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**United States Department of State  
and the Broadcasting Board of Governors  
Office of Inspector General**

# Report of Inspection

## **The Department of State's Role in the Promotion of U.S. Business Interests Abroad**

**Report Number ISP-I-07-22, March 2007**

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## EXECUTIVE SUMMARY

In response to a request from the Committee on Small Business of the U.S. House of Representatives,<sup>1</sup> the Office of Inspector General (OIG) reviewed the Department of State's (Department) support of U.S. businesses seeking opportunities abroad as well as the Department's cooperation with the United States Department of Commerce's U.S. & Foreign Commercial Service (US&FCS) and other U.S. government agencies that support U.S. investment and business activities abroad. The review focused primarily on the role of the Bureau of Economic, Energy, and Business Affairs' (EEB) Office of Commercial and Business Affairs (CBA) and the promotion of U.S. business interests by U.S. embassies and consulates that are not staffed by US&FCS personnel.

Since 2004, when OIG formally recommended that EBB prepare a plan for staffing and supporting posts that do not have US&FCS officer positions, there has been steady progress toward the goal of strengthening what had previously been often ad hoc management of the commercial function at many U.S. embassies and consulates. The Department has improved the training and orientation of officers who support the commercial function, improved communication between non-US&FCS posts and US&FCS posts that support their efforts, and improved the performance standards of non-US&FCS Partnership posts. The Department has also collaborated with the US&FCS to improve information technology links between US&FCS and non-US&FCS posts and has engaged in productive strategic planning with US&FCS and other U.S. government agencies, acting under the interagency umbrella of the Trade Promotion Coordinating Committee (TPCC).

EBB's efforts have led to a net gain for the key U.S. goal of effectively supporting U.S. business abroad; however, strengthening of the commercial function remains a work in progress. There are a number of areas where planning has not yet reached the implementation stage and where recommended procedural changes could improve performance. EBB's campaign to strengthen the Department's commercial function was not specifically engineered to support small business, but small and larger business interests have collectively benefited from it.

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<sup>1</sup> The formal request is in Appendix A. Appendix B gives a more complete scope of work that was defined in discussions with committee staff.



## OBJECTIVE, SCOPE, AND METHODOLOGY

International Trade Reorganization Plan No. 3 of 1979, the Foreign Service Act of 1980, and the 1988 Trade and Competitiveness Act emphasize the importance of trade promotion and designate the Commerce Department and US&FCS as the lead federal trade promotion entities. The 1980 Foreign Service Act also mandates that Ambassadors promote U.S. business interests in their host countries, including the nations where there is no US&FCS representation. Advocacy for U.S. business is also one of three principal mandates in the President's letter of instruction to all ambassadors. The OIG team conducting this review sought to gauge the Department's performance of its mandated role.

The OIG team and staff of the House Small Business Committee agreed on a scope of work for this project that focused on six specific areas. The OIG team also looked beyond these areas at ongoing EEB initiatives to strengthen trade promotion that are scheduled for implementation in 2007 and beyond. The six areas on which OIG focused called for it to:

- Assess the effort put forth in selected countries by the embassy's country team, ambassador, and economic/commercial section staff to adequately make known to EEB and U.S. Trade Representative staff the trade constraints the United States faces and how adequately the team works to help alleviate these roadblocks through the provision of technical and other assistance, including the U.S. Agency for International Development- and Development Bank-funded, trade-capacity-building projects.
- Ascertain the extent to which economic officers posted in countries not served by US&FCS can communicate and post on the Internet vital profiles of trade opportunities that can be readily accessed by U.S.-based Commerce Department officers, who can match profiles of U.S. small businesses with the trade leads or vice versa.
- Determine the extent to which EEB effectively reaches out to small businesses to identify the trade constraints these firms face and efficiently advocates on their behalf with key federal and foreign entities.
- Appraise the adequacy of EEB's role in implementing bilateral and multilateral free trade agreements (FTA) and U.S. trade-promotion activities to take advantage of these agreements.

- Ascertain how adequately EEB and overseas economic officers (in nations where there is no US&FCS officer) can properly represent and communicate with the Export-Import Bank of the United States, Overseas Private Investment Corporation (OPIC), and Trade and Development Agency (TDA), including undertaking due diligence requirements for their activities.
- Determine whether the annual accomplishments and upcoming annual trade-facilitation plans, with verifiable benchmarks for Department efforts, are adequately presented in the National Export Strategy (NES) submitted to Congress. This determination also examines whether the Department's NES inputs should be more closely linked with the annual Performance and Accountability Report prepared annually by each federal agency.

The OIG team reviewed seminal EEB planning documents and performance reports and CBA's 2007 Biennial Commercial Diplomacy Survey, which captures resources deployed by non-US&FCS posts and narrative responses regarding the six areas cited above. The survey polls all non-US&FCS posts, including the approximately 90 that receive some level of support from CBA. Of these 90 posts, six were required to respond due to their high-priority commercial activity. An additional 65 posts also voluntarily provided input, including the majority of the 76 non-US&FCS partnership posts that are paired with 25 US&FCS offices abroad. The OIG team also spoke with staff of the Offices Of Inspectors General at the Departments of Commerce, Agriculture, and Treasury, U.S. Agency for International Development, and the Millennium Challenge Corporation. Those staff members were reviewing their organizations' efforts at trade promotion abroad within the context of the interagency TPCC.

## DISCUSSION

### RESOURCES DEPLOYED

The CBA's Biennial Commercial Diplomacy Survey determined which available commercial tools each post used. These tools include the US&FCS Partnership, direct connection to the US&FCS information technology system, participation in the Business Facilitation Incentive Fund (BFIF), trade/catalogue shows; recruitment for International Business Promotion shows in the United States, fee collection programs for a menu of US&FCS-approved commercial services provided to interested U.S. businesses, trade lead-generation, market research activities, use of a commercial web page, and web page connection to the web site of US&FCS partner posts.

The survey also quantifies the U.S. direct-hire and locally employed staff dedicated to commercial outreach and which non-US&FCS posts have a locally employed US&FCS employee. In 2006, the respondent posts programmed in commercial work the equivalent of 21 U.S. direct-hire and 38 locally employed full-time Department employees. These numbers were lower than those of the 2005 survey, which reported that the equivalent of 27 U.S. direct-hire and 46 locally employed full-time employees worked on commercial issues. CBA believes this reduction was due to competing demands on the time of economic officers and the voluntary nature of the biennial survey, which did not include the identical subset of 2005 respondent posts (posts wishing to benefit from BFIF were required to complete the survey). CBA plans to encourage the Department's regional bureaus to increase the number of non-US&FCS posts that participate in the 2008 biennial survey in order to create a more accurate baseline.

Resource constraints may also have been a factor in this decline, since the BFIF fund was reduced from \$400,000 in FY 2004 to \$367,000 in FY 2006. A reduced BFIF, which is the primary tool for fueling many post outreach activities, resulted in fewer projects being funded. Respondent posts also collected \$64,445 in fees for services to U.S. businesses, funds that were available for trade promotion by non-US&FCS posts.

## SIX AREAS OF EMPHASIS

The OIG team's review emphasized six activities. They are:

1. *Assessing country teams' efforts to report and combat trade constraints.* As part of its annual Bureau Performance Plan, EEB must track advocacy efforts in support of U.S. companies abroad. EEB's advocacy program encompasses commercial advocacy and the policy advocacy often undertaken by Department economic officers. In FY 2005, EEB reported 386 company-specific cases of advocacy, and it reported 349 cases in FY 2006. EEB does not always capture advocacy provided directly by posts where Washington-based Department officers are not substantively involved. Such interventions are often made at the request of small businesses and handled entirely at post. EEB has encouraged non-US&FCS posts to report to the Department all local advocacy done in favor of small businesses, to more accurately capture these services.

2. *Ascertaining the generation of trade leads from non-US&FCS posts.* Fifty of the 71 posts that responded to the survey said they provided trade leads to the Commercial Service through the Internet in 2006, a total of nearly 500 trade leads. In addition, another 48 non-US&FCS posts submitted 2006 Country Commercial Guides, a key component of US&FCS's Market Research Database program. A record number of posts participated in this voluntary initiative.

3. *Assessing EEB effectiveness in reaching out to small businesses to identify trade constraints.* EEB favored outreach to small businesses, under the direction of the TPCC, and supporting non-US&FCS partnership posts through a revised memorandum of understanding between the Departments of State and Commerce on post partnership. EEB believed that, at the field level, posts generally maintained the necessary cooperation with domestic Commercial Service officers. EEB noted that contact between the United States Export Assistance Centers (USEAC) and posts has increased since EEB started releasing to the USEACs a quarterly list of economic/commercial officer contacts. However, on its own, CBA has done only ad hoc outreach to USEACs, particularly in discussing opportunities for small business. CBA is working with US&FCS to initiate a more intensive USEAC outreach program. Of the 35 posts that responded to the survey question on this topic, 16 said they believe a strong commercial advocacy program was the best means to identify and fight unfair trade constraints/corruption in support of small businesses. Another 14 posts said basic commercial support, including "matchmaking" services, was optimal.

Three posts favored in-country trade/catalogue shows and trade promotion efforts such as the Commerce International Buyers Program, and two posts cited as key the improved training of economic officers and locally employed staff.

4. *Reviewing the Department's role in implementing FTAs.* CBA oversees the Department's FTA-related trade promotion efforts. CBA uses BFIF funds to support trade promotion in the majority of the 140 non-US&FCS posts worldwide. FTA countries are a strategic priority in disbursement of these limited funds, and EEB has funded BFIF projects in Canberra, Managua, Muscat, Rabat, and Tegucigalpa in support of FTA-related trade promotion. BFIF also partially funds the Middle East Trade and Investment program, which promotes business opportunities in Bahrain, Jordan, Morocco, Oman, and the United Arab Emirates. In this context, EEB has made projects supporting small businesses a priority.

5. *Reviewing communication with the Export-Import Bank, OPIC, and TDA.* Most respondent posts believe that they can represent the above U.S. trade agencies, including undertaking due diligence on proposed projects. However, their responses on how the U.S. trade agencies supported small business were mixed. Six posts reported little or no activity with the three trade agencies, and the embassies in Dhaka (TDA), Kampala (OPIC), and Lusaka (Export Import Bank) called for increased trade agency activities. No post cited specific problems and several called for additional trade agency feedback on post support, inclusion of trade agencies in regional commercial training programs, and having trade agencies work more closely with posts to help organize post-initiated trade-outreach programs. As overseer of Department coordination with U.S. trade agencies, EEB's Office of Multilateral Affairs has reviewed the survey data to determine how it can help Export-Import Bank, OPIC, and TDA improve coordination between posts and these trade agencies. To date, there has been no accurate counting system to capture how well non-US&FCS posts support trade agency projects or trade-agency support requests. EEB is unaware of any problems between the trade agencies and posts and has invited the trade agencies to inform the Department of unresolved issues. EEB supports using a voluntary mechanism whereby the Export-Import Bank, OPIC, and TDA would send to posts all initial support requests for trade projects, including the due diligence. That communication would use front-channel traffic, and EEB would provide improved data on non-US&FCS post support for trade agency projects.

6. *Assessing verifiable benchmarks for the NES.* Only 11 of 64 posts responded to the question of whether there were verifiable benchmarks from posts that could be included in the NES, and only Embassy Nicosia favored this approach. Nine posts in developing countries said the limited nature of commercial possibilities and the volatile business climate would render such input misleading and inconsistent from year to year. Virtually all posts favored the provision of input at the Department level, not the post level. EEB's Bureau Performance Plan provides annual counts to quantify support for U.S. business and the plans are available to the Department of Commerce. These counts include EEB's total advocacy cases and success stories, total commercial outreach to business programs, and total business-facilitation programs provided directly to non-US&FSC posts, including BFIF activities and Commercial Service partnership support. EEB also compiles a quarterly list of commercial success stories (submitted by posts) for the Secretary. CBA could also provide these reports to the Department of Commerce for use as an indicator in the NES. The OIG team endorses the views of EEB and the posts that NES benchmarks should be generated by the Department, based on cooperation with and reports from embassies and consulates, and should match TPCC objectives.

## **INITIATIVES TO STRENGTHEN COMMERCIAL FUNCTION AT POSTS LACKING UNITED STATES & FOREIGN COMMERCIAL SERVICE REPRESENTATION**

In response to the 2004 OIG report's recommendation for greater synergy between EEB and the Department of Commerce, the Department has worked closely with the Department of Commerce to improve coordination. Quantifiable improvements have resulted, and initiatives to strengthen the Department's support for trade and business promotion are underway. In planning or underway are efforts directed at improved training and briefing of commercial support staff, increased effective communication between US&FCS posts and their non-US&FCS partners, expanded and standardized baseline Commercial Support Programs, better information technology linkages between US&FCS and non-US&FCS posts, and joint strategic planning with the Department of Commerce under TPCC auspices. These activities are described below.

CBA has determined, in consultation with the Department of Commerce, which non-US&FCS posts should be included in high-, medium-, and low-priority categories, based upon trade and commercial potential. EEB experience shows that briefing newly assigned economic/commercial officers before their departure to

non-US&FCS posts has resulted in more successful commercial outreach, especially at high-priority posts. EEB has sought to work with geographic bureaus to identify new officers assigned to non-US&FCS posts in order to schedule briefings with EEB or applicable non-Department federal agencies working on trade and commercial issues. Despite overall good performance in this area, and requests by EEB to the commercial coordinators of the six geographic bureaus, some newly assigned officers have not been briefed. EEB has made improved tracking of newly assigned officers a priority for 2007.

Training of economic/commercial U.S. direct-hire and locally employed staff at all non-US&FCS posts has also been a priority, to take advantage of business environments at posts with ample potential and in countries of lesser potential but with niche possibilities. EEB has collaborated closely with the Foreign Service Institute to train economic/commercial staff in commercial/trade diplomacy at various stages in their careers. The institute's course in commercial tradecraft for entry- or mid-level officers who are newly assigned to economic/commercial slots has a three-day module on the commercial function. Officials of the Department of Commerce, OPIC, and Export-Import Bank make presentations during these courses. EEB also supports the TPCC training program, which offers three sessions annually.

The Millennium Challenge Corporation and TDA also provide briefings in several courses. These include the nine-month course for economic-cone officers, Foreign Service national courses, and the course on Economic Issues for Non-Economic Officers. The Foreign Service Institute is working with the Texas Tech University business school to establish a comprehensive, distance-learning program on commercial work that is targeted to locally employed staff in commercial work at US&FCS and non-US&FCS posts. This would serve as a financially viable alternative to bringing large numbers of locally employed staff members to the United States and to fill a major gap in the training curriculum.

EEB has also jointly organized with regional commercial service offices a commercial training program in those offices' regions. In 2006, EEB undertook three of these programs (in Bangkok, Johannesburg, and Santo Domingo), which trained officers and Foreign Service nationals at 27 non-US&FCS posts. In 2007, plans are underway to do similar training in Dakar and New Delhi.

As a second priority, EEB has sought increased communication with the 100 USEACs in the United States. EEB provides them with the Department's economic/commercial point of contact list for all posts on a quarterly basis. USEACs also receive trade leads generated in the field. CBA officials believe that increased contacts between EEB and interested USEACs could further increase USEAC activ-

ity at non-US&FCS posts and they have discussed with Department of Commerce officials the possibility of using existing Department of Commerce teleconferencing facilities for quarterly outreach to interested USEACs.

A third EEB priority is to have more effective Commercial Support Programs operating at non-US&FCS posts. In 2007, EEB will work with the Department of Commerce to establish a partnership relationship between Embassy Kabul and the US&FCS office in Abu Dhabi and will review the possibility of partnerships for posts in Minsk and Skopje. Based on the biennial survey, EEB said it will improve US&FCS Dakar's commercial support for Embassy Monrovia and will address requested partnership improvements for embassies in Baku, Chisinau, Gabarone, Valletta, and Yerevan.

EEB has set early 2007 as the deadline for finalizing a formal partnership memorandum of understanding between the Department and Commercial Service. Key components of the memorandum will include procedures for designating commercial priority levels for all non-US&FCS posts; procedures for developing commercial support programs for high- and medium-priority posts, posts in FTA countries, and trade agency projects; procedures for delivering standardized, baseline commercial support programs at non-US&FCS posts, including fee-for-service and trade-lead market research programs; formalizing the informal information technology efforts of the Departments of State and Commerce; and joint Department of State-Department of Commerce training programs. Improvement of the fee-for-service program is a top priority, and by 2008 non-US&FCS posts that do not collect fees under the US&FCS program will no longer be able to offer US&FCS "trademark" programs. This change will guarantee an even standard in the delivery of fee-for-service products and is designed to increase fee collections substantially; as more non-US&FCS posts implement the program, they will generate more funds for commercial outreach activities.

A fourth EEB goal is continued use of BFIF funds to improve information technology, including database links between the Department of Commerce and high-priority non-FCS posts, and web site improvements. In close collaboration with EEB, the Department of Commerce currently has connected 25 non-US&FCS posts to its web sites and databases. CBA believes that eight additional posts should be considered for connectivity. Based on responses in the 2007 biennial survey, EEB said that, of 14 Commerce-linked posts that responded, just five were fully operational. EEB will seek to redress operational issues with posts in Dar es Salaam, Managua, Muscat, Riga, and Vilnius and to provide needed information technology training at six other posts. It will also seek to connect Embassy Nicosia to the

Department of Commerce information technology system in 2007 and to assess the need to include seven additional posts. Using the example of the successful collaboration between Embassy Port Louis and the US&FCS office in Johannesburg in creating an effective web page linking the two, EEB plans to work with 13 non-US&FCS posts to create commercial web pages and to connect them to US&FCS sites. It will also help 19 other posts connect their existing web pages to appropriate US&FCS sites.

In the 2005 survey, a substantial number of posts reported that EEB was not providing the necessary guidelines and information to facilitate their support for U.S. business. As a priority for 2005, EEB launched the Commercial Diplomacy Toolbox on its Intranet site. Posts have made extensive use of the toolbox, and CBA says no posts stated in the 2007 survey that they lacked guidelines and information.

Effective strategic planning with the Department of Commerce, in the context of TPCC, is underway, based on a key recommendation of the Commercial Service-State Department Joint Strategic Plan of 2005. (This plan was developed following OIG's review of EEB in 2004.) Senior officials from the Departments of State and Commerce have met periodically at the effort's initial stage. Most recently, EEB's Assistant Secretary met with the Department of Commerce's Director General and Deputy Assistant Secretary for International Operations on January 18, 2007. A Department of State-Department of Commerce Post Partnership Guide is also being drafted and will be finished, as a memorandum of understanding, this year. The memorandum stipulates the rules for attributing commercial successes to the offices that engineered these outcomes, preventing double-counting of commercial successes by US&FCS posts and their non-US&FCS partner posts.



## CONCLUSION

Under the umbrella of the TPCC, the Department has collaborated effectively with the Department of Commerce and other U.S. trade-promotion agencies to standardize, formalize, and strengthen support of U.S. commercial outreach abroad. EEB has made a commendable and concerted effort to transform what had been a somewhat ad hoc approach to commercial outreach and business support into a more effective mechanism to promote the interests of U.S. businesses abroad.

Significant challenges remain regarding EEB's support to non-US&FCS posts, including identification of staff and resources to maintain continuity at various posts as US&FCS repositions its personnel and posts throughout the world. The 2007 EEB survey identified the potential for the breakdown of commercial programs in Eastern Europe and the former nations of the Soviet Union. The breakdown could arise because countries have graduated from the Central and Eastern Europe Business Information Center, which was phased out in 2005, and the Business Information Service for the Newly Independent States, which has been slated for possible phase-out in 2007.

EEB has strengthened the collection of data that capture the impact of the Department's commercial promotion efforts, but continued work in this sphere can help produce an even better profile. Overall, the past two years have seen significant progress toward strengthening Department support of U.S. business activity abroad. The Department's strategic planning and commitment of resources to the commercial function have strengthened the ability of the TPCC and its constituent members to support the U.S. business community abroad, including small business.



## ABBREVIATIONS

BFIF	Business Facilitation Incentive Fund
CBA	Office of Commercial and Business Affairs
Department	Department of State
EEB	Bureau of Economic and Business Affairs
FTA	Free trade agreement
NES	National Export Strategy
OIG	Office of Inspector General
OPIC	Overseas Private Investment Corporation
TDA	Trade and Development Agency
TPCC	Trade Promotion Coordinating Committee
US&FCS	United States and Foreign Commercial Service
USEAC	United States Export Assistance Centers



## Appendix A: Congressional Request Letter



Congress of the United States  
House of Representatives  
Washington, DC 20515

August 4, 2006

The Honorable Howard J. Krongard  
Inspector General  
U.S. Department of State  
2201 C Street, N.W. (Suite 8100, SA-3)  
Washington, DC 20522-0308

Dear Inspector General Krongard:

We request your assistance in undertaking a brief survey of the Department's trade facilitation operations, under the auspices of the Trade Promotion Coordinating Committee (TPCC), with a view to identifying areas for internal improvement to achieve greater results, including the need for much enhanced inter-department coordination.

For a number of years now, we have been attempting to address specific lapses in U.S. trade practices, promotion efforts, and financing operations. We have come to the realization that if real progress is to be achieved, then a better overall management structure needs to be put in place to address these varied issues as they emerge on a daily basis.

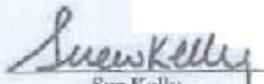
To better define the breakdown in the U.S. management structure on trade, a Small Business Committee hearing was held on April 26, 2006 and appropriate corrective legislation (H.R. 5196) was introduced that day. This testimony can be viewed under the hearings icon on the Committee web site ([www.house.gov/smbiz](http://www.house.gov/smbiz)).

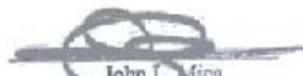
While the noted hearing and legislation is a step in the right direction, we believe the independent Inspector General system also provides a good avenue to pursue in mutually addressing the need for greater efficiency and effectiveness in our federal trade efforts. As we have learned, the issues range from timely addressing the trade constraints identified in negotiating our free trade agreements, effectively focusing trade promotion resources to best take advantage of these agreements and new market opening measures, to the efficient development and implementation of a realistic and benchmarked National Export Strategy.

We greatly appreciate your favorable consideration of this request and our staff stands ready to work with your office to evolve an appropriate scope of work for this survey to insure its basic structure will meet the noted needs. If your office should have any questions on this request, please contact Jim Meenan, Senior Trade Advisor with the Committee on Small Business, at (202) 225-5821 or at [James.Meenan@mail.house.gov](mailto:James.Meenan@mail.house.gov).

Thank you for your kind consideration of our request

  
Donald A. Manzullo  
Member of Congress

  
Sue Kelly  
Member of Congress

  
John L. Mica  
Member of Congress

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## **Appendix B: Office of Inspector General's Scope of Work for TPCC-Related Survey**

### **Survey Objectives:**

The goals of this OIG survey were to:

- Assess the level of effort put forth in selected countries by the embassy's country team, ambassador, and economic/commercial staff to adequately make known to the staff of the U.S. Trade Representative the trade constraints the United States faces and how adequately the country team works to help alleviate these roadblocks to expanded trade by providing technical and other forms of assistance, including U.S. Agency for International Development- and Development Bank-funded projects to build trade capacity.
- Ascertain the extent to which economic officers posted in countries not served by the US&FCS effectively communicate and post on the Internet vital profiles of trade opportunities that can be readily accessed by the U.S.-based Commerce Department officers who have the profiles of U.S. small businesses to match with the trade leads or vice versa.
- Determine the extent to which EEB effectively reaches out to small businesses to properly identify the trade constraints these firms face and efficiently advocate on their behalf with the key federal and foreign entities.
- Appraise the adequacy of the EEB's role in implementing bilateral and multilateral FTAs and U.S. trade-promotion activities to take advantage of these market-opening agreements.
- Ascertain how adequately EEB and overseas economic officers, in nations where there is no US&FCS officer, represent and communicate with the Export-Import Bank, OPIC, and TDA, including the undertaking of the due diligence requirements for their activities; and
- Identify whether the annual accomplishments and upcoming annual trade-facilitation plans and verifiable benchmarks for Department efforts are adequately presented in the NES submitted to Congress and whether the Department's NES inputs should be more closely linked with the annual Performance and Accountability Report of each federal agency.

**Survey Plan of Action:**

Responding to these objectives, OIG developed a plan of action that involved:

- Meeting with senior Department managers to assess the adequacy of EEB and selected overseas economic officer operations regarding the objectives.
- Surveying selected international trade policy and facilitation efforts to determine how focused these efforts are on achieving specific measurable results.
- Determining the extent to which Department efforts are adequately presented in measurable and benchmarked performance indicators in the NES and related reporting documentation.



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