

GAO

Report to the Chairman, Subcommittee
on Commerce, Consumer, and Monetary
Affairs, Committee on Government
Operations, House of Representatives

April 1990

U.S. & FOREIGN
COMMERCIAL SERVICE

Management and
Program Reviews Are
of Questionable Value



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National Security and
International Affairs Division

B-208993

April 20, 1990

The Honorable Doug Barnard, Jr.
Chairman, Subcommittee on Commerce,
Consumer, and Monetary Affairs
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

This report responds to your May 17, 1989, request that we analyze the program evaluation function of the U.S. & Foreign Commercial Service (US&FCS), the export promotion arm of the Department of Commerce's International Trade Administration. Reports issued by the program evaluation office are known as Management and Program Reviews. You expressed concern that these reviews might duplicate audits and inspections performed by Commerce's Inspector General (IG). Specifically, you asked us to (1) document the number and cost of these reviews and the IG inspections completed since 1984, (2) determine whether the reviews were performed in accordance with generally accepted government auditing standards, (3) assess the overall quality of these reviews, and (4) determine whether they should be continued, given the IG's increased resources and statutory authority for reviewing US&FCS operations.

Results in Brief

Between January 1985 and September 1989, the US&FCS completed four evaluations at an average cost of approximately \$20,700. Over the same period, the IG completed 26 inspections at an average cost of \$12,726. The IG inspections and the US&FCS' evaluations are not audits subject to generally accepted government auditing standards. The US&FCS considers its evaluations to be "management reviews," as opposed to audits, and they are conducted in accordance with US&FCS standards. The IG also completed four audits of US&FCS operations over this period. The IG's audits are required to be conducted in accordance with generally accepted government auditing standards.

The quality of the US&FCS' evaluations as a management tool is diminished by the technical deficiencies in evidence gathering and the development of findings, conclusions, and recommendations; it is also diminished by the narrow focus on administrative and budgetary issues. Moreover, no system has been developed to monitor the status of report recommendations. Consequently, the usefulness of the US&FCS' reviews

in evaluating export promotion programs, or in bringing about meaningful change, has been limited.

Given the small number of reviews that have been made, the effort needed to improve the review process, and the fact that Commerce's IG has been given increased responsibilities for conducting reviews of US&FCS operations, we question whether continuation of the present review process is the most effective use of available resources.

Background

The US&FCS, through its nationwide office network, carries out a wide range of services aimed at increasing the number of small and medium-sized firms making a successful commitment to foreign trade and encouraging existing exporters to expand into new markets. The US&FCS' foreign operations consist of about 155 U.S. commercial officers and about 460 foreign service nationals at 123 posts in 65 countries. Domestically, US&FCS export promotion services are available from trade specialists in 47 district offices and 22 branch offices. In 1989, US&FCS export promotion expenditures totaled about \$80 million—\$37 million for foreign operations and \$14 million for domestic operations, with the remainder for Washington-based activities.

In 1984, following a comprehensive review of the US&FCS, the Commerce, Consumer, and Monetary Affairs Subcommittee of the House Committee on Government Operations recommended that the US&FCS create a program evaluation function. In response to the Committee's recommendation, the US&FCS initiated a program to conduct periodic reviews of its domestic and overseas operations. These evaluations, known as Management and Program Reviews (MPRS), were to assess compliance with US&FCS policies and procedures, identify management weaknesses, and improve the efficiency and effectiveness of worldwide operations. Teams of International Trade Administration employees, under the guidance of the Director of US&FCS' Office of Planning and Management, carry out the evaluations.

Comparison of Number and Cost of MPRs and IG Reports

From January 1985 to September 1989, the US&FCS issued four MPR reports—at a cost of approximately \$20,700 per report—covering operations in six overseas posts: Ankara and Istanbul, Turkey; Vienna, Austria; Bern, Switzerland; Dublin, Ireland; and Mexico City, Mexico. Reports for reviews of operations in Iraq, Egypt, and Algiers were in the draft stages at the completion of our audit work in September 1989.

During this same period, the IG issued 26 inspections at an average cost of \$12,726. In contrast to the US&FCS' reviews, most of the IG's reviews were of domestic operations, which tend to be of shorter duration and have lower associated travel costs. More detailed cost information is presented in appendix I.

The US&FCS has not been able to meet the goals it established for performing the US&FCS reviews. In 1985, US&FCS established a goal of reviewing all US&FCS offices approximately once every 5 years. As part of this goal, the US&FCS planned to annually assess at least 10 of 47 domestic district offices and posts in 13 of the 65 countries with US&FCS representation.

The Director of the US&FCS' Office of Planning and Management said that a lack of funds and previous director generals' lack of commitment to these reviews caused few to be completed. Other officials agreed with the Director's comments but added that technical and procedural problems have also plagued the program, such as the use of unsupported findings, the reports' narrow focus on compliance issues, and the lack of follow-up to ensure that report recommendations are implemented.

Commerce's IG has been able to conduct about six inspections each year of US&FCS posts and district offices and a limited number of full audits of overseas post activities. From January 1985 to September 1989, the IG conducted 19 inspections of US&FCS district offices and 7 inspections at overseas posts. In addition, the IG completed four audits of US&FCS operations over the same period at a cost of approximately \$129,492.

Section 2301 of the Omnibus Trade and Competitiveness Act of 1988 broadens the IG's responsibilities for conducting reviews of US&FCS operations. An IG official told us that the IG's office now has additional resources to broaden its reviews of US&FCS operations and plans are to assign three additional auditors to this area.

Generally Accepted Government Auditing Standards Not Required

Neither the US&FCS' evaluations nor the IG's inspections are required to be performed in accordance with generally accepted government auditing standards, also known as "yellow book" standards. "Yellow book" standards only pertain to audits of government organizations, programs, activities, and functions. The standards require, among other things, a trained and qualified staff, an independent audit staff and audit unit, the exercise of due professional care in conducting the audit and preparing related reports, and the presence of quality controls. The US&FCS and

the IG have established their own in-house evaluation standards, which require that evaluation results be documented and verified.

IG inspections and US&FCS evaluations are short-term assessments of compliance with stated policies and procedures designed to give managers timely information about current operations. IG inspections and US&FCS reviews are generally similar in that they seek to identify existing and potential problem areas in agency operations. In doing so, both the US&FCS' review team and the IG's inspection staff rely primarily on observations and interviews and reviews of documents and related materials. Audits, on the other hand, are comprehensive reviews of agency operations to determine whether management complies with relevant laws, regulations, and other pertinent procedures; they also determine whether agency programs are managed efficiently and effectively.

The President's Council on Integrity and Efficiency, whose membership includes the statutory IGs, has taken the position that the inspection function is separate and distinct from audits and investigations and, as such, does not have to adhere to generally accepted government auditing standards.

US&FCS management said they consider its evaluations to be management reviews as opposed to audits and, therefore, not subject to "yellow book" standards. Because the US&FCS' program reviews are similar in purpose to IG inspections and are not audits, we do not take exception to the US&FCS' position that the in-house program evaluations do not have to adhere to "yellow book" standards. The evaluations are conducted in accordance with the standards prescribed in the US&FCS' operations manual.

Technical Deficiencies Affect Review Quality

The quality and usefulness of the US&FCS' reviews are diminished by technical deficiencies in evidence gathering and in the development of conclusions and recommendations—which raises doubts about the usefulness of the evaluations as a management tool. Our examination of the four final US&FCS reports and supporting documentation showed that the reviews were generally not conducted in accordance with the US&FCS' own standards. The final reports contained many findings that were not supported by documentary evidence. In addition, in most cases, the final reports did not explicitly identify the underlying causes of reported problems.

In response to our draft report, US&FCS officials said that many of the technical problems we noted were due to "start-up" problems organizations experience with new programs.

Many Reported Findings Not Adequately Supported

Each of the four reports we reviewed contained a number of findings that were not adequately supported. Overall, more than half of the 123 reported findings (63 percent) were not adequately documented.

In reviewing the documentation and interview write-ups supporting the final reports' findings and recommendations, we found that the supporting work paper files were poorly organized, and we could not link many reported findings to a specific set of supporting documents. The files consisted of folders of loose papers and documents, sometimes written illegibly or in shorthand. The relevance of many documents in the work paper files was not apparent.

US&FCS standards require that findings and recommendations be supported by sufficient and relevant evidence, recorded in the form of work papers, organized in a coherent fashion, and retained at the conclusion of each review. Reporting unsupported findings and recommendations may lead management to take unnecessary or counterproductive corrective actions.

One reason that unsupported findings and recommendations may have been reported is that the evaluation process does not include a quality control mechanism. No one independent of the evaluation team reviews the accuracy, completeness, and relevance of data used to support report findings.

Although most members of the evaluation team had previously served in budget or other administrative positions and appear to have had some management-analyst experience, team members are not required to meet any minimum training requirements before being assigned to the evaluation team. One senior International Trade Administration official expressed surprise over the lack of formal training and preparation participants receive prior to their assignment to the evaluation team. The Director of the MPR program told us that team members undergo "nonformal" training prior to performing site evaluations. This training includes step-by-step discussions of the MPR process. Given the condition of the work paper files and the other technical deficiencies we noted during our review, it is questionable whether this training is adequate for conducting complex, broad-based reviews.

Root Cause of Problems Not Always Identified

In the reports we reviewed, the root causes of problems with trade promotion and support activities were not always clearly identified. As a result, some overseas post officials openly questioned the validity of reported findings and recommendations. In response to the Senior Commercial Officer's criticisms of the US&FCS' draft report on Turkey, the final report was revised to acknowledge some of the resource problems constraining post operations. However, despite the acknowledgement of these resource constraints, the final report still listed recommendations to increase program activities and outreach efforts that would have required additional resources. In light of the post's resource constraints and dim prospects for obtaining additional funds, we believe it would have been more meaningful to discuss the effectiveness of current programs with an eye towards eliminating or de-emphasizing the least effective ones.

According to US&FCS standards, each evaluation team member must prepare a work sheet for each finding identified. The work sheet is a device intended to assist team members in logically developing a finding and in documenting exceptional performance that may have broader applications. The work sheet also helps the team member identify the basic elements of a finding. One of the elements, cause, is a key factor in developing a finding and recommending corrective action. None of the work sheets we reviewed identified the cause of the reported finding.

The post officials we interviewed were generally critical of the MPR process. Several complained that the findings sometimes ignored resource constraints or problems stemming from headquarters' inadequacies in managing program activities. For example, a US&FCS program evaluation report on operations at the Mexico City Trade Center dismissed claims that headquarters' actions contributed to the post's problems. However, a February 1990 Inspector General report on Trade Center activities supported the post's position that management actions at US&FCS headquarters were a primary cause of problems found in the Mexico City Trade Center.

Several post officials expressed concern that the US&FCS' review team may be reluctant to identify US&FCS or other International Trade Administration units as the cause of post problems. If an evaluation team member attributes the underlying cause of a post's problem to arduous administrative policies or budgetary constraints, the team member would, in most cases, be essentially identifying his home unit as the cause of the problem.

Report Recommendations Not Followed Up

Neither the program evaluation staff nor other US&FCS officials were able to tell us whether any of the posts reviewed had implemented MPR recommendations. We independently verified that 26 of the 67 recommendations made from the combined Austria and Switzerland review had not been implemented by the post. We did not independently determine the status of the remaining recommendations.

US&FCS standards require that the status of recommendations be monitored to ensure that they are carried out within specified time frames. According to US&FCS standards, staff from the US&FCS' Office of Foreign Operations, with the assistance of staff from the US&FCS' budget office, are responsible for ensuring that report recommendations are implemented.

The MPR team is not tracking its recommendations. No follow-up mechanism has been established to ensure that recommendations are carried out. The Director of the MPR team confirmed that little or no effort has been made to ensure that the different US&FCS offices are carrying out report recommendations.

Reviews Focus on Administrative and Budget Issues

The MPRS completed to date have not focused on management concerns that transcend the activities of individual posts. Rather, the review efforts have focused, to a large extent, on the post's compliance with administrative and budgetary procedures. The MPR process was developed to give management the information needed to make informed management, program, and resource allocation decisions. However, 76 (62 percent) of the 123 findings we analyzed involved administrative or budgetary issues, such as whether administrative forms were completed correctly or whether cash collections and other funds were being promptly submitted to headquarters, as specified in the US&FCS' operations manual.

According to a senior International Trade Administration official, the lack of a clear agreement among US&FCS officials as to what the MPRS are supposed to accomplish has resulted in the MPR process becoming a compliance function that deals with noncontentious issues—as opposed to management reviews focusing on issues that concern program effectiveness and resource utilization.

While we recognize that periodic assessments of compliance with administrative procedures are necessary, we question the value of a management review process that does not attempt to assess the effectiveness of

particular export promotion programs, the efficiency with which these programs are carried out, or the contributions that particular posts make to overall agency objectives. The reviews were not broad enough in scope to allow for the assessment of program results across several posts and geographical regions or the analysis of the overall effectiveness of export promotion programs within a particular post. The scope and objective of recent reviews were not shaped by management concerns about particular export promotion issues or the effectiveness of a particular program.

As part of any reorientation towards broad-based management reviews, the evaluations would have to cover a sufficient number of posts to allow for a systematic and widespread assessment of a particular export promotion program. Moreover, team members would have to develop program evaluation skills as well as possess a good understanding of the US&FCS' program and organizational objectives.

In response to questions we posed about the effectiveness of the present program, senior US&FCS officials told us they are considering undertaking steps to refocus and broaden the scope of MPRS to help ensure that these reviews address management priorities and issues of concern. As part of this reorientation, staff from the US&FCS' Office of Foreign Operations, who monitor and supervise the day-to-day activities of overseas posts, would be assigned to the evaluation teams to help ensure that the teams focus on management issues.

Conclusion

Internal review functions are established as a management prerogative and can be a valuable management tool. At some additional cost, which we did not attempt to quantify, the technical deficiencies we identified can be corrected. Formal training could be provided to team members, an internal control mechanism could be established to improve report quality, recommendation follow-up could be strengthened, and a consensus as to what these reviews are intended to achieve could be reached by senior US&FCS management.

However, given the limited number of MPRS that have been made, the effort needed to improve the MPR process, and the fact that Commerce's IG has been granted increased responsibilities for conducting reviews of US&FCS operations, we question whether continuation of the present review process is the most effective use of available resources.

In commenting on the findings in our draft report, US&FCS officials told us of a number of steps that would be taken to improve the MPR process. Although these are steps in the right direction, it is still questionable whether they will correct the fundamental deficiencies we found in the program.

Recommendation

We recommend that the Secretary of Commerce direct the Under Secretary of the International Trade Administration to abolish the US&FCS' current Management and Program Review program and use these resources to enhance other ongoing management and monitoring activities of the US&FCS. If the US&FCS' management insists on maintaining the program, then the deficiencies cited in this report need to be corrected to improve the quality of the review process.

As requested, we did not obtain formal agency comments on this report; however, we discussed it with the appropriate Commerce Department officials and have made modifications to reflect their comments, as appropriate.

As arranged with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date it is issued. At that time, we will send copies to the Secretary of Commerce and appropriate congressional committees and make copies available to other interested parties upon request.

The report was prepared under the direction of Allan I. Mendelowitz, Director, Trade, Energy, and Finance Issues, (202) 275-4812. The principal GAO staff members responsible for this review were Benjamin Nelson, Assistant Director, Stephen Lord, Evaluator-in-Charge, and Robert Shields, Evaluator.

Sincerely yours,



Frank C. Conahan
Assistant Comptroller General

Number and Cost of MPR Reviews Completed

Table I.1: Cost of Program Evaluations Made by the US&FCS' Program Evaluation Unit (1985-1989)

Post	1985	1986	1987	1988	1989	Total
Completed reviews						
Boston, Mass. ^a	\$11,491	\$934	\$0	\$0	\$0	\$12,425
Lisbon, Portugal ^a	2,967	9,313	0	0	0	12,280
Vienna, Austria, and Bern, Switzerland	0	26,165	5,196	0	0	31,361
Dublin, Ireland	0	0	0	0	19,853	19,853
Ankara and Istanbul, Turkey	0	0	0	0	19,853	19,853
Mexico City, Mexico	0	0	0	0	11,593	11,593
Reviews in process as of September 30, 1989						
Egypt	0	0	0	0	21,510	21,510
Algeria	0	0	0	0	21,510	21,510
Iraq	0	0	0	0	4,964	4,964
Field tests of forms and other procedures						
Norfolk, Virginia	0	0	0	0	3,409	3,409
New York, New York	0	0	0	0	3,885	3,885
Total	\$14,458	\$36,412	\$5,196	\$0	\$106,577	\$162,643

Note: The above table represents unaudited figures that may not be directly comparable to table I.2.

^aPilot studies. Final reports never issued.

Source: US&FCS.

**Appendix I
Number and Cost of MPR Reviews Completed**

Table I.2: Cost of IG Inspections (1985 to 1989)

Subject	1985	1986	1987	1988	1989	Total
Europe Export Development Office	\$27,189	\$0	\$0	\$0	\$0	\$27,189
Houston D.O.	16,407	0	0	0	0	16,407
San Diego D.O.	4,630	0	0	0	0	4,630
San Francisco D.O.	19,016	0	0	0	0	19,016
Phoenix D.O.	0	12,707	0	0	0	12,707
Oklahoma City D.O.	0	11,243	0	0	0	11,243
Salt Lake City D.O.	0	9,111	0	0	0	9,111
Hartford D.O.	0	15,061	0	0	0	15,061
San Juan D.O.	0	12,452	0	0	0	12,452
Mexico City	0	0	14,565	0	0	14,565
Canadian posts	0	0	22,122	0	0	22,122
Mexico City	0	0	17,210	0	0	17,210
San Diego D.O.	0	0	10,078	0	0	10,078
Phoenix D.O.	0	0	6,200	0	0	6,200
New York D.O.	0	0	16,182	0	0	16,182
Des Moines D.O.	0	0	10,612	0	0	10,612
Des Moines D.O.	0	0	0	10,612	0	10,612
Salt Lake City D.O.	0	0	0	2,266	0	2,266
Chicago D.O.	0	0	0	0	15,634	15,634
Trinidad & Tobago	0	0	0	0	11,682	11,682
Baltimore D.O.	0	0	0	0	10,553	10,553
Barbados	0	0	0	0	11,682	11,682
Dominican Republic	0	0	0	0	11,682	11,682
Mexico City	0	0	0	0	10,458	10,458
Mexico City	0	0	0	0	7,084	7,084
Indianapolis D.O.	0	0	0	0	14,441	14,441
Total	\$67,242	\$60,574	\$96,969	\$12,878	\$93,216	\$330,879

Note: The above table represents unaudited figures that may not be directly comparable to table I.1.

Source: Department of Commerce IG.

Objectives, Scope, and Methodology

At the request of the Chairman of the Subcommittee on Commerce, Consumer, and Monetary Affairs, House Committee on Government Operations, we reviewed the U.S. & Foreign Commercial Service's program evaluation efforts. The objectives of our review were to (1) document the number and cost of the US&FCS' Management and Program Reviews and the IG's inspections completed since 1984, (2) determine whether these reviews were performed in accordance with generally accepted government auditing standards, (3) evaluate the overall quality of these reviews, and (4) assess whether they should be continued, given the IG's increased resources and statutory authority for reviewing US&FCS operations.

We reviewed all final evaluation reports and supporting documents for every evaluation made between January 1985 and September 1989. To obtain a better understanding of the US&FCS' foreign post operations and to gauge the extent to which report recommendations had been implemented at overseas sites, we visited US&FCS posts in Vienna, Austria, and Bern, Switzerland. We also interviewed various US&FCS officials, including senior commercial officers, foreign service nationals at the overseas posts we visited, US&FCS headquarters officials, and staff from Commerce's Office of Inspector General.

We assessed the relative cost and productivity of the MPR team and Commerce's IG team using cost data provided by each office. We did not independently verify the accuracy of the data.

We performed our review between May 1989 and September 1989 in accordance with generally accepted government auditing standards.

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