that: (a) we could not verify the basis for ITA exempting BIS from paying overhead costs for its ECO program, which includes China-based staff; (b) ITA had paid CSCSP costs for both ITA and BIS, contrary to the terms of the MOUs; and (c) BIS and USPTO provided minimal oversight of ICASS costs during FYs 2012–2015.

A. ITA could not support its decision to exempt BIS from overhead charges

From FY 2012 through FY 2015, BIS did not pay ITA for overhead costs.[5] ITA Financial Policy Directive 2012-03 states:

> all reimbursable agreements entered into under the Economy Act should include a standard **twelve percent (12%)** overhead rate[[6]]… unless a specific exception is approved by the Director of Accounting and Financial Systems.[7]

Instead of applying the standard overhead rate to the agreement, ITA approved an exemption for BIS from overheard charges for part of this period. The exemption was approved on March 26, 2013, meaning BIS did not have an exemption prior to that date. While the exemption does not have an end date, we found no evidence that the overhead rate had been reviewed since then despite the fact that a new MOU took effect on October 1, 2014. Had ITA charged BIS the standard overhead rate for the

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[4] E&C also has officers and local staff at post, but because it is part of ITA, no agreement is needed.

[5] BIS entered into two MOUs with ITA covering the period of our review (FY 2012–FY 2015): one from October 1, 2010, through September 30, 2014 (BIS-10-0007), and another from October 1, 2014, through September 30, 2019 (BIS-15-007). We did not determine whether BIS paid overhead prior to FY 2012 as it preceded our period of review.

[6] Prior to March 2013, overhead only applied to personnel compensation and benefits per ITA Accounting Memorandum 2008-06 (September 2, 2008).

[7] ITA Financial Policy Directive 2012-03 (March 2013). Previously, ITA Accounting Memorandum 2008-06 (September 2008) stated that the standard 12 percent overhead rate should be used for all ITA reimbursable agreements with no explicit provision for a specific exemption. Both documents citied OMB Circular A-76, *Performance of Commercial Activities*, for the standard overhead rate.

latter's program in China, ITA could have recovered at least $403,935 from BIS for the period FYs 2012–2015 (see table 1).

Table 1. Amount of Overhead Costs BIS Was Not Charged, FYs 2012–2015[a]

Fiscal Year	China Program Costs Subject to Overhead Rate[b]	Overhead Costs (at 12%)
2012	$461,960	$55,435
2013	$898,617	$107,834
2014	$981,866	$117,824
2015	$1,023,682	$122,842
	Total Overhead Costs	$403,935

Source: BIS budgets for its ECO China office, FY 2012–2015

[a] Amounts rounded to the nearest whole dollar.
[b] In FY 2012, ITA policy required applying overhead costs to personnel compensation and benefits only, which equaled $461,960. Overhead is applied to all program costs in FY 2013 ($898,617), FY 2014 ($981,866), and FY 2015 ($1,023,682).

The Department's *Agreements Handbook*, which provides guidance on implementing inter- and intra-agency agreements, states:

> The operating unit responsible for managing the agreement [i.e., ITA] shall maintain an official file for each agreement. This file … must contain … [a] copy of the budget or other basis for estimating funds to be obligated and/or resources committed by each party if applicable.[8]

The approved exemption request from overhead charges within the MOU stated: "BIS refused to pay the 12% administration [fee] because BIS' Export Officers provide an equitable amount of services to [USFCS'] mission while stationed in [USFCS'] posts. [USFCS] has also agreed that the positives of having the ECO officers at the [USFCS] posts outweigh the financial impact of maintaining the agreement." The justification for this exemption consisted of e-mails between bureau officials containing high-level calculations of BIS costs relative to ITA's proposed overhead costs but without supporting documentation. ITA and BIS officials referenced language in the MOU stating that "BIS's Export Control Officers (who are sworn Commercial Officers) devote 10–20% of their time on ITA mission priorities." While ITA mission priorities are not specifically stated in the export control officers' performance plans, the position description attached to the MOU with BIS listed several USFCS-related responsibilities. However, because the export control officers do not track their time by activity, it is

[8] U.S. Department of Commerce, November 2011. *Agreements Handbook*, Washington, DC: Department of Commerce, 43.

not possible to verify whether BIS officers actually spend 10–20 percent of their time on USFCS activities to justify not paying ITA overhead. In comparison, USPTO's officers in China also provide USFCS with similar types of services and assistance. However, USPTO does not have an exemption from overhead charges and, therefore, paid ITA approximately $812,000 in overhead in FYs 2012–2015.

While the Economy Act affords the parties to an agreement with flexibility in establishing actual costs, Government Accountability Office (GAO) guidance states that they should make a bona fide attempt to determine and reasonably approximate such costs.[9] Without supporting documentation, OIG is unable to validate the basis for BIS' exemption from paying ITA overhead for its China program.

B. ITA and USPTO both requested funds to cover the same administrative costs during FYs 2012–2015

The CSCSP—created in FY 2005 and administered by State—is designed to generate $2.2 billion annually to accelerate the construction of new and secure diplomatic facilities abroad. CSCSP charges are allocated to agencies based on the number of staff posted overseas.[10] With respect to China, all CSCSP charges are invoiced to ITA, which serves as the Commerce point of contact at post. Even though the MOUs state that BIS and USPTO are responsible for covering CSCSP costs, ITA requested nearly $900,000 in CSCSP charges for BIS and USPTO staff in FYs 2012–2015 (see table 2).

Table 2. Commerce Staffing and CSCSP Charges in China by Agency, FYs 2012–2015

Fiscal Year	ITA Staff	ITA Charges	BIS Staff	BIS Charges	USPTO Staff	USPTO Charges
2012	122	$2,391,018	3	$58,032	8	$154,752
2013	101	$1,984,794	4	$77,376	8	$154,752
2014	97	$1,131,757	4	$45,716	10	$114,290
2015	111	$2,293,546	4	$81,368	10	$203,420
Total		$7,801,115		$262,492		$627,214

Source: OIG analysis of USFCS and State Department data, FYs 2012–2015

Both ITA and USPTO requested funds to pay for USPTO's CSCSP charges at post in FYs 2012–2015. During this period, ITA paid the CSCSP invoices for all of the

[9] General Accounting Office (now Government Accountability Office), January 21, 1958, B-133913.

[10] Cost per staff position may vary based upon the position's level of security and access to the diplomatic facility.

Department's positions overseas.[11] At the same time, USPTO requested funding for and subsequently obligated $943,000 for its China positions during that same period. USPTO's unused CSCSP funds were de-obligated and moved to other USPTO business units or their general fund. This practice is not consistent with Departmental budget policy, which prescribes that budget estimates and justifications "shall be faithfully adhered to."[12] Unlike USPTO, BIS' annual budget justification did not request funding to cover CSCSP costs for its overseas ECO staff, which includes China, during the same period. Program officials at headquarters who oversee budgets for BIS' program in China were generally unaware of CSCSP costs.

C. BIS and USPTO ICASS budgets for their China programs received minimal oversight

OIG reviewed ICASS-specific policy documents and training records and interviewed headquarters and China-based program staff from ITA, BIS, and USPTO to assess their compliance with ICASS policies, procedures, and practices. ICASS users at post have discretion to select and use any services at post they deem necessary. Invoices for these services are approved by fund authorizers at headquarters. According to BIS and USPTO headquarters staff, an analysis of ICASS invoices usage was not conducted and usage records were not maintained. Consequently, BIS and USPTO may have paid for services they did not use.

BIS and ITA headquarters staff reported having little to no training on the ICASS program—the BIS funds authorizer had no training on ICASS while the authorizer from USPTO had received some training, but did not feel adequately trained to perform her current ICASS duties.

In July 2015, ITA issued a formal policy to overseas personnel to discourage opting in to cost centers that are provided by USFCS or at ITA headquarters and to obtain services locally for less than what the ICASS provider charges. Without training on the new policy, Commerce ICASS users in China and authorizers at headquarters are unable to adequately assess whether service levels are appropriate, which may impact their ability to manage costs. As stated earlier, it wasn't until July 2015 that ITA formalized its ICASS policy. The audit team analyzed usage of these services during FYs 2012–2015 and found $72,377 in such charges for Commerce's China offices for services that could have been provided by USFCS or ITA at a lower cost.

[11] As the bureau that has been delegated with the Secretary's Foreign Service authority, ITA first requested funding to cover CSCSP charges for all USFCS overseas personnel in FY 2005 and has done so each fiscal year since.

[12] Commerce, December 2008. *Budget Performance and Program Analysis Handbook*, Volume III, Chapter 1, Washington, DC: Commerce, III (1) – 13.

Recommendations

We recommend that the Assistant Secretary for Global Markets and Director General of the U.S. & Foreign Commercial Service

1. Revise the MOUs with BIS and USPTO for posting staff in China and at other applicable overseas posts to clarify each bureau's responsibilities regarding the payment of CSCSP charges.
2. Apply a 12 percent overhead rate for BIS' program in China and at other applicable overseas posts or work with BIS to negotiate and document an exemption or an overhead rate that reasonably approximates costs and is reviewed periodically.
3. Provide training and information to BIS and USPTO overseas program officials on the ICASS program and help them develop ICASS specific policies.

II. Some Controls Over Personal Property at CS China Were Ineffective

In the offices where they have a presence in CS China, BIS, USPTO, USFCS, and E&C each have an LES personal property (property) custodian who maintains records on, and is responsible for, all property in their respective custodial area in accordance with ITA policies. However, ITA is ultimately responsible for property accountability from all bureaus by way of an agreement with USPTO and BIS. ITA management attests to the completeness of USPTO and BIS inventory at post and signs off on retired items (i.e., property removed from the inventory that is lost or no longer useable due to age or condition).

As required by Commerce and ITA policies,[13] upon receipt of new personal property, the property custodian affixes barcodes to all items and enters the information into "Sunflower" — an electronic personal property management system used by the Department that tracks each piece of property from acquisition to retirement. Within Sunflower, property custodians, along with other system users, can review and modify the status, current user, condition, and other attributes of each piece of property and upload documentation, such as the purchase order. Additionally, property custodians complete a physical inventory of all items in the office each year, locating all pieces of property listed in Sunflower, adding any missing items found in the office, and updating information related to each item as needed.

The second audit objective was to assess the adequacy of controls over personal property at Commerce offices in China.[14] To perform testing, OIG obtained documentation for a random sample of property, reviewed policies and procedures, reviewed purchase records, performed data analysis on the universe of property records, and reviewed training records. As a result, we found that (1) procedures for acquiring and controlling property at post do not comply with Departmental policies; (2) controls over obsolete and unaccounted for

[13] Commerce, October 2007. *Department Personal Property Management Manual*, 6, and ITA, September 6, 2005. *Commercial Service Operations Manual*, Washington, DC: ITA, 11, respectively.

[14] Because Wuhan is not listed as a separate custodial area in Sunflower, we only tested items from Beijing, Chengdu, Guangzhou, Shanghai, and Shenyang.

property are not consistently followed; (3) annual physical property inventories are inadequate; and (4) policy manuals and training documentation are not regularly maintained.

A. Controls over personal property acquisitions were not fully deployed

As described in the Department's *Personal Property Management Manual*, the control of property follows a chain of custody from initial order and purchase through eventual disposal. Specifically, a property custodian must obtain or establish adequate records to control personal property for which they are responsible, which includes maintaining acquisition documents for 5 years.[15] As a result of our testing, we found:

- inventory records for acquiring property did not include all required documentation,
- control over additions to inventory do not adhere to Departmental guidance,
- property was not consistently acquired through the required vendor, and
- chain of custody was not current for all items.

Documentation related to property acquisition is missing for some items. GM requires overseas posts to retain and submit acquisition documentation when adding new property records.[16] The Department's *Acquisition Manual* specifies that transaction file documentation shall include required pre-approvals, a copy of transactions or a verification of the order, and a delivery receipt or packing slip.[17] During our period of review, there were 925 new property additions, 839 from ITA, 71 from USPTO, and 15 from BIS. We requested documentation for a random sample of 54 pieces of property that were active from FY 2012–2015.[18] Of the 54 items, evidence of a purchase order and receipt was applicable for 47, approval prior to purchase was applicable for 46, and evidence of a vendor quote was applicable for 45 (see table 3). Our testing found that 11 (24 percent) did not contain evidence of approval prior to purchase, 12 (26 percent) lacked purchase orders, 18 (40 percent) lacked a vendor quote or estimate prior to purchase, and 32 (68 percent) included no evidence to verify who received the property and when it was received (see table 3).[19] Not maintaining records reduces management's ability to review the operation of the program.

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[15] Commerce, October 2007. *Department Personal Property Management Manual,* 12 and 17.

[16] ITA, September 6, 2005. *Commercial Service Operations Manual*, Washington, DC: ITA, 11.

[17] Commerce, revised January 2010. *Commerce Acquisition Manual 1313.301, Department of Commerce Purchase Card Program*, Washington, DC: Commerce, 18. Although this policy explicitly applies to acquisitions made by purchase card or convenience check, as GM retains the same transaction files for purchase orders as it would for purchase cards, these requirements are instructive in outlining the types of documentation that should be maintained for new property additions.

[18] Because ITA is ultimately responsible for all property, we evaluated these items as a group. Our sample included 3 items from BIS, 9 from USPTO, and 42 from ITA.

[19] During our testing, we found that some items (7) were acquired more than 5 years ago. As such, we removed those items from our testing universe.

Table 3. Personal Property Documentation Testing Related to Acquisitions

Property Documentation	Number of Items Tested[a]	Percent Missing Documentation
Approval prior to purchase	46	24
Purchase order	47	26
Vendor quote or estimate	45	40
Evidence of receipt	47	68

Source: OIG analysis of ITA property documentation, FYs 2012–2015

[a] One item was a transfer from State that did not require a vendor quote. Another item was purchased at ITA headquarters; thus, CS China did not have evidence of a vendor quote or approval for the item purchased at ITA headquarters. We consider these cases 'Not Applicable.'

Timely addition of new items in Sunflower did not always occur. The Department's *Personal Property Management Manual* requires timely entry of additions into Sunflower.[20] Although there is no formal policy mandating recording property within 30 days, the ITA property management officer informed us that he asks custodians to enter such information within 30 days. OIG was able to review 19 of the 47 items for evidence of entry within 30 days of receipt. Of those 19 items, 5 were not entered within 4 months, and another 3 were not entered within 30 days. Delayed entry of newly acquired property into inventory records minimizes the usefulness of this key accountability control.

Personal property acquisitions did not follow Departmental guidance. In March 2012, the Department directed all Commerce employees to utilize a blanket purchase agreement with a vendor called Intelligent Decisions for the purchase of desktop computers, laptops, monitors, and other accessories unless a bona fide need or mission critical requirement exists to warrant an exemption. In such cases, appropriate documentation supporting the purchase from an outside vendor must be maintained. From our sample of additions to inventory records from FYs 2012–2015, we found that only 5 out of 12 desktop computers and 0 out of 5 monitors were purchased using Intelligent Decisions. The benefits of using the blanket purchase agreement as a cost-savings initiative cannot be maximized without consistent use by all Commerce components.

Headquarters inventory reconciliation is not being performed. Finally, the Department's *Personal Property Management Manual* requires the chain of custody for each piece of personal property, essentially who controls the equipment at any given time, to be continuously updated "from the time of ordering and acquisition, until the ultimate consumption or disposal of the property."[21] We did not travel to China to

[20] Commerce, October 2007. *Department Personal Property Management Manual*, 6.

[21] Ibid, 17.

physically verify whether each user's property was correctly assigned to them in the Sunflower property management system. However, we reviewed Sunflower records to determine whether any users were assigned an irregular amount of property and requested ITA's Office of the Chief Information Officer (OCIO) to provide a list of all computers that were on the network in China to identify missing or un-barcoded computers.

We found that not all commercial officers were assigned computers: 3 in FY 2015, 8 in FY 2014, and 5 in FY 2013. Moreover, in FY 2015 9 employees had more than 20 pieces of property assigned, and 7 employees had 10 or more computers assigned. To verify whether all computers were active and accounted for, we provided a list of all barcodes to ITA's OCIO and asked them to provide network logs for those computers. ITA's Inventory Reconciliation Policy states that, in offices without barcode scanners (such as the offices in China), "OCIO's property officials should use methods such as 'pinging' network equipment … to confirm that the servers, routers, etc., are still active and connected to ITA's network." OCIO could not provide network logs. Thus, we cannot confirm that all computers listed as active are actually active and in use. The ability to determine which computers are on the network is a valuable control, particularly for assessing property at CS China and other overseas posts.

B. ITA did not follow proper procedures for managing obsolete and unaccounted property

The Department's *Personal Property Management Manual* establishes that "[a]ll actions that remove accountable personal property from the records of an accountability area shall be documented."[22] These actions include disposing of property that is no longer needed and property that is physically lost. We found that ITA's property disposal process and procedures for handling unaccounted property were not consistently followed.

The GM Surplus Property Process, in effect since at least January 2013, requires the property custodian to obtain written authorization to dispose of equipment before it is turned over to the General Services Officer at post for disposal.[23] We requested documentation for a random sample of 59 disposals that occurred from FYs 2012–2015. We found that 1 ITA disposal from Chengdu was collected by the General Services Officer prior to receiving approval from their Headquarters Regional Office as directed. Before January 2013, 8 ITA disposals from Shanghai did not receive headquarters approval before disposal. While we cannot confirm there was such a requirement prior to the second quarter of FY 2013, we believe it is important to obtain such approvals before disposal. Since disposal requests could be denied, the property may not be recoverable once it is transferred to the General Services Officer.

[22] Ibid, 15.

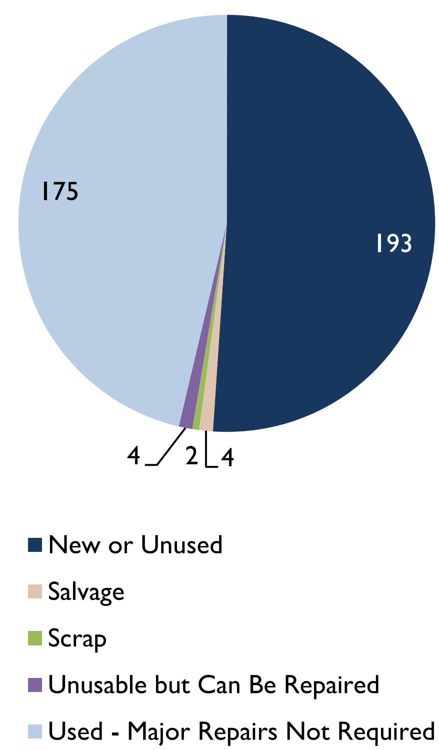
[23] ITA, January 2013. "GM Surplus Property Process."

C. Annual physical property inventories contained inaccuracies

The Department's *Personal Property Management Manual* states that "[p]hysical inventories must be completed at regular intervals, generally at least once a year or a cycle commensurate with the value of the personal property and the complexity of the operations of the Operating Unit."[24] More specifically, according to USFCS' *Operations Manual*,[25] all personal property must undergo a physical inventory check each year, meaning that the property custodian, the person responsible for conducting the inventory, must confirm the "physical existence, location, condition, and use of property items." Importantly, a review of property records is not sufficient; the item must be visually inspected. We identified three issues with the annual physical inventory at Commerce offices in China: (1) inaccurate annual physical property inventories, (2) property condition is rarely updated, and (3) the person responsible for the property also conducts the annual inventory.

First, CS Guangzhou's inventory was not accurate in FYs 2014 or 2015. We received documentation from all Commerce offices and components certifying that "a physical inventory has been completed … all records are complete and accurate … [and] the inventory has been 100% reconciled with the Sunflower personal property management system." However, during our testing of property documentation, USPTO stated that one of the items in our sample, listed in Sunflower as active and in service in FYs 2012 through 2016,[26] had been disposed of in FY 2013. That an item was removed in 2013 yet verified as present, active, and in service during annual physical inventories in FYs 2014 and 2015 suggests that the annual inventory was neither complete nor accurate. We did not travel to China to conduct physical verifications of Commerce property; thus, we did not determine whether there were other instances of missing items listed as active.

Figure 2. Property Condition at Disposal, FYs 2012–2015



Source: OIG Analysis of CS China property data

Additionally, property custodians do not consistently update the property's condition. During the annual physical inventory, Commerce employees verify the condition of

[24] Ibid, 17.

[25] The manual was last updated in 2005 when GM was called "Trade Promotion."

[26] OIG received updated inventory data in FY 2016 (January 2016) that showed the item was still active and in service.

each piece of property, selecting the appropriate condition (see figure 2). According to USFCS' *Operations Manual*, "Inventory records serve as a basis for accountability and budget support … From a reliable property inventory, it is possible to develop reasonable upgrade or replacement cost estimates considering the age and condition of the inventoried items." In other words, by updating the age and condition of the asset, management can better plan and budget for future acquisitions. However, we found that the asset condition changed for only 3 percent of items between FYs 2012–2015. Moreover, 51 percent of the items that were retired in CS China during FYs 2012–2015 were still listed as "New or Unused" (see figure 2). Thus, asset condition is not updated as required during the annual physical inventory, limiting management's ability to forecast asset replacements.

Finally, Commerce components in China could strengthen controls over the annual inventory process by assigning responsibility to employees who are not involved in the custody of assets. USFCS' *Operations Manual* requires property custodians to conduct the annual inventory. Property custodians are also responsible for receiving and barcoding new items, distributing property, maintaining inventory records, and keeping items that are not currently in the use of other employees.[27] However, according to a 2002 GAO report on physical property:

> [T]he normal job activities of the person performing the physical count should not include custodial activities such as receiving, shipping, and storing physical assets. We found that the strongest control employed by leading-edge companies was to exclude those with asset custody from the counting activity.[28]

Thus, segregating the duties currently assigned to property custodians would reduce the possibility of misappropriating assets at CS China and other overseas posts.

D. *Policy manuals and training records are not regularly updated and maintained*

According to GAO, "[c]ontrol activities are the policies, procedures, techniques, and mechanisms that enforce management's directives."[29] Additionally, GAO recommends the need for management to "identify appropriate knowledge and skills needed for various jobs and provide needed training." We identified two issues with respect to policy and training: (1) policies for property are outdated, and (2) training has not been completed as required.

We found several examples that suggests GM policies for property, which cover CS China and other overseas posts, are not up-to-date with respect to Departmental policy. The Department issued property bulletins in FYs 2009 and 2011 that added

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[27] ITA, September 6, 2005. *Commercial Service Operations Manual*, Washington, DC: ITA, 2, 6, and 11.

[28] GAO, March 2002. *GAO-02-447G*. "Best Practices in Achieving Consistent, Accurate Physical Counts of Inventory and Related Property," 28–29.

[29] GAO, November 1999. *GAO/AIMD-00-21.3.1*. "Standards for Internal Control in the Federal Government," 11. These standards were applicable during the period of our review (FYs 2012–2015).

computer monitors to an already existing sensitive items list and further detailed procedures for conducting an annual physical inventory.[30] Also, USFCS' property manual does not reference the new requirement to complete the Departmental form to report lost, missing, or stolen property electronically in Sunflower. The USFCS' *Operations Manual* has not been updated since September 2005 as it includes out of date guidance regarding items to be included on the sensitive items list and inventory procedures. Moreover, the responsibilities listed in the USFCS' *Operations Manual* of a property accountability officer and property custodian are less comprehensive than those in the Department's *Personal Property Management Manual*. Ensuring policies are up-to-date with the Department would strengthen property management controls while reducing the potential for policy violations.

Finally, the Department requires that property officials complete 1 annual refresher training class. Training documentation we obtained shows that all 10 property custodians at CS China received training in FY 2012, but only 8 of 10 property custodians in FY 2013, and 8 of 11 property custodians in FY 2014 completed the requirement. Similarly, only 7 of 10 property custodians attended the FY 2013 ethics training. Not holding property officials accountable for obtaining their required training increases the likelihood of missing opportunities to address changing organizational procedures.

Recommendations

We recommend that the Assistant Secretary for Global Markets and Director General of the U.S. & Foreign Commercial Service

4. Update USFCS' policy manuals related to property and provide property custodians at CS China with refresher training on their procedural responsibilities.
5. Ensure there is an adequate separation of duties and management accountability when conducting the annual physical inventory at CS China and other posts as applicable.

III. Client Service Delivery Cannot be Effectively Assessed

Our third objective was to assess the delivery of export promotion services by CS China offices and evaluate the extent of collaboration between CS China and other Commerce components stationed in China. USFCS offers 10 trade promotion services at its China offices, ranging from the Platinum Key Service, a suite of customized services to export goods and services, to QuickTake China, a China-wide electronic counseling service offered by industry sector (see appendix B for a list of services offered by CS China). USFCS domestic offices, known as U.S. Export Assistance Centers (USEACs), collect user fees from clients, which vary depending on the service requested and the size of the client. CS

[30] Chief Financial Officer and Assistant Secretary for Administration, Department of Commerce, February 4, 2009, "Change to the Sensitive Items Listing-Bar-coding of Monitors," Property Bulletin #003, FY 09, and January 14, 2011, "Physical Inventory Guidance in Accounting for Personal Property, Resolution Types," Property Bulletin #003, FY 11.

China also works with ITA's Industry and Analysis unit's Trade Programs office and GM's SelectUSA office to deliver trade and investment events and services both in the U.S. and China.

In addition to performing their own duties, commercial officers at ITA's E&C business unit and the Commerce components resident at CS China offices—BIS and USPTO—collaborate with CS China primarily by participating in counseling sessions with U.S. clients regarding their respective areas of competence, participating in trade events sponsored by CS China and conducting briefings for visiting delegations as needed, and supporting delegations visiting China by serving as control or site officers who coordinate the visit with the host government and provide logistical support, among other things.

We found that ITA currently is unable to effectively track and manage service delivery parameters in China and other overseas posts because of gaps in the type of information and the process for entering it in its eMenu system.[31] For example, USFCS domestic staff (trade specialists) are not required and typically do not enter a detailed reason why a participation agreement is canceled. Also, because commercial officers and commercial specialists' do not track time spent by service task or category, USFCS is unable to identify patterns that might explain service delivery delays or other problems.

A. USFCS cannot accurately track and manage the delivery of its client services

USFCS service standards, such as deadlines for delivery, are specified in the statement of work filed as part of each participation agreement. Some completion deadlines are negotiated with client, such as those for Business Facilitation Services, while others, such as Gold Key Services, are specified in USFCS' Standard Operating Procedures (up to 6 weeks). Because negotiated service delivery dates are not recorded in automated data fields within eMenu, the system cannot determine if delivery is late for Business Facilitation Services, the most frequent service provided by CS China during the period of review. Similarly, while canceled participation agreements are recorded in eMenu, commercial specialists are not required nor often enter a detailed reason for the cancellation. As a result, USFCS is unable to use data from the eMenu system to identify patterns or circumstances contributing to cancellations.

GM is aware of these deficiencies and established an eMenu Enhancement working group, comprised of staff from USEACs, overseas posts, and headquarters, whose goal is to establish overarching requirements for recording eMenu data to improve management and tracking of service delivery. The major proposed innovation in the enhanced version of eMenu is the creation of a dashboard for individual offices and regions that displays the status of each service agreement (effectively replacing the participation agreement). Under the proposed system, the fulfillment cost center (overseas post) would be able to edit a service agreement's statement of work and due date for deliverables to more accurately reflect the scope of work or unique

[31] eMenu is ITA's enterprise-wide system that supports essential IT business processes, including accessing client information, tracking USFCS client participation in events and services, and monitoring post or office financial activity related to client services.

circumstances, which is not the case now. However, as of April 13, 2016, the proposed enhancements had not been implemented.

B. Service delivery times by CS China are longer than those of comparable CS posts

We reviewed data from GM's eMenu system to assess and compare select services delivered by CS China with those delivered by its counterparts in Brazil, India, and Mexico. We chose these three posts as references because, like CS China, they are located in major emerging markets, have three or more offices, and have sizeable staffs. We reviewed whether the service was delivered on time, and we calculated the average time to deliver the service and the percentage of services canceled, which might indicate the service could not be delivered according to a client's needs.

For the period FYs 2012–2015, CS China lagged in service delivery for Gold Key Services compared with services performed by staff in Brazil, India, and Mexico. China tied with India for the highest percentage of service requests canceled (34 percent) and the longest average time to deliver this service (230 days). CS China also was second behind Brazil with respect to the highest percentage of services delivered late (85 percent) (see table 4).

Table 4. Gold Key Service Delivery, FYs 2012–2015

Country	Percent Late	Percent Canceled	Average Number of Days to Complete
Brazil (n=356)	87%	27%	205
China (n=448)	85%	34%	230
India (n=260)	60%	34%	71
Mexico (n=447)	83%	31%	136

Source: OIG analysis of eMenu data

CS China also had the longest average completion time for Business Facilitation Services over the same period, while having almost four times as many services cancelled (238) as the next highest number (Mexico with 62). Similarly, while CS China had the lowest percentage of International Company Profile services delivered late (78 percent), the absolute number of 301 is the highest and more than twice that of the next highest (India at 134). Finally, CS China had the longest average time to completion for Single Company Promotion services (see tables 5, 6, and 7). Assuming canceled agreements were billed at the lowest rate charged by USFCS, CS China forwent $107,100 in fees for Gold Key Services and $39,600 for International Company Profile over the period of review.

Table 5. Business Facilitation Services Delivery, FYs 2012–2015

Country	Percent Late	Percent Canceled	Average Number of Days to Complete
Brazil (n=205)	N/A[a]	23%	198
China (n=1,251)	N/A	19%	228
India (n=241)	N/A	16%	64
Mexico (n=224)	N/A	28%	121

Source: OIG analysis of eMenu data

[a] N/A denotes data was not available because delivery date was not recorded.

Table 6. International Company Profile Delivery, FYs 2012–2015

Country	Percent Late	Percent Canceled	Average Number of Days to Complete
Brazil (n=119)	85%	14%	172
China (n=453)	78%	15%	134
India (n=194)	86%	20%	55
Mexico (n=121)	95%	29%	137

Source: OIG analysis of eMenu data

Table 7. Single Company Promotion Delivery, FYs 2012–2015

Country	Percent Late	Percent Canceled	Avg. Number of Days to Complete
Brazil (n=24)	N/A[a]	25%	222
China (n=266)	N/A	16%	281
India (n=45)	N/A	9%	62
Mexico (n=32)	N/A	19%	84

Source: OIG analysis of eMenu data

[a] N/A denotes data are not available

According to GM officials, the quality of service delivery varies greatly among overseas posts for a number of reasons. Primarily, services must be delivered by LES responsible for the industry and/or sector related to the request. Thus, if a responsible LES is unavailable for any reason (such as personal leave), the participation agreement may not be accepted or its delivery might be delayed. They also said that service delays could be attributed to competing priorities at post, such as organizing and supporting trade missions and official government visits, which may result in fewer staff resources dedicated to client services.

Because the burden of supporting VIP delegations visiting China was previously cited by GM officials as a factor possibly contributing to delays in the delivery of export promotion services, OIG requested CS China to provide a list of such visits and the resources expended for their support for FYs 2012–2015. CS China could only provide data for FY 2015, for which the Post estimates that China offices devoted 1,666 man-hours to supporting 82 visiting delegations. To develop this estimate, employees manually reviewed and compiled information from documentation related to the visits, a cumbersome process. This exercise was necessary because USFCS staff at post use one accounting code to account for hours worked in time and attendance records.

Finally, a GM official explained that completed participation agreements frequently are not administratively closed (referred to as an "approval") by the fulfilling overseas post because only commercial officers have the authority to do so. As a result, it may not be possible in all cases to determine the length of time actually spent on service delivery. GM has chartered a pilot effort in CS Shanghai to address the problem of participation agreements not being closed promptly by giving LES the authority to approve completed participation agreements, subject to appropriate internal controls. According to the Principal Commercial Officer in Shanghai, this has improved the process.

Recommendation

We recommend that the Assistant Secretary for Global Markets and Director General of the U.S. & Foreign Commercial Service

6. Ensure that reasons for service delivery delays and cancellations are documented in the eMenu system by USFCS staff at CS China and other overseas posts.

Summary of Agency Response and OIG Comments

On July 29, 2016, OIG received ITA's response to the draft report, which we included as appendix C of this report. ITA management concurred with all 6 recommendations and noted actions it would take to address our recommendations. ITA's planned actions sufficiently address the recommendations, and we look forward to its detailed action plan.

Appendix A: Objectives, Scope, and Methodology

The objectives of this audit were to (1) assess the roles and responsibilities of Commerce staff components in China and the adequacy of cost-sharing agreements; (2) assess the adequacy of controls over physical property inventory at CS China's six offices; and (3) review the responsiveness of USFCS staff with respect to client service delivery. Unless otherwise noted in the report, the scope of our audit covered activities from FY 2012 through FY 2015.

To accomplish our objectives, we performed the following:

- reviewed BIS and USPTO position descriptions, performance plans, and time keeping requirements, for China-based staff to address service requirements per the MOUs with ITA
- assessed any strategic and communications plan involving Commerce staff working on China issues to understand the roles of each Commerce component at post and in the U.S.
- reviewed MOUs that applied during the period FYs 2012–2015 between USFCS and other Commerce components for stationing staff at post to understand the conditions of the agreements
- assessed USFCS' ICASS and CSCSP cost-sharing charges at each CS office in China to assess whether cost centers are utilized efficiently and determine the extent of cost recovery by USFCS from other Commerce components
- assessed data on client service delivery times
- interviewed USFCS, BIS, and USPTO staff to understand the types of services provided by each agency
- reviewed Departmental and ITA policies on personal property management
- obtained documentation on duties for the relevant actors in the inventory process
- interviewed ITA, BIS, USPTO, and E&C purchase cardholders and property officials responsible for property controls
- tested inventory receiving reports against inventory records
- analyzed Sunflower Personal Property Management System data

We encountered several limitations during this audit. We were unable to assess how ICASS services were used by Commerce components because there were no formal ICASS usage policies. In addition, we could not adequately assess client service delivery because USFCS was unable to provide complete information on VIP visits to China and the reasons for client service cancellations. Finally, because OIG did not travel to China, we were unable to verify onsite property controls at post.

To assess internal controls over personal property inventory at post, we requested property documentation associated with a random sample of items that were added to the inventory list and disposed of between FYs 2012 and 2015. Using Sunflower data, we identified 925 additions and 527 disposals (some items were both added and disposed of during this period). We determined that we would need to review a minimum of 48 additions and 46 disposals to reach a 90 percent confidence level and a 10 percent margin of error and stratified the sample proportionately across each Commerce component and USFCS office at post. Additionally, we sampled no less than 3 items by type (additions and disposals) from each Commerce component and USFCS office, which brought our total sample to 108 items. As needed, the results of these samples can be estimated for the intended population of additions and disposals between FYs 2012 and 2015.

Further, we gained an understanding of the internal control that is significant within the context of the audit objectives by interviewing officials from each Commerce bureau represented at post and reviewing documentation for evidence of an internal control. Based on this, we identified internal control weaknesses: specifically, deficiencies in ITA's processes for managing agency agreements, maintaining property documentation, and managing client service delivery. We also tested Sunflower system data and found it sufficiently reliable for use in our audit. Finally, our work found no instances of fraud, illegal acts, or abuse. From these efforts, we believe the information we obtained is sufficiently reliable for this report.

We conducted this audit from July 2015 to March 2016 and performed fieldwork in Washington, D.C., and Alexandria, Virginia. We did not travel to China, though we did communicate with staff at post by phone and e-mail. The audit was conducted under the authority of the Inspector General Act of 1978, as amended, and Department Organization Order 10-13, dated April 26, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions, based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B: List of Client Services Offered by CS China, FYs 2012–2015

Service	Description	Delivery Timeframe
Business Facilitation Service (BFS)	BFS is a logistical and administrative support service for clients on international business travel. Services may include interpretation/translation services, pick-up and delivery of bid documents, assistance with seminars, use of USFCS facilities, and courier services. BFS may be used to support local trade fairs and catalog events.	Delivery timeframe is negotiated with the client.
Business Service Provider (BSP)	BSP offers well-established service providers the opportunity to add their company information to a USFCS website, offering publicity to a large number of U.S. firms seeking services in overseas markets.	Delivery is 1 week after receipt of application materials and payment.
Customized Market Research Service (CMR)	CMR answers questions about an overseas market including the overall marketability of a product or service; market entry requirements and product standards; key competitors; or strategic partners.	Delivery timeframe is negotiated with the client.
Featured U.S. Exporter (FUSE)	The FUSE service promotes products and services to international buyers, distributors and representatives by listing a company profile for 1 year in the local language on local USFCS websites. Material is reviewed by international trade specialist before its publication. USFCS can help translate product descriptions into the local language.	Listing is typically posted within 5 business days if no translation is needed, and within 10 business days if translation is required. Service delivery is up to 30 days after payment is received and all information has been provided.
Gold Key Matchmaking Service (GKS)	GKS provides U.S. firms with pre-screened appointments to explore the market and establish relationships with potential overseas agents, distributors, sales representatives and strategic business partners.	CS is to complete the meeting arrangements within 6 weeks of payment and receipt of product brochures, or as negotiated.
International Company Profile	The ICP provides U.S. companies with due diligence information on a specific foreign company to help determine its suitability as a potential business partner.	CS is to complete the ICP within 3 weeks of receipt of payment and company contact information, or as negotiated.
International Partner Search	The IPS provides U.S. firms with information on pre-screened potential agents, distributors and partners to help explore market potential and begin to establish relationships.	CS is to complete the IPS within 6 weeks of payment and receipt of product brochures, or as negotiated.

Service	Description	Delivery Timeframe
Platinum Key Service (PKS)	The PKS provides U.S. firms with comprehensive, customized services to help export their goods and services. Clients have a dedicated account executive who helps design and implement a strategy to meet their specific needs and oversees the delivery of all requested services. Executives provide a regular progress report on the service.	CS is to establish as detailed a timeframe as possible for delivery and completion of the service (typically from 6 months to 1 year).
Quick Take (QT)	QT is a China-wide, industry-specific electronic counseling service. It offers services such as: a quick, expert opinion by up to 20 commercial specialists on the potential for export success for a product or service; targeted feedback on product/service compatibility with local tastes; information on competition and demand; insight into relevant Chinese regulations, customs procedures, and standards; and suggested next steps.	Within 20 business days from the date agreed upon between the lead post and the client.
Single Company Promotion (SCP)	The SCP provides U.S. companies with customized promotional services to help increase product/service awareness in a specific market.	Delivery timeframe is negotiated with the client.
Single Location Promotion (SLP)	The SLP is offered by CS posts to U.S. economic development organizations representing a state, city, town, or region to promote individual jurisdictions as a foreign direct investment destination. Customized events include seminars, presentations, business-to-business and government-to-government meetings, receptions, and other events that promote the U.S. location to foreign investors in a specific market.	Delivery timeframe varies depending on the scope of the work.
Video Hosting Service	Offers clients the use of video conference facility and conference room at CS Beijing, Shanghai, and Guangzhou.	Delivery timeframe is negotiated with the client.
Video Market Briefing	The Video Market Briefing generates custom market information for U.S. clients to help them identify and evaluate key dynamics in the Chinese market prior to formal entry. This briefing aims to help clients identify and understand the opportunities and challenges of the Chinese market.	Delivery is 1 week after payment.

Source: OIG analysis of USFCS information.

Appendix C: Agency Response

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

JUL 29 2016

MEMORANDUM FOR: Carol N. Rice
Assistant Inspector General for Economic and Statistical Program Assessment

FROM: Ken Hyatt
Acting Under Secretary for International Trade

SUBJECT: Response to Draft OIG Report: CS China Operations Highlight Need to Strengthen ITA Management Controls

We appreciate the effort you and your staff have made in reviewing the International Trade Administration's China Operations. We have carefully considered the six recommendations made in the subject draft report. The comments below are in response to your recent audit report *CS China Operations Highlight Need to Strengthen ITA Management Controls*. ITA appreciates the report's findings and recommendations and is committed to taking the necessary actions to effectively address the areas outlined as needing attention.

OIG Recommendation 1: *Revise MOUs with BIS and USPTO for posting staff in China and at other applicable overseas posts to clarify each bureau's responsibilities regarding the payment of CSCSP charges.*

Reply: Concur. ITA will work to ensure that future IAAs with BIS and USPTO reflect the responsibilities of each bureau for CSCSP charges.

OIG Recommendation 2: *Apply a 12 percent overhead rate for BIS' program in China and at other applicable overseas posts or work with BIS to negotiate and document an exemption or an overhead rate that reasonably approximates costs and is reviewed periodically.*

Reply: Concur. BIS is working on language to amend its IAA with ITA.

OIG Recommendation 3: *Provide training and information to BIS and USPTO overseas program officials on the ICASS program and help them to develop ICASS specific policies.*

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INTERNATIONAL TRADE ADMINISTRATION

Reply: Concur. ITA will ensure that BIS and USPTO are aware of training opportunities from the Department of State ICASS Service Center (ISC) and the ITA Global Markets (GM) Office of Budget - the Departmental coordination point for USDOC regarding both ICASS and CSCS/MCS. ITA will also continue to help BIS and USPTO develop ICASS-specific policies, as needed.

OIG Recommendation 4: *Update USFCS' policy manuals related to property and provide property custodians at CS China with refresher training on their procedural responsibilities.*

Reply: Concur. A review of property-related materials is in process, and ITA recognizes that routine updates and training are necessary to ensure that overseas staff is properly educated. Inventory guidance and training are currently provided to our property custodians on an annual basis, and this practice will remain in place.

OIG Recommendation 5: *Ensure there is an adequate separation of duties and management accountability when conducting the annual inventory at CS China and other posts as applicable.*

Reply: Concur. ITA will work closely with GM to prepare an Action Plan that will address remedial actions to strengthen property management and oversight, and ensure adequate separation of duties and management accountability when conducting the annual inventory at CS China and other posts, as applicable.

OIG Recommendation 6: *Ensure that reasons for service delivery delays and cancellations are documented in the eMenu system by USFCS staff at CS China and other overseas posts.*

Reply: Concur. ITA has implemented a methodology for tracking and reporting service delivery times on a quarterly basis overseas. The current business process captures and analyzes delivery times and allows the organization to address delays in service delivery as well as understand the reasons behind service cancellations.

Thank you for the opportunity to provide the above responses to your recommendations. We look forward to your final report and to providing you with an Action Plan that outlines the specific steps ITA has and/or will be taking to fully address these areas of concern.

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