

GAO

Report to the Chairman, Committee on
Finance, U.S. Senate

March 2009

EXPORT PROMOTION

Commerce Needs Better Information to Evaluate Its Fee- Based Programs and Customers



GAO

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Highlights of [GAO-09-144](#), a report to Chairman, Committee on Finance, U.S. Senate

Why GAO Did This Study

Federal and state trade promotion activities are intended to help U.S. firms compete successfully in foreign markets. Small and medium-sized enterprises (SME)—firms with fewer than 500 employees—represent a key segment of exporting firms. GAO was asked to determine (1) the relationship between the Department of Commerce’s (Commerce) U.S. Commercial Service (CS) and states’ trade offices’ export promotion programs, (2) CS’s methodology and practices for determining costs and establishing user fees for export promotion services, and (3) how CS’s user fees affect SMEs’ use of its programs.

GAO conducted a survey of states’ trade offices and reviewed data such as export promotion budgets and fees, program information, government standards, and user fee studies. GAO met with officials from Commerce, the State International Development Organizations, six states’ trade offices, and others.

What GAO Recommends

GAO recommends that Commerce (1) improve CS procedures for determining costs and setting user fees for export promotion services and (2) collect and process more reliable information about its customers to better understand demand for CS services and how the user fees affect customers. Commerce concurred with our recommendations.

View [GAO-09-144](#) or key components. To view the survey results, click on [GAO-09-148SP](#). For more information, contact Loren Yager at (202) 512-4347 or yagerl@gao.gov and Stan Czerwinski at (202) 512-6520 or czerwinski@gao.gov.

EXPORT PROMOTION

Commerce Needs Better Information to Evaluate Its Fee-Based Programs and Customers

What GAO Found

Both CS and most states’ trade offices provide various types of export promotion services. However, states have limited resources and scope when compared with CS’s \$235 million budget and large overseas staff. Thus, most states responding to GAO’s survey reported that CS’s services are important to their export promotion capabilities. State offices often partner with CS on trade missions and other activities. CS and most states focus their efforts on encouraging SMEs to participate in their programs, but user fees can influence whether firms choose to access export promotion services. CS lowers fees for SME exporters, but about a third of the states said they provide grants or payments to defray firms’ costs and facilitate access to CS’s programs.

CS needs better information to maximize the efficient and effective operation of its programs and to ensure that there is a sound basis for setting fees. CS set user fees in May 2008 guided by the Office of Management and Budget’s (OMB) full cost recovery policy. However, CS has had a yearly legislative exemption from having to recover full costs through its fees and attempted to recover only a portion of the full cost of its export promotion services. CS did not support and document the methodology and assumptions it used to determine costs and cannot ensure its cost information is consistent and reliable and in accordance with government standards. GAO found significant instances where CS used incomplete and potentially inaccurate data. Complete and accurate full cost information would assist CS and the Congress in making decisions about resource allocations, evaluating program performance, and improving program efficiency. Finally, CS did not document how it established the lower user fees for SMEs and cannot show how the fees it charges different firms for each service link to costs.

The extent to which CS’s user fees affect SMEs’ use of its export promotion programs is unclear. CS lacks reliable and sufficient data to evaluate its customer base and needs to ensure it charges firms the right fees. CS lacks reliable historical data on fees charged, firm size and status, and purchases by location and type. CS is taking steps to better evaluate its customer base. GAO’s survey showed that most states reported the 2008 user fees to be reasonable but thought fees charged SMEs for some services were too high when compared with those charged by private sector providers. CS projects an increase in SMEs’ demand for its services, but the projection is not based on any analysis of historical data. Relevant studies and other sources suggest that the types of services CS offers compared with other providers, the level of individualized attention provided, and service quality are factors that also affect SMEs’ choice to use CS’s services.

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Abbreviations

ARC	Appalachian Regional Commission
CS	Commercial Service
COSO	Committee of the Sponsoring Organizations of the Treadway Commission
CSG	Council of State Governments
CTS	Client Tracking System
DEC	District Export Council
EDO	Economic Development Organization
FUSE	Featured U.S. Exporter
IOAA	Independent Offices Appropriations Act of 1952
ITA	International Trade Administration
MECEA	Mutual Education and Cultural Exchange Act
NTE	new to export
OMB	Office of Management and Budget
SFFAS	Statement of Federal Financial Accounting Standards
SIDO	State International Development Organizations
SME	small and medium-sized enterprise
TCD	Transformational Commercial Diplomacy
USEAC	U.S. Export Assistance Center

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United States Government Accountability Office
Washington, DC 20548

March 4, 2009

The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate

Dear Mr. Chairman:

The low proportion of U.S. firms that engage in exporting is a major challenge to realizing the nation's full export potential. For example, less than 1 percent of U.S. firms are identified as exporters. The percentage of U.S. production accounted for by exports has risen in recent years as U.S. industries have responded to export opportunities created by new market access and growing foreign markets. Small and medium-sized enterprises (SME)—firms with fewer than 500 employees—represent a key segment of exporting firms.¹ Federal trade promotion, along with negotiating trade agreements and monitoring existing agreements, is intended to help U.S. firms gain access to and compete successfully in foreign markets.

The mission of the U. S. Commercial Service (CS),² part of the Department of Commerce (Commerce), is to promote economic prosperity and enhance job creation through a global network of international trade professionals that provide trade promotion services. CS's trade promotion activities seek to increase the number of U.S. firms that export and assist current exporters to enter additional markets and expand their presence within markets. In fiscal year 2008, CS's budget for export promotion totaled approximately \$235 million. One way CS seeks to broaden and deepen the U.S. exporter base is through public and private partnerships, including partnerships with state trade offices, which have similar missions. The current recession is likely to highlight the importance of these federal-state partnerships. During economic downturns, some states cut back on or eliminate services, such as export promotion, in an effort to address fiscal challenges through expenditure cuts. In such circumstances, companies seeking export assistance from a government entity may turn more to the federal government.

¹In 2006, SMEs comprised 97 percent of all identified exporters and accounted for 29 percent of the total value of U.S. exports.

²CS is also referred to as the U.S. and Foreign Commercial Service.

Federal export promotion programs primarily focus on SMEs and charge fees for services. The fees charged to prospective exporters, especially SMEs, for particular services affect their decisions to participate in these federal trade promotion programs. In 2005, SMEs, as well as large firms, expressed concerns about their future access to CS programs while CS was considering whether to raise its fees in order to recover the full costs of these programs.

In response to your request, we evaluated (1) the relationship between CS and states' trade offices' export promotion programs, (2) CS's methodology and practices for determining costs and establishing user fees, and (3) how CS's user fees affect SMEs' use of its programs.

To address these objectives, we reviewed documents and analyzed data provided by CS, the 50 states' trade offices, the State International Development Organizations,³ District Export Councils,⁴ and other relevant sources. In addition, to obtain information on states' trade offices' programs and fees, we surveyed the 50 states' trade offices and conducted site visits in six states (California, Connecticut, Idaho, Illinois, Mississippi, and Pennsylvania). We selected states' trade offices based on a number of criteria, including the size of the states' trade promotion budgets and states' trade offices colocated with CS's domestic offices. We received survey responses from 45 states' trade offices, or a 90 percent response rate. This report does not contain all the results from the survey. The survey and a more complete tabulation of the results are provided in a supplement to this report (see [GAO-09-148SP](#)). Further, to obtain information on the costs of CS export promotion programs and user fees and to determine what is known about how CS's user fees affect SMEs' participation in its programs, we interviewed Commerce officials in Washington, D.C., and at the six U.S. Export Assistance Centers we visited,

³The State International Development Organizations (SIDO) is a nonprofit, nonpartisan organization, affiliated with the Council of State Governments (CSG), which comprises international economic development practitioners and professionals from state and related organizations across the country. It is the only national organization focused exclusively on state international trade development. SIDO helps state international trade agencies better serve American exporters by sharing innovative ideas and resources, developing the skills of state trade professionals, advocating the interests of states in trade promotion, and facilitating multistate collaboration. Forty states are members of SIDO.

⁴District Export Councils (DEC) are volunteer organizations of leaders from local business communities throughout the United States that are appointed by U.S. Secretaries of Commerce under the authority of a 1973 Executive Order; DECs do not receive government appropriations or compensation.

as well as officials from the six states' trade offices, District Export Councils, the Office of Management and Budget (OMB), which issues U.S. government guidance for user fees, and the State International Development Organizations. We conducted this performance audit from October 2007 to March 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides this reasonable basis. (Appendix I provides a detailed discussion of our scope and methodology.)

Results in Brief

CS and the majority of states' trade offices provide many of the same types of export promotion services, such as export training, trade missions, and market research. According to CS officials, no state provides services that compare with the depth and extent of CS export promotion services. Consistent with its role as a federal entity promoting U.S. interests abroad, CS has a national and worldwide presence, while states' trade offices have fewer staff, smaller budgets, and operate in fewer countries. Our survey showed that the 45 states responding have an average of 5 overseas offices, or representatives, each and can cover only a few countries and regions; in contrast, CS has 124 offices in 75 countries. Partly as a result of this limited capacity, most states reported that CS's services are important to their export promotion capabilities and have often partnered with CS's offices on activities, such as trade shows and trade missions, as well as joint company visits and counseling sessions. Furthermore, states' trade offices sometimes purchase services from CS. CS and most states' trade offices focus their export promotion efforts on encouraging SMEs to participate in their programs. User fees can be a factor in firms' decisions on whether to use state and federal export promotion services. The majority of states' trade offices provide most services, like export counseling, for free but charge fees for some services, such as foreign trade missions and trade shows; CS charges for some services that state offices generally provide for free, such as foreign agency and distributor searches, but CS generally provides lower user fees to SMEs as an incentive for them to participate in CS's programs. In addition, to help make export promotion services more accessible to potential exporters from their states, about a third of the 45 states responding to our survey indicated that they provide some grants or payments to SMEs that can help defray the costs of CS's fee services.

CS needs better information to maximize the efficient and effective operation of its export promotion programs and to ensure that there is a sound basis for setting its user fees. CS officials decided to use OMB's full cost recovery policy, Circular A-25, *User Charges*, as a guide for setting its May 2008 user fees, despite a yearly legislative exemption from having to recover full costs through its fees.⁵ Nevertheless, CS neither provided support for nor documented the methodology and assumptions it used to determine costs, which hampers CS's ability to make sound management decisions about its services. CS cannot ensure its cost information is complete, consistent, and reliable and in accordance with government standards. For example, we found CS's cost estimates do not include certain costs paid on behalf of CS by other entities, such as approximately \$17 million in retirement benefits paid by the Office of Personnel Management in fiscal year 2008. Also, CS did not support its assumptions about the amount of time staff spent performing standardized export promotion activities. We found the staff time data CS used, which were collected in 2005, were potentially outdated and inaccurate. Complete and accurate full cost information would assist CS and the Congress in making decisions about resource allocations, evaluating program performance, and improving program efficiency. Furthermore, CS cannot demonstrate that its user fees for the services it provides are based on complete and accurate cost information and that the user fees recover the portions of program costs that CS intends. Finally, CS designed the 2008 user fee schedule to provide an incentive to SMEs.⁶ CS did not document its procedures and assumptions used to establish the lower user fees for SMEs and thus the basis for the different user fees it charges different firms for each service are not transparent and are not linked to the costs of those services.

The extent to which CS's user fees affect SMEs' use of its export promotion programs is unclear because CS lacks reliable and sufficient data on its fee-based services to evaluate its customer base and to ensure that it is allocating resources to services that its customers need and is charging them the appropriate fees. CS lacks comparable and reliable

⁵See Consolidated Appropriations Act, 2008, Pub. L. No. 110-161, Div. B, 121 Stat. 1844, 1885 (2007) and Science, State, Justice, Commerce, and Related Agencies Appropriations Act, 2006, Pub. L. No. 109-108, 119 Stat. 2290, 2307 (2005).

⁶The 2008 CS user fee schedule charges user fees for each service based on the size of a client firm. This user fee schedule raised the user fees for large firms to CS's estimates of the full costs, while maintaining the level of user fees SMEs had been charged under the previous user fee schedule implemented in 2005.

historical data on the fees it has charged, as well as reliable data on company sizes and purchases by SMEs and its other customers. CS officials informed us that they have performed only limited studies of customer demand, but that CS has recently begun to take steps to improve the quality of data it collects to better evaluate its customer base. We surveyed the states' trade offices to obtain their views on CS user fees because state governments are partners with, and customers of CS, and play an important role in helping their businesses to compete in the global economy. Most states' trade offices that had a basis to judge said that the 2005 CS fee change caused them to decrease their use of a key standardized service they purchased most often from CS. Overall, most states with a basis to judge reported the 2008 user fees to be reasonable but thought fees charged to SMEs for some services were too high in comparison to fees charged by the private sector. Finally, CS projects an increase in SMEs' demand for its services, but the projection is not based on any analysis of historical data. Our work, which included a review of relevant studies, suggests that factors other than fees also affect SMEs' choice to use CS's services, and these factors include the types of services CS offers compared with other providers, the level of individualized attention provided, and service quality.

We make recommendations in this report to the Secretary of Commerce to direct the Assistant Secretary for Trade Promotion and Director General of the U.S. and Foreign Commercial Service to (1) take steps to improve the collection, processing, and documentation of cost information on its export promotion programs and user fees in order to enhance efficient and effective management in line with federal accounting and internal control standards and (2) ensure that the design of its databases and procedures followed produce more accurate, reliable, and complete data on its customers to better understand demand for CS programs and the extent to which participation is affected by its user fees.

In commenting on a draft of this report, Commerce concurred with our recommendations and said that CS would take steps to improve the collection, processing, and documentation of cost information related to its export promotion programs. Commerce officials stated that CS developed its new user fee policy from the most accurate data available and that its accounting systems were not deficient based on receiving an unqualified audit opinion on its annual financial statements. We remain concerned, however, that potentially outdated and inaccurate nonfinancial data, such as the time staff spend performing various activities, were used to determine the unit cost of specific services and that the full costs of specific services should be considered when CS next review its fees. Also,

although an entity's audited financial statements and unaudited cost accounting analyses may use the same underlying financial data, an auditor's opinion on the financial statements does not provide assurance concerning the reasonableness of cost analyses performed using the underlying financial data. Commerce also noted an increase in fees collected and services provided in fiscal year 2008, which they believe indicates their products and services remain accessible to SMEs. However, we continue to believe that more complete and accurate data about company size are needed to properly estimate the volume of services provided to SMEs and come to judgements about the fees collected from them. Finally, Commerce emphasized that its trade promotion services are greater in depth and scope than those provided by the states, and we clarified this point in various places in our report where appropriate. Commerce's comments, along with our responses to specific points, are reprinted in appendix IV. Commerce also provided technical comments, which were incorporated in the report, as appropriate.

Background

The U.S. Commercial Service, within Commerce's International Trade Administration (ITA), plays a leading role in the federal government's efforts to encourage and promote U.S. nonagricultural exports. CS was founded in 1980, as overseas commercial work was transferred from the Department of State (State) to CS. The purpose of CS's export promotion programs is stated through statutory authority.⁷ CS's mission is to maximize U.S. competitiveness, and enable economic growth for U.S. industries, and enhance job creation by helping U.S. firms take advantage of opportunities abroad through a global network of international trade professionals. CS operates 108 domestic offices at U.S. Export Assistance Centers (USEAC), and maintains 124 international offices in 75 countries that represent the significant export markets for U.S. goods and services.⁸ CS trade specialists at these offices are tasked with assisting U.S. firms and representing U.S. commercial interests abroad. In those countries where CS does not have a presence, State represents U.S. commercial interests and assists U.S. exporters. State and CS are in the process of

⁷15 U.S.C. § 4721.

⁸USEACs are intended to integrate the representatives and assistance of the principal federal agencies providing export assistance—the Commercial Service, the Small Business Administration, and the Export-Import Bank. USEACs serve as one-stop-shops to provide exporters with information on U.S. government export promotion and export finance programs and help potential exporters make contact with the federal programs that may provide the greatest assistance.

negotiating a memorandum of understanding to formalize this arrangement. Currently, State can offer certain export promotion services, but does not use CS product and customer service standards or CS pricing policies.⁹

The general goal of CS is to use its network of professionals and export promotion services to broaden and deepen the U.S. exporter base and help U.S. firms make sales in international markets. CS reports that it helps thousands of firms make export sales each year. Furthermore, according to CS, the majority of these sales are by SMEs. Its services include providing market research and supporting trade events. The Gold Key Service, which helps firms identify international business partners, is one of its most popular services. CS provides these services to a variety of customers. While private U.S. firms (particularly SMEs) are CS's main customers, CS also delivers services to other customers, including state and local governments.

Many U.S. states maintain state trade offices that provide varying levels of export assistance, usually focusing on increasing exports from firms located in their states. Most are managed by state economic development agencies and funded by states' operating budgets. Many state trade offices maintain both domestic and overseas offices to deliver services. In addition, many states' trade offices partner with CS to ensure client firms have access to services the state cannot offer, particularly in those foreign markets where the states lack offices.

CS is authorized to charge a user fee for its export promotion services, and CS has adjusted its user fee structure in recent years.¹⁰ Prior to fiscal year 2005, CS did not have an agencywide user fee schedule for its export promotion programs, as each overseas post decided what user fees firms were charged for the export promotion services the posts delivered. As part of its user fee review in fiscal year 2005, CS sought to determine the user fees it would have to charge to recover the full costs of its services. CS determined its user fees would have to rise significantly to recover full

⁹In 2007, Commerce's Office of Inspector General reported on the need for an agreement between State and CS to address specific business processes at posts where CS does not have a presence. See Department of Commerce, Office of Inspector General, *Commerce Can Further Assist U.S. Exporters by Enhancing Its Trade Coordination Efforts*, Final Inspection Report Number IPE-18322 (Washington, D.C.: Mar. 30, 2007).

¹⁰CS's authority to charge a fee for its export promotion services stems from its annual appropriation. See *e.g.*, Pub. L. No. 110-161.

costs, causing concern among firms, business leaders, and CS staff. However, CS did not implement a 2005 user fee schedule that recovered full costs but adopted an agencywide user fee schedule with user fees for most services set to recover a portion of program costs.

CS and Most States' Trade Offices Provide Similar Export Promotion Services and Work in Partnership

CS and the majority of states provide many of the same types of export promotion services, such as export training, trade missions, and market research. Firms can choose to go to CS, states' trade offices, or other providers to get these services. However, states have limited budgets and staff to assist their firms. Partly as a result of this limited capacity, most states reported that CS's services are important to their export promotion capabilities and have partnered with CS's offices. Both CS and most states' trade offices focus their export promotion efforts on SMEs. CS and the majority of states' trade offices provide services for free but charge fees for certain services. In addition, to facilitate access to CS's programs, about a third of the states responding to our survey indicated that they provide grants or payments to firms from their states to defray the costs of CS's fee services.¹¹

CS and States' Trade Offices Provide Many of the Same Types of Export Promotion Services

CS offers a range of standardized and customized services to help firms to export. The standardized CS services, including Gold Key Service, International Partner Search, and International Company Profile, are prepared and delivered to firms in approximately the same manner around the world. These services offer firms assistance to identify and meet potential overseas buyers and distributors, and to perform due diligence on prospective foreign buyers. The customized services, including Customized Market Research, QuickTake, seminars/webinars, and trade promotion events and trade missions, are tailored to fit the specific needs of an individual firm in a specific export market and vary based on the scope of work.

The majority of the states' trade offices that responded to our survey provide many of the same types of export promotion services as CS to

¹¹Forty-five states responded to our survey. We did not receive survey responses from Alaska, Kansas, Kentucky, Louisiana, and New Jersey.

assist firms interested in exporting.¹² According to CS officials, no state provides services that compare with the depth and extent of CS's export promotion services. According to SIDO, states' comparative advantage is their local presence and their ability to specialize in the major industries in their states and on the export markets those industries typically target. Services that most states provide and that are similar to CS include training programs and seminars, as well as assistance in participating in trade shows and missions. Other services states often cited include market research, agent and distributor searches, and foreign company background checks. According to CS officials, CS provides its services to a national client base and provides services in numerous markets where states have little or no presence. For example, CS officials explained that while many states provide "market research" services, these services may cover fewer markets and provide less detail than the market research CS provides. In addition, CS said that its missions target an industry segment more broadly and deeply than is possible for any state. Further, CS provides some services for which there are no state counterparts, such as government-to-government advocacy. Table 1 shows the major export promotion services offered by states' trade offices and CS.

Table 1: Export Promotion Services Offered by CS and States' Trade Offices

Type of service	Description of service	CS service(s)	Number of states offering similar service
Training programs/seminars	Training on various topics related to exporting	<ul style="list-style-type: none"> Webinars Seminars 	40
Foreign Trade Missions	Overseas travel to meet officials, prospective business partners and buyers and to promote the sales of U.S. exports to a foreign market	<ul style="list-style-type: none"> Certified Trade Mission 	39
Trade shows (U.S., foreign, and catalog)	Events organized to introduce U.S. exporters to potential overseas business partners	<ul style="list-style-type: none"> Commerce trade events Commerce Trade Fair Certification 	39
Market research	Research on target markets, marketability of product, market trends and size, distribution and promotion practices, product standards and regulations, key competitors, potential business partners	<ul style="list-style-type: none"> Publicly available market research Customized Market Research 	36

¹²Even though three states (Arkansas, California, and Michigan) do not offer a formal program, they offer some services on an as needed basis. According to the Michigan trade office, it maintains one overseas office, which provides trade development and foreign direct assistance to companies interested in exporting to China.

Type of service	Description of service	CS service(s)	Number of states offering similar service
Agent/distributor searches	Identification of prescreened potential overseas buyers and distributors	<ul style="list-style-type: none"> Gold Key Service International Partner Search 	33
Foreign company background checks	Due diligence to verify the background and credit worthiness of overseas companies, including information on key officers and management, and the company's financial information	<ul style="list-style-type: none"> International Company Profile 	29
Product pricing/analysis	Review product's export potential in certain overseas markets, including current demand, future demand, and competition	<ul style="list-style-type: none"> QuickTake 	29

Sources: CS and GAO survey of states' trade offices.

Note: The number of countries in which CS provides export promotion services exceeds the number of countries in which states' trade offices provide similar services.

States' Trade Offices' Export Promotion Efforts Are Limited by Small Staffs and Budgets Relative to CS

States' trade offices have small staffs and budgets relative to CS. Consistent with its role as a federal entity promoting U.S. interests abroad, CS has a national and worldwide presence while states have a local presence and operate in fewer countries. CS has 493 domestic and 991 overseas staff who are currently engaged in export promotion activities in 47 states¹³ plus Puerto Rico and 75 countries.¹⁴ (See app. II for CS's domestic and international locations.) The 45 states' trade offices responding to our survey have a combined total of 275 domestic staff and 214 overseas staff.¹⁵ According to SIDO, states' trade offices have 245 offices in 34 countries. Half the states responding to our survey have five

¹³CS does not currently have offices in Alaska, Delaware, and Wyoming. CS operates in 108 cities nationwide. Of the 493 domestic staff, 211 are located at CS's headquarters in Washington, D.C.

¹⁴CS currently operates offices in 75 countries compared with 80 countries in 2006 and 2007. CS currently has 124 offices worldwide. In some countries, there are offices in more than one city. For example, CS has five offices in China. In those countries where CS does not have a presence, State represents U.S. commercial interests and assists U.S. exporters. The number of overseas staff includes foreign service nationals.

¹⁵Our survey focused on the states' trade offices, their staff, and the activities they provide directly and did not include export promotion activities provided indirectly at the state level, such as export readiness training and the number of staff associated with those activities under a wide variety of arrangements. SIDO estimates that there are hundreds of individuals employed in states' funded educational institutions and economic development agencies that support small business export promotion primarily through training and counseling activities.

or fewer full-time domestic staff and two or fewer full-time overseas staff.¹⁶ Table 2 shows the differences among the states in terms of the resources they devote to export promotion activities. Both CS and the states' trade offices have been experiencing reductions in their staffing levels. Based on CS's data, it has experienced a 5 percent reduction in domestic staff and 3.5 percent reduction in overseas staff from fiscal year 2007 to 2008. Thirty-two states' trade offices, or almost 73 percent of those that had a basis to judge, said that their overall staffing level has decreased or stayed the same over the past 5 years.

Table 2: State Export Promotion Resources: Domestic and Overseas Staffing and Budget Averages

Domestic FTEs ^a	Number of states	Average number of overseas FTEs	Average number of overseas locations ^b	Average export promotion budget ^c
States with 0 to 1 FTE	9	0.2	3.8	\$262,000
States with 2 to 4 FTEs	13	1.3	3.1	334,000
States with 5 to 7 FTEs	11	2.9	4.0	1,294,000
States with 8+ FTEs	12	13.6	9.3	2,943,000
Average for all states responding to each survey	45	4.7	5.1	\$1,448,057 ^d

Sources: Analysis of GAO and SIDO surveys of state export promotion agencies.

^aThese groupings are approximate quartiles because 45 states responded to our survey, which does not allow for even quartiles, and states frequently had the same number of domestic FTEs, which also affected the quartile sizes.

^bStates' overseas offices can be staffed by state employees, contractors, or volunteer or honorary representatives. According to SIDO, most offices are staffed by contractors.

^cSIDO state export promotion budget data were only available for 24 states. Three (3) of these were in the first quartile, 6 were in the second quartile, another 6 were in the third quartiles, and 7 were in the fourth quartile. One state provided budget data to SIDO but did not respond to the GAO survey.

^dThe median budget was \$775,000.

While reliable trade promotion budget data are not available for the 50 states' trade offices, sources estimate that the combined annual trade budget of the 50 states is significantly lower than CS's annual budget, perhaps less than half. CS's total budget for export promotion was about \$235 million in fiscal year 2008 and is projected at \$237.7 million for fiscal

¹⁶States are often represented overseas by agents or local consultants that work for them on a part-time or as-needed basis.

year 2009 (less than 1 percent increase in nominal terms.)¹⁷ Information about states' export promotion budgets is difficult to obtain and may not be fully reliable. States' commerce departments or economic development agencies usually run states' trade promotion programs and foreign investment recruitment programs, and some states do not disaggregate the budget data between the two functions. CSG estimates that the 50 states spend a combined total of about \$100 million each year helping state businesses create jobs at home by selling products abroad. SIDO estimates that states' budget for both trade and foreign investment recruitment was about \$103 million in 2008.¹⁸ Current state trade budget data are only available for 27 states through SIDO's survey. Based on these data, the average state export promotion budget was \$1.4 million in 2008, and the median was \$775,000,¹⁹ ranging from Pennsylvania at about \$10 million to Vermont at about \$170,000. (Also see table 2.)

In responding to our survey, some states' trade offices made a variety of observations regarding leveraging resources between the states and CS and the limited resources available for export promotion programs.²⁰ For example, one state said that budget cuts have resulted in its decision not to duplicate services offered by CS. Another state that has recently discontinued its export promotion programs expressed interest in having the USEAC colocate within its economic development agency while another state said colocation costs incurred by individual states could be offset by discounted fees for CS services. With regard to CS's overseas offices, some states and SIDO noted that CS is closing offices in developed countries (and shifting resources to developing countries), and this leaves established global markets for SMEs without CS presence in some cases. SIDO is concerned about what they believe are the small number of CS resources available for export promotion programs. SIDO believes that U.S. firms are at a competitive disadvantage compared with firms in other

¹⁷CS's total budget averaged about \$227 million over the past 3 fiscal years (2006-2008).

¹⁸SIDO tracks states' expenditures on trade as part of its annual survey and reported in its 2008 survey that tracking expenditures on trade and investment remains a challenge as many states are reluctant to report these expenditures, and others undercount the amount they spend by not including staff salaries and other overhead in the trade budgets.

¹⁹The median budget is the amount (\$775,000) that divides the budget distribution into two equal groups, meaning that half had budgets above the median, and half had budgets below the median.

²⁰These observations are taken from states' trade offices responses to our survey's open-ended questions.

competitor countries with larger government export promotion budgets and has called for a 50 percent increase in CS's budget.²¹

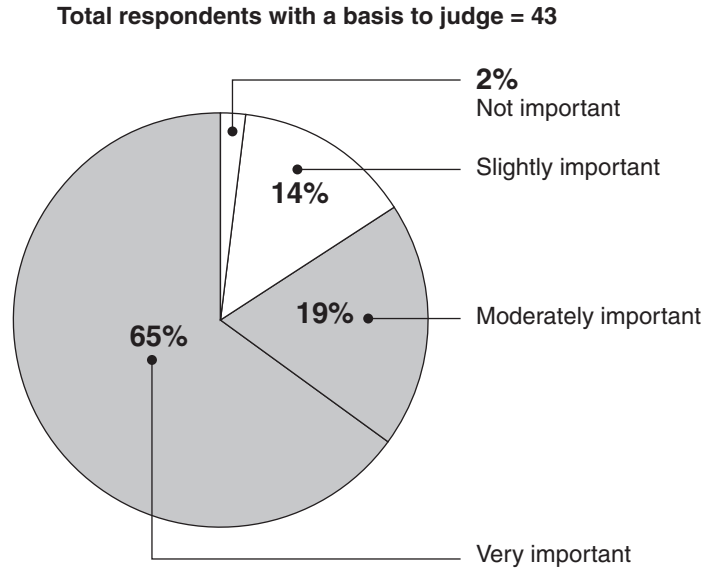
Most States' Trade Offices Report CS's Services Are Important to Their Export Promotion Capabilities and Have Partnered with CS

States' trade offices collaborate with CS to help provide firms export promotion services, and some states' domestic offices are colocated with CS's staff at a USEAC with a goal of helping firms access CS services. More than three-quarters of states' trade offices (36 of 43) that had a basis to judge viewed Commerce's services to be very or moderately important to their states' export promotion capabilities. (See fig. 1.) According to states' trade offices we visited, as well as SIDO, most states rely on or partner with CS to obtain export assistance in overseas markets where the states have no representation. Where the states have representation, they rely on their own services to assist their exporters. Activities in which states' trade offices partnered most with CS included trade shows and trade missions, seminars, training programs, conferences, and event planning. In addition to partnering with CS, some states' trade offices also reported working closely with their local USEACs. For example, one state named its USEAC a "key partner" with which "all export related programs, seminars, and conferences are planned, coordinated, and implemented." Another state said that its USEAC serves on the state's committee, helping to select the winners of the Governor's Awards for Excellence in exporting. In addition, 11 states' trade offices are colocated with USEACs.²² According to officials of one state trade office colocated with a USEAC, colocation has helped the state partner with CS to provide services to firms and outreach to potential client firms.

²¹According to CS, its export promotion budget is projected to grow in nominal terms by 11.4 percent over the last 5 years; the fiscal year 2005 budget was \$213.5 million, and the budget for 2009 is expected to be about \$237.7 million.

²²The following states' trade offices are colocated with a USEAC: Idaho, Mississippi, New Hampshire, New Jersey, New Mexico, New York, Oklahoma, Rhode Island, Tennessee, Texas, and Vermont.

Figure 1: States' Opinions on the Importance of CS Services to their Export Promotion Capabilities



Source: GAO analysis of states' trade offices survey responses.

Note: A total of 44 states' trade offices responded to this survey question, but one had no basis to judge regarding the importance of CS's services.

Just over three-quarters of states' respondents that had a basis to judge (34 of 42) reported that they have partnered with CS on a variety of activities that are not part of CS's formal services, which requires a signed cooperation agreement.²³ A few states cited frequently working with CS, while the majority of respondents identified only a few activities they have conducted jointly with CS during the last 3 years. For example, some states we visited informed us that they have conducted joint company visits and counseling sessions with their local USEACs.

Some state trade offices work with CS to facilitate state-sponsored trade missions and trade events and are sometimes customers of CS. Our survey revealed that some states' trade offices directly purchased some of CS's services during the last 3 years. Figure 2 indicates the services states' trade offices have purchased directly from CS. Gold Key Services and seminars/webinars were the services states' trade offices most often

²³The formal services are CS's fee-based standardized and customized services.

reported purchasing directly from CS. Half of the states' trade offices reported purchasing Gold Key Service from CS, and less than half reported purchasing seminar/webinar services directly from CS. Three states we visited reported purchasing Gold Key services directly from CS to support overseas trade missions. One state said that it has purchased CS's Gold Key Service to identify potential consultants and representatives overseas and another state said that it has purchased Gold Key Service to complement a state-led trade mission.

Figure 2: Export Promotion Services States Purchased Directly from CS

Types of CS services	Number of states that purchased directly from CS	Number of states that did not purchase from CS
Gold Key Service	22	22
Seminar/webinar	19	25
Trade fair	14	30
Commerce-led Certified Trade Mission/trade mission	9	35
Business Facilitation Service	8	36
Catalog event/product literature center	8	36
Platinum Key Service	7	37
Customized Market Research	3	41
International Company Profile	3	41
International Partner Search	3	41
Single Company Promotion	3	40
QuickTake	2	42
Featured U.S. Exporter (FUSE)	0	44

Gold Key Service and seminar/webinar were services states' trade offices most often reported purchasing directly from CS

Source: GAO analysis of states' trade offices survey responses.

Note: Forty-five states' trade offices responded to the survey and, in all cases, except the single company promotion, 44 responded to each service.

In responding to our survey, some states' trade offices said that the collaboration between them and CS can be improved to provide greater benefits to their client firms.²⁴ For example, states and CS target the same client base within their states, and some states' trade offices and SIDO said that improved information sharing would greatly increase effectiveness and reduce duplication of efforts to the benefit of exporting SMEs if sharing of client contacts and client needs were allowed. The types of information they sought included USEAC offices and staff goals and CS's foreign national contractors' list. Regarding sharing client information, CS officials said they must adhere to federal regulations, which prohibit the sharing of business proprietary information with non-U.S. government agencies.

Some states' trade offices said that they have partnered with other states' trade offices, chambers of commerce, world trade centers, universities, and other entities to share costs for export promotion services. For example, some states said that they have obtained sponsors from both the public and private sectors to cover some of their costs, such as governor-led trade missions and agricultural exports. In addition, other states said that they shared costs with several state entities and organizations to cover programs, such as export training seminars, conferences, and forums while other states said that they have shared the costs of domestic and overseas trade offices or contractors with others.

Both CS and States' Trade Offices Focus Their Export Promotion Efforts on SMEs

CS and most states' trade offices focus their export promotion efforts on SMEs. According to CS, the majority of its customers are SMEs. Similarly, most state trade offices focus their export promotion efforts on SMEs, with 32 of the 42 states responding to our survey question reporting that more than three-quarters of their budgets were used to target the needs of SMEs. In addition, approximately 79 percent of the 33 states' trade offices that responded to SIDO's 2008 survey of states' trade offices reported SME manufacturing firms comprised the primary customers for their export promotion services, and approximately 18 percent considered very small manufacturing firms (50 employees or less) their most important customers.

²⁴These observations are taken from states' trade offices responses to our survey's open-ended questions.

According to CS, most of its services are sold to SMEs, with about 78 percent sold to SMEs in fiscal year 2008.²⁵ As an incentive for SMEs to purchase their services, CS charges them less than large firms for its standardized and customized services. In May 2008, CS implemented its current cost-based user fee schedule, which charges SMEs only a proportion of the fees large firms pay for the same services. The 2008 user fee schedule introduced a reduced one-time incentive user fee to new-to-export (NTE) SMEs using CS standardized services.²⁶ Also, under the 2008 user fee schedule, CS extends to states' trade offices the SME user fee rates for standardized and customized services when purchasing CS services for their own use.²⁷

CS and States' Trade Offices Charge Firms Fees for Some Export Promotion Services

CS currently offers firms five standardized and nine customized services. CS's standardized export promotion services have fixed user fees, while the user fees for CS's customized services vary based on the scope of service provided. In addition, according to CS, a significant amount of trade specialists' time is spent providing export counseling, advocacy, and generic market research, for which CS does not charge user fees. The user fee schedule CS implemented in May 2008 replaced CS's user fee schedule implemented in 2005. The 2008 user fee schedule raised the user fees for large firms, while maintaining the level of user fees for SMEs.²⁸ Figure 3 compares CS's 2005 and 2008 user fee schedules for CS standardized and customized services.

²⁵Since CS had difficulty disaggregating the data by company size, and over 16 percent of its customers are of unknown size, the data for SMEs are not fully reliable. See the discussion of data reliability on page 35.

²⁶CS defines an SME as NTE for incentive fee purposes if it has not exported anywhere in the world during the last 24 months, except for unsolicited orders or orders placed by U.S. intermediaries, and has not previously used a CS service.

²⁷In addition, CS extends SME-level user fees for standardized and customized services to cities and local governments, trade associations, and nonprofit educational institutions and partners.

²⁸Under the 2005 user fee schedule, CS charged large firms and SMEs the same user fees for the same services, but the user fees differed from country to country. For example, CS charged all firms, regardless of size, the same user fees for the Gold Key Service and the International Company Profile based on groupings of export markets into four user fee bands, which were roughly related to variations in national labor costs across markets. For customized services, the 2005 user fee schedule charged all firms the same user fees based on the scope of work required to meet firms' specific needs, and the range of user fees also reflected variations in the cost of doing business in different markets.

Figure 3: Comparison of the Commercial Service's 2005 and 2008 User Fee Schedules

Standardized services	CS User Fee Schedule (2005-Apr. 30, 2008) ^a		CS User Fee Schedule (as of May 1, 2008) ^a				
	SMEs and large firms		SMEs and state trade offices			Large firms	
	First appointment	Additional appointments ^b	New-to-Export 1st use of service	First appointment	Additional appointments ^b	First appointment	Additional appointments ^b
Gold Key Service	\$685-\$770	\$320-\$700	\$350	\$700	\$300	\$2,300	\$1,000
International Company Profile	\$520-\$810	N/A	\$350	\$600	N/A	\$900	N/A
International Partner Search	\$500-\$790	N/A	\$350	\$550	N/A	\$1,400	N/A
FUSE	\$5	N/A	\$75	\$150	N/A	\$300	N/A
Domestic Business Provider	\$250	N/A	N/A	\$300	N/A	\$600	N/A
Customized services	SMEs and large firms		SMEs		Large firms		
<ul style="list-style-type: none"> • Business Facilitation Service • Platinum Key Service • Single Company Promotion • Trade missions • Catalog events • Customized Market Research 	100% of costs billed to third party ^c		100% of costs billed to third party ^c		100% of costs billed to a third party ^c		
	35% of CS resource costs		35% of CS resource costs		100% of CS resource costs		

Source: GAO analysis of Commerce data.

^aThe 2005 user fee schedule shows the range of user fees charged to both SMEs and large firms by groupings of overseas markets. The 2008 user fee schedule shows the user fees for each service by size of firm.

^bAdditional appointments also may be referred to as additional days.

^cCosts billed to a third party include any costs needed to deliver a CS service that requires payment to a third party vendor. These costs include items such as temporary staff help, ground transportation, translators, and catering.

CS's data show that it sold a total of 19,906 services in fiscal year 2008. In addition, CS reports that it collected approximately \$10.2 million for these standardized and customized services. Table 3 shows the number of services sold and collections by type of service for fiscal year 2008.

Table 3: CS Services Sold and Total Collections, Fiscal Year 2008

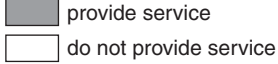
Standardized services	Number of services sold	Collections
Gold Key Service	1,416	\$1,200,100
International Company Profile	1,445	1,014,822
International Partner Search	369	215,550
Featured U.S. Exporter (FUSE)	158	50,610
Business Service Provider (domestic)	797	239,721
Total	4,185	\$2,720,803
Customized services		
Business Facilitation Service	2,985	\$1,953,351
Customized Market Research	178	162,571
Platinum Key Service	67	282,273
QuickTake	12	8,813
Catalog event	157	81,722
Single Company Promotion	101	155,053
Certified Trade Mission	44	433,779
International Buyer Program	936	937,682
Seminar/webinar	9,261	994,391
Trade fair	382	999,493
Trade mission	166	513,420
Trade promotion event	1,110	901,005
Local event	322	73,457
Total	15,721	\$7,497,010
Grand total	19,906	\$10,217,813

Source: GAO presentation of CS data.

A majority of states do not charge fees for most types of services they offer, and they provide some services for free for which CS charges a fee. At least 23 states responding to our survey do not charge fees for 7 of the 11 types of services, including export counseling, market research, market entry strategy development, product analysis, and pricing information. (See fig. 4.) In contrast, CS charges a fee for similar services in some cases. For example, while CS charges user fees for agent and distributor searches under its Gold Key Service and International Partner Search services, most states reported charging no fee for this type of service. In addition, most of the six states' trade offices we visited told us they provide free export promotion services for which CS charges a fee, such as foreign company background checks and foreign agent and distributor searches. However, the scope and coverage of states' services compared

with CS's may differ. For example, some state trade office officials told us that while they provide for free services similar to CS's fee-based services, often these services are available only in limited overseas markets and are not as comprehensive as the services CS provides.

Figure 4: States' Trade Offices' Fee-Based and Non-Fee Based Services

Types of services	Number of states that charge:			Number and percentage of states that:
	no fee	partial fee	full fee	
Export counseling	38	1	0	5 (11%) do not provide service 39 (89%) provide service
Market research	31	5	1	7 (16%) do not provide service 37 (84%) provide service
Market entry strategy development	30	4	1	9 (20%) do not provide service 35 (80%) provide service
Product analysis/pricing information	26	2	1	15 (34%) do not provide service 29 (66%) provide service
Agent/distributor searches	25	7	2	10 (23%) do not provide service 34 (77%) provide service
Marketing/promotional literature reviews	23	6	2	13 (30%) do not provide service 31 (70%) provide service
Foreign company background checks	23	3	3	15 (34%) do not provide service 29 (66%) provide service
Licensee, joint venture, and partnership contracts	11	1	2	29 (67%) do not provide service 14 (33%) provide service
Foreign trade missions	3	28	8	5 (11%) do not provide service 39 (89%) provide service
Trade shows (U.S., foreign, and catalog)	2	28	9	5 (11%) do not provide service 39 (89%) provide service
Training programs and seminars	8	23	8	4 (9%) do not provide service 39 (91%) provide service

Source: GAO analysis of states' trade offices survey responses.

Note: For most of the services, 44 states' trade offices responded and, in two cases, 43 responded.

For those services for which states' trade offices reported charging a fee, most states charge partial fees rather than full fees. Most states reported charging a fee for trade shows, foreign trade missions, as well as training

programs and seminars. Most states reported charging a partial fee to recover part of the cost of these services. For example, for foreign trade missions, 28 states charge a partial fee, and 8 states charge a full fee. We did not request information on the fees states' trade offices charge for their services or their annual fee collections. According to SIDO, the states' fees vary widely.

Some States Help Client Firms Defray Costs of Export Promotion Services

To help make export promotion services more accessible to potential exporters from their states, some states' trade offices offer grants. Of the 45 states that responded to our survey, 19 reported providing SMEs with grants, and 16 reported providing SMEs with grants or direct payments that could be used to defray the costs of CS's export promotion programs and services.²⁹ (See fig. 5.)

²⁹CS does not offer any comparable export promotion grant programs to SMEs. However, ITA offers limited financial assistance to nonprofit groups, including trade associations and states' trade offices, under the Market Development Cooperator Program.

Figure 5: States' Trade Offices Offering Export Promotion Grants

State	Can grant be used to defray cost of CS's export promotion services?	Type and amount of export promotion grant
1. Alabama	Yes	The current grant has expired that provided money to companies to set up one-on-one matchmaking appointments through the Gold Key Service. Funding has been requested through the Appalachian Regional Commission (ARC) and, if accepted, grants will be provided to companies located in the ARC region, excluding Madison and Shelby Counties, to pay for Gold Key Service.
2. Connecticut	Yes	Connecticut reimburses SMEs 50% up to \$1,000 for certain CS's export promotion programs and services.
3. Florida	Yes	Does not provide grants directly to SMEs but to economic development organizations (EDO) based on competitive proposals designed to expand trade in their specific regions. However, the EDOs may use these grant funds to defray the cost of participation of local SMEs on Enterprise Florida, Inc. trade missions, which use Gold Key or trade show space.
4. Indiana	No	Trade Show Assistance Program offers up to \$5,000 per company per fiscal year to attend international trade shows; about \$100,000 allocated each year.
5. Iowa	Yes	Export Trade Assistance Program reimburses a company up to \$4000, three times in the state's fiscal year, for trade shows and trade missions, which may include the purchase of Gold Key or other services from Commerce on the company's behalf.
6. Maine	Yes	Offers limited support through the Manufacturing Extension Partnership program, which can be used to offset CS fee services; \$1,000 to \$1,500 toward matchmaking costs.
7. Maryland	Yes	Provides up to \$5,000 in matching grants, with \$100,000 allocated each year.
8. Mississippi	Yes	Provides grants for up to a maximum of \$250 per company for Gold Key Services based on budget availability.
9. Montana	Yes	Provides grants for up to half the cost of Gold Key Service.
10. New York	Yes, subject to approval of grant project overall	The Global Export Market Service Program offers matching grants to qualified individual firms (up to \$25,000) or to groups of companies, or industry/trade associations (up to \$50,000).
11. North Dakota	Yes	Receives grant through Commerce's Market Development Cooperator Program, which it uses to defray costs of CS's services.
12. Oklahoma	Yes	Provides Trade Show Matching Grant Program for companies to attend international trade shows. The grant matches company expenses up to \$2,500 for booth rental, translation service, and promotional materials shipping costs. The grant does not cover travel, hotel, and food costs.
13. Oregon	No	Provides \$2,500 grants for trade show or trade mission costs.
14. Pennsylvania	Yes	Provides SMEs a matching grant of up to \$5,000 yearly per firm if the SME meets eligibility requirements. The grant can be used to defray Commerce's fees if Pennsylvania does not have an overseas office in the country where Commerce service is used; about \$1 million allocated each year.
15. Rhode Island	Yes	Provides minigrants up to \$5,000 for export training.
16. Vermont	Yes	Provides limited grants to pay for Gold Key and other CS services.
17. Virginia	No	Provides 20 \$5,000 grants per year and 15 \$10,000 grants per year.
18. Washington	Yes	Offers an international trade show grant program, which can be used for trade shows organized by Commerce.
19. Wisconsin	Yes	Offers \$5,000 grants from an annual fund of \$100,000. Grant can be used to purchase CS's Gold Key Service and interpreters during a trade mission.

Sources: GAO analysis of states' trade offices survey responses and State International Development Organizations data.

The rate at which states defray costs or reimburse SMEs for their participation in CS's programs varies. States' grants generally range from \$1,000 to \$5,000 per firm and are often intended for participation in trade

shows, trade missions, or other state-sponsored events. States' trade offices cannot determine what portions of the grants (or direct payments) are used to defray the cost of CS's user fees; SMEs may use states' grant funding for a range of other eligible expenses, such as travel and logistical expenses. According to SIDO, states' funding of CS's services is highly dependent upon their affordability relative to services available from private consultants and other sources. Three of the six states' trade offices we visited offer such grants—Connecticut, Mississippi, and Pennsylvania. According to these states' trade officials, grants are a useful tool to outreach to SMEs that might not have considered exporting and might not be familiar with the costs of export assistance. However, these officials explained that grants in and of themselves often do not determine whether SMEs participate in export promotion programs.

CS Needs to Improve Its Methodology to Determine Costs and Set User Fees

CS needs better information to maximize the efficient and effective operation of its export promotion programs and to ensure there is a sound basis for setting its user fee rates. CS decided to base its export promotion user fees on program costs, though it has a yearly legislative exemption from having to recover full costs, and it attempted to recover only a portion of the cost of its services.³⁰ Nevertheless, CS did not document its methodology, calculations, and support for the assumptions it used to determine the full cost of each type of service; thus, CS cannot ensure its methodology is based on accurate information or is consistently applied from year to year to allow officials to make sound management decisions about its services and user fees. In addition, CS's cost estimates are not complete. For example, CS's cost estimates did not include certain costs paid for by other entities on behalf of CS, as federal accounting standards require.³¹ Also, CS used potentially outdated and inaccurate 2005 staff time data to estimate its program costs, upon which it based the 2008 user fee structure. Complete and accurate full cost information would assist CS and the Congress in making decisions about resource allocations, evaluating program performance, and improving program efficiency. Finally, CS did not document its procedures and assumptions for setting

³⁰Pub. L. No. 110-161.

³¹According to the Statement of Federal Financial Accounting Standards (SFFAS) 4: *Managerial Cost Accounting Standards and Concepts*, full cost of a service produced by a segment of an agency is the sum of the costs of resources consumed by the segment that directly or indirectly contributes to the service, and the costs of identifiable supporting services provided by other segments within the agency, and by other entities.

its user fees, including how it determined incentive rates for SMEs, thus weakening the link between costs and the user fees.

CS Uses OMB Full Cost Recovery Policy as a Guide for Fee Setting but Is Not Required to Do So

CS's annual appropriation permits it to charge user fees but is silent with respect to setting and revising user fees.³² Nevertheless, there should be a sound basis for any user fees charged. According to CS officials, CS made a policy decision to use OMB Circular A-25, including its direction to recover full costs, as a guide for establishing its 2008 user fee structure, but it does not attempt to recover the full cost of its services. In annual appropriations since the 1990s, certain provisions of the Mutual Education and Cultural Exchange Act (MECEA) have applied to ITA's trade promotion activities.³³ Through these MECEA provisions, CS is authorized to accept "contributions" from firms. Under this statutory authority CS charges a fee for services provided in its export promotion programs, but the statute is silent with respect to setting and revising user fees.³⁴ Furthermore, since fiscal year 2006, the Congress has exempted CS from the requirements of OMB Circular A-25 as part of the ITA's annual appropriation.³⁵ However, according to the CS officials who established the user fee policy, CS nevertheless implemented the 2008 user fee schedule with the goal of moving toward OMB's full cost recovery policy.³⁶

³²Pub. L. No. 110-161.

³³*See e.g.*, Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 1990, Pub. L. No. 101-162, 103 Stat. 988, 990, (1989). Since the Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 1990, the Congress has applied certain provisions of MECEA to ITA in ITA's annual appropriation.

³⁴The Congress has stated that, for ITA, certain provisions of MECEA shall apply in carrying out international trade and promotion activities abroad. Through the application of these MECEA provisions, the Congress authorizes CS to accept contributions from "[f]oreign governments, international organizations and private individuals, firms, associations, agencies, and other groups" to carry out the purposes of MECEA. These contributions "shall include payment for assessments for services provided as part of these activities." Under this authority, CS must charge a fee for services it renders in its export promotion programs and CS has made a policy decision to charge the fee on a full cost recovery basis. *See e.g.*, Pub. L. No. 110-161.

³⁵Pub. L. No. 109-108 and Pub. L. No. 110-161.

³⁶Other options could include basing fees on competing market rates charged by other providers of similar services or setting fees that would promote a certain level of participation.

Confusion Over Whether CS
Must Try to Recover Full Costs

Our review of various documents and interviews with agency officials indicated that there had been confusion over whether CS is required to comply with Circular A-25. OMB has expressed concern about the adequacy of CS's understanding of its costs, to which CS has responded. In 2003, OMB found that although CS charges user fees for some services, it did not have a consistently applied pricing strategy for its services, and the infrastructure for capturing cost information was inadequate for making informed decisions. In addition, in 2004, Commerce's Office of Inspector General reported that CS was not in compliance with Circular A-25 and recommended that CS work with OMB to comply with the circular. In response, CS undertook efforts to determine the full cost of its services and to comply with Circular A-25.

Although CS has received a yearly legislative waiver explicitly exempting it from the requirements, in May 2008, CS submitted a request to OMB for a permanent waiver from the full cost recovery provisions contained in the circular. In its request to OMB, CS explained "the user fee schedule moves us closer to the intent of the cost recovery provisions of the OMB Circular without making our services out of reach to SMEs who have less financial flexibility." According to OMB officials, OMB reviewed the 2008 CS user fee schedule based on estimates of fee collections, which OMB considered reasonable; however, OMB did not review details of the methodology CS used to determine costs and establish the user fees. Following the review, OMB found, "the new fee structure will increase collections and moves toward the goals of the circular." OMB stated it will continue to work with CS through the executive budget process to ensure the user fee strategy is evolving properly to meet the provisions of OMB Circular A-25. Although OMB did not approve the request for a permanent waiver, OMB told CS the 2008 user fee structure was acceptable with Circular A-25 for fiscal year 2009.

OMB Circular A-25, *User Charges*, establishes, among other things, guidelines for federal agencies for assessing user fees for government services.³⁷ It provides information on the scope and types of activities subject to user fees and the basis on which user fees are to be set. The

³⁷Agencies may derive their authority to charge fees either from specific statutory authority or from the Independent Offices Appropriation Act of 1952 (IOAA). OMB Circular A-25 generally applies to agencies that derive their authority to charge user fees under IOAA, but specific user fee statutes should be construed consistent with OMB Circular A-25 to the extent possible as part of an overall statutory scheme. CS derives its authority to charge fees for its export promotion services from its annual appropriation.

circular also provides guidance for agency implementation of user fees and collections and outlines the following several policy objectives:

- Ensure that each service, sale, or use of government goods or resources provided by an agency to specific recipients be self-sustaining.
- Promote efficient allocation of resources by establishing charges for special benefits provided to the recipient that are at least as great as costs to the government of providing the special benefits.
- Allow the private sector to compete with the government without disadvantage in supplying comparable services, resources, or goods where appropriate.

In determining full costs to set user fees, agencies may use cost accounting systems—a system designed to consistently produce reliable cost information—or cost finding methodology, which uses cost studies or cost analyses to develop cost information. The methodology the agency uses to determine costs should be appropriate for management’s needs and the environment in which the agency operates.

Understanding the Full Costs of Federal Programs Is Important for Good Management

Understanding the full costs of federal programs, including CS’s export promotion programs, is important for several reasons. First, management needs reliable cost information to make resource decisions and to find and avoid waste and inefficiencies. For example, using full cost information, management can make decisions to reduce resources devoted to activities that are not cost-effective. In addition, such information allows managers to compare cost changes over time and identify their causes and reduce excess costs. Second, management needs reliable and complete cost information to assess the extent to which user fees recover the proportion of full costs intended. Third, the Congress and the public can use full cost information to evaluate the performance of federal programs and compare their costs and benefits. For example, full cost information assists the Congress in making decisions about allocating federal resources, and when authorizing and modifying programs.

In 2005, CS developed a cost-finding methodology to attempt to determine the full costs of its export promotion services and increased the user fees of one of its most popular services, International Company Profile, to full cost recovery for all firms based on its 2005 cost estimates. CS officials explained that it is currently adopting a new cost accounting system that is used throughout Commerce, which CS officials stated would provide improvements to its cost accounting. However, according to CS officials,

this new cost accounting system would not be used to apply salary costs to activities or attribute overhead costs to determine the full cost of services.

While CS has taken steps to move toward full cost recovery, CS officials told us they balance this objective with trying to ensure its user fee schedule keeps its services accessible to SMEs. CS officials decided to provide lower incentive rates to SMEs, which only cover a portion of the full costs of these services. The 2008 fee schedule seeks to charge large companies “full cost.” For example, CS charges large firms a \$70 per hour rate and charges SMEs approximately 35 percent of that rate, or \$25 per hour, for the cost of staff time required to deliver standardized and customized services. CS charges both large firms and SMEs the full cost of third party charges needed to deliver a CS service, such as translation and transportation services.

CS Did Not Document Its Methodology for Determining Full Costs

CS relied on a cost-finding methodology to determine full costs, according to CS officials; however, CS did not document the methods, calculations, and support for the assumptions it used to estimate the full cost of each type of service, as called for by federal accounting standards.³⁸ Instead, CS officials generally described to us its cost-finding methodology, which they said was partly based on the one used for the 2005 user fee schedule, and provided limited documentation of its cost templates. (See table 4.) CS did not document its methods, assumptions, and cost calculations for each service.

³⁸*SFFAS*, No. 4, provides that agencies may determine full costs based on a cost-finding methodology; however, the methodology for determining costs should be clearly documented and followed consistently. According to federal accounting standards, cost accounting procedures and processes should be documented and should provide instructions for procedures and practices to be followed in determining costs and contain examples of other documents used.

Table 4: Overview of CS Cost Methodology

According to CS officials:

CS estimated the hourly rates for staff time spent to deliver CS services by dividing their total annual budget by the total number of annual staff hours budgeted for CS.

- For example, for the 2008 user fee schedule, CS officials told us they divided the fiscal year 2007 CS budget of \$229 million by the total number of hours incurred by 1,566 staff in 1 year to calculate a \$70 hourly full cost rate.

CS then used cost templates that included an estimate of staff time for each type of service, which it multiplied by the \$70 hourly rate to determine full cost of each service.

- If there are any costs incurred by a third party, such as venue costs or equipment rentals, these are also included.
- CS included overhead costs using a flat rate of 12 percent of salaries and benefits, as recommended by OMB Circular A-76.

For standardized services, for which CS charges a set user fee, CS officials stated they determined

- the specific step-by-step activities, and
- the amount of time required to deliver services by surveying staff at CS domestic offices and at overseas posts.

Source: CS.

Note: Although CS officials stated CS included overhead costs using a flat rate of 12 percent, the cost templates CS provided to us showed a 6.25 percent rate for calculating overhead costs, and CS officials did not explain how the 12 percent flat rate was applied to its cost estimates.

Better information would raise CS's awareness of the composition of its costs, and changes to those costs, and allow them to better control and reduce costs where possible and to evaluate program performance. For example, such documentation could allow CS to compare costs among alternatives, such as whether to provide a service in-house or contract it out or whether to continue or eliminate a service. Without complete documentation and support for the specific methodology and information CS used as a basis for determining costs, CS cannot be sure that its chosen cost assignments are reasonable and based on accurate information. In addition, it is not possible to ensure the methodology is consistent from year to year to allow CS to make sound decisions about its services and user fees. The risk of overestimating or underestimating costs may be reduced if CS clearly documents its methods for accounting for program costs and the assumptions used to project future costs. Such documentation would help CS assess whether its estimates are aligned

with changes in costs; this is important so that the user fees recover the intended portion of full costs, and CS does not charge firms more or less than intended. However, CS did not document how it assigned costs to each service in enough detail to allow CS staff and other knowledgeable persons to assess these procedures and determine the accuracy of the information used. Furthermore, the lack of documentation makes it difficult to ensure staff are properly trained and consistently apply the methodology so that it produces accurate cost information that can be compared from year to year. Finally, the lack of full cost information makes it difficult for CS and the Congress to accurately evaluate the performance of CS services in light of the true overall costs and determine whether resources are rationally allocated to CS services.

CS Cost Estimates Are Not Complete or Accurate

Notwithstanding the lack of documentation, we found CS's cost estimates do not accurately reflect full costs. First, for example, CS did not include certain costs paid on behalf of CS by other entities, as required in federal accounting standards. Without consideration of costs paid by other federal entities, CS's cost estimates do not reflect full costs to the federal government and are misleading for CS officials and others using that information to make decisions about resource allocations and changes in programs. Moreover, because CS has chosen to base its user fees on the full cost of its services, it needs a reliable accounting of total costs when setting user fees so that they cover the intended share of the cost of its services. According to CS officials, CS did not include certain retirement benefits to be paid by the Office of Personnel Management, including the costs of pensions and health and life insurance, in determining the full costs of its export promotion services. CS estimated the annual cost of these benefits to be approximately \$17 million in fiscal year 2008. Full costs should include the cost of such employee retirement benefits according to federal accounting standards.³⁹

Second, CS used potentially outdated and inaccurate information about staff time spent to estimate program costs and set user fees. These were

³⁹Federal accounting standards state that each entity's full costs should include the costs of goods and services that it receives from other entities, and the payment of retirement benefits is likened to providing goods and services. Furthermore, federal accounting standards state that recognizing the costs of interentity goods and services is especially important when those costs constitute inputs to services provided to nonfederal government entities for a user fee and thus these costs need to be recognized by the entity in order to determine user fees for services.

key data that CS used to assign costs to the activities required to deliver its standardized services. CS officials explained that, as part of its cost-finding methodology, CS surveyed staff to determine the specific step-by-step activities and time staff spent to deliver services and used these data to develop the cost templates to estimate the full costs of each standardized service. However, CS officials stated that, for its most recent user fee adjustment in 2008, CS relied on the survey data it collected in preparation for its prior adjustment of user fees in 2005 and did not update the survey data to ensure its reliability. Thus, these data were potentially outdated and inaccurate. CS officials explained they assumed the activities and staff time required to deliver services had not changed significantly, but they did not justify or provide documentation supporting the assumption the data were reliable in 2008.

In addition, we found the accuracy of CS's 2005 survey data to be questionable. These data were not based on an actual accounting of staff time, according to CS officials. Instead, CS officials explained that these data were based on staffs' estimates of the amount of time they thought they spent, on average, performing specific tasks to deliver a service. Staff reported widely divergent time estimates for the same activities, which raises concerns about how accurately staff estimated their time. For example, for the activity "identifying and contacting potential partners" staffs' time, estimates ranged from 1 hour to 20 hours and, for the activity, "final debrief of the client," the range was 15 minutes to 4 hours. CS officials told us they were satisfied that these estimates were reasonably accurate; however, based on our statistical analysis we disagree and believe they did not sufficiently explain and document support for this assumption.

Federal accounting standards recognize the importance of collecting accurate cost information. For example, federal accounting standards state that reliable information on the costs of federal programs and activities is crucial for effective management of government operations. Without supporting its assumptions of its staff time estimates, CS cannot be sure that the cost assignments it used to determine costs were accurate. In addition, inaccurate cost information can skew fee-setting decisions, so CS needs reliable information to ensure that the user fees are aligned with any changes in staff productivity and recover CS's intended share of program costs.

CS Did Not Justify and Document Its Procedures for Establishing SME User Fees

CS does not seek to recover full costs from all firms under its 2008 user fee structure. CS offers lower fees to SMEs as an incentive to purchase CS services, and CS officials explained that factors other than costs contributed to their formulation of the 2008 user fee structure.⁴⁰ CS seeks to recover only a proportion of full costs from SMEs, with the remainder of the costs covered by CS's annual budget appropriation. Lower user fees are an incentive to SMEs to use CS services.

However, CS did not sufficiently support and document the methods and assumptions it used, particularly with regard to the lower user fees for SMEs under the 2008 user fee structure. For example, according to CS officials, CS set the current SME-level user fees based on the historical proportion of costs—approximately 35 percent—recovered by the old user fees charged to SMEs. However, CS did not document how it determined this 35 percent incentive level and the level of the newly introduced new-to-export incentive user fees. Instead, CS officials told us they set the level of the incentive user fee for new-to-export SMEs based on their perception of what would constitute a reasonable discount while still signaling that the services are valuable. These officials also stated the new-to-export incentive user fees were set at the same \$350 for the most popular SME services to eliminate potential confusion among customers. They explained that CS used informal client and stakeholder feedback, as well as program counts and collections data, to assist in establishing the user fees SMEs are charged for standardized services, but CS did not document this. As a result, CS cannot demonstrate how its cost estimates are linked to the user fees it charges different sizes of firms for each of its services. This information would allow comparisons to inform management and program staff decisions, such as whether to adjust user fees, do a project in-house or contract it out, to accept or reject a proposal, or to continue or eliminate a service.

Significant events, which can include key decisions about user fees, are to be clearly documented, according to federal internal control standards.⁴¹

⁴⁰CS implemented the 2008 user fee structure with the goals of (1) moving toward the provisions of OMB Circular A-25, (2) maintaining the level of user fees SMEs are charged and providing incentive user fees for new-to-export SMEs to use CS services for the first time, and (3) simplifying the user fee structure implemented in 2005. CS officials explained the 2008 user fee schedule moves closer to the intent of OMB's full cost recovery policy because it seeks to recover full costs from large firms.

⁴¹GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

Transparent procedures can contribute toward an improved understanding about the decisions made to establish the user fees and the basis on which those decisions were made. For example, as CS cost-based user fees represent a charge for a specific service received, stakeholders may expect a change in the user fees firms are charged to be related to a change in the true cost of providing services.

The Extent to Which CS's User Fees Affect SMEs' Use of Its Export Promotion Services Is Unclear

The extent to which CS's user fees affect SMEs' use of its export promotion programs is unclear because CS lacks comparable and reliable historical data on fees charged its customers and has only limited disaggregated data on services sold by company size and type of customers. CS officials informed us that they have performed only limited studies of customer demand, but that CS has recently begun to take steps to improve the quality of data it collects to better evaluate its customer base. Because state governments play a potentially important role in helping their businesses to compete in the global economy, and because they are also partners with and customers of CS, we obtained the states' trade offices' views on the user fees CS charges for some of its services. States' trade offices' views of the 2005 and 2008 user fee schedules and their projected future use of CS services varied. CS projects a 10 percent increase in SMEs' total demand for its services in fiscal year 2009 based on its new user fees, but support for this projection is unclear. Factors other than fees, such as the availability and quality of comparable services from private providers, may affect SMEs' use of CS services.

CS Lacks Reliable and Sufficient Data to Evaluate Its Customer Base

CS lacks reliable and sufficient data on its export promotion fee-based services to evaluate its customer base. We have identified several limitations with regard to CS's data about: (1) fees charged its customers, (2) the characteristics of its customers, and (3) purchases by location and types of services. CS is taking steps to improve the quality of the data it collects, as well as the integration of its customer data systems, but its officials acknowledged that the Client Tracking System (CTS) may not be fully operational until well into 2009 or beyond.⁴² For an entity to run and control its operations and to achieve all its objectives, it must collect and process relevant, reliable, and timely data relating to internal, as well as

⁴²The CTS is an ITA-wide customer relationship management system that is being developed to track clients and their activities (fee-based and non-fee-based services) at domestic and overseas posts.

external events, based on GAO's *Standards for Internal Control in the Federal Government* and OMB Circular A-123 on *Management's Responsibility for Internal Control*. In addition, effective information technology management is critical to achieving useful, reliable, and continuous recording and communication of information.

CS Lacks Reliable Historical Data on User Fees Charged Its Customers

CS lacks comparable and reliable historical data on the fees charged for each service to measure past and potential effects of user fee changes on its SME customers to ensure that it is charging them the correct fee. Prior to 2005, according to CS officials, there were no set fees, and each post decided what to charge customers for its export promotion services. In addition, according to CS officials, prior to December 2007, every overseas post had its own database of customers, resulting in 80 databases, as well as domestic databases that did not communicate with each other. According to CS, it currently uses two main systems (the eMenu⁴³ and the CTS) to collect and track data on the programs and services it offers its customers. We observed demonstrations of both these systems in August 2008. While the systems have many useful features and represent promising directions for CS to take, we identified several limitations with regard to computer database design and internal controls.⁴⁴ In our review of the data, we noticed instances where companies received a bill that was much larger than the advertised service fee, but the reason (possibly because the extra days and add on services were being included) was not documented. More comparable and reliable user fee data could be used to help CS in determining how changes in its user fees affect SMEs' demand for its services.

CS Is Limited in Its Ability to Analyze Data by Size and Status of Customers

CS is limited in its ability to disaggregate the firms that purchased fee services by company size or by export status (whether the firms are new-to-export or had purchased prior export services from CS). Such information would be useful for making managerial decisions and

⁴³According to CS, the eMenu is now primarily used as a tool for customers to pay for CS's services, capturing clients' credit card information, as well as statistics such as company size, export status, and export successes.

⁴⁴For example, when preparing a statement of work for the client in the eMenu, the trade specialist has to enter the fee into a data field, since the field is not automatically populated based on company size and export status. CS officials explained that the fees could consist not only of the initial fee-based services, such as a 1-day Gold Key Service, but could also include additional days of service, as well as "add ons," such as transportation and interpreter costs. However, as there is only one field in the database for all these costs, we could not isolate the initial fee part of the costs or identify any additional service costs when those applied.

determining which products and services are in demand and which products are purchased less frequently by CS's different customers. A lack of accurate customer information and good procedures creates the risk of charging CS customers a fee that is inconsistent with their company size or export status. According to CS officials, the eMenu initially relies on the customers to self-report their size and export status. CS officials stated that its trade specialists *could* verify company size by consulting the Harris database⁴⁵ and export status by consulting the CTS. When we examined data for 2008 from the CTS, we found that 16 percent of the companies were listed as being of "unknown size." In addition, there were numerous inconsistencies in the designation of company size, with more than 200 instances of companies being designated with different sizes. In addition, based on our review of the data, CS has not yet addressed the deficiencies with prior years' data. The 2006 and 2007 database did not identify company size for at least one quarter of the companies per year. Prior to December 2007, according to CS officials, the size of firms purchasing services was not a mandatory field in the databases.

It would require a manual review of the records to determine whether a company meets CS's new-to-export status. Even with a manual review, the accuracy of the designation about export status would depend on the thoroughness, completeness, and consistency of the entries that had been made by trade specialists and others. Yet our review of CS data raised questions about the manual review because we found at least 30 instances when companies designated as new to export in 2008⁴⁶ had appeared in the prior year's (2007) database as purchasers of certain CS fee services.⁴⁷ CS's limitations in collecting and processing accurate information on company size and export status reduce its ability to determine which products and

⁴⁵A service CS purchases that provides various statistics on U.S. companies.

⁴⁶This represents data for the first half of fiscal year 2008 as we did not obtain the remaining months on time to complete the analysis for the year. The purpose of this test was neither to quantify the exact number of firms that had been inappropriately designated as NTE in 2008, nor to comment on whether any firms had been inappropriately charged a lower fee than was required; rather, it was to establish that there are some concerns about data reliability in the designations of NTE in the historic data and to suggest that CS take actions to correct these problems given that the new fee structure offers lower fees to NTE SMEs.

⁴⁷According to recent CS guidance, NTE firms are not supposed to have been prior recipients of services such as Gold Key, International Company Profile, International Partner Search, trade missions, Customized Market Research, Business Service Provider, and QuickTake. We found more than 650 companies designated as NTE in the data for the first half of 2008 that we examined.

CS Is Limited in Its Ability to Analyze Customers' Purchases by Location and Type

services are in demand or underused by its different customers and more importantly to charge firms the appropriate fees. Under the 2008 fee structure, SMEs and new-to-export SMEs are charged lower fees for CS's services.

Due to limitations in CS's databases, it is difficult to disaggregate purchases by location and types of services. Complete information on the characteristics of CS's customers, such as geographic location, industry, and services bought and at what price over time, would allow CS to better analyze and understand its customer base and to adjust to changes in market demand. CS's database has total purchases by states, which not only includes private sector firms but also includes state export promotion agencies, universities, and other entities, making it difficult to obtain an accurate count for only SMEs, for example. We wanted to analyze SMEs' fee-based purchases by home state for about 5 years to better understand the relationship between CS and SMEs in home states. Since it was not possible to disaggregate only the SMEs' purchases, we decided to examine the data by home state for all firms. However, CS could only identify companies' home states by performing a manual review of its records; therefore, the analysis was limited to data for 2 years, 2007 and 2008, and for only four standardized services. See appendix III for information on CS's customers' purchases by states for selected services.

Studies of CS's Export Promotion Programs and User Fees Have Been Limited

CS has made some attempts to determine how the user fees affect its customers' participation in its programs; however, these studies have been limited, according to CS officials, in determining how the fees affect customers' participation due to lack of sufficient data. One company contracted by Commerce attempted to estimate price elasticity (or sensitivity) of demand, both in 1998 and 1999, using different data.⁴⁸ In 1998, the company used data based on a survey of a small number of trade consulting companies on how their customers would have responded to price increases. CS officials said that they did not use the results of the 1998 study in determining the fees to be charged because the analysis was unreliable since it was based on hypothetical data. For the 1999 estimate

⁴⁸The price elasticity of demand measures how sensitive the quantity demanded is to changes in price. If a small price increase results in a disproportionately large decrease in the quantity demanded, then demand is price elastic. For example, if a price increase of 10 percent results in a decrease of more than 10 percent in the quantity demanded, then demand is price elastic. If the quantity demanded decreases less than 10 percent, then demand is price inelastic.

of price sensitivity, the contractor used customer survey data. However, the data suffer from a low response rate of 11 percent. Again, CS did not directly consider the price sensitivity estimates when making fee decisions in subsequent years. Table 5 provides a summary of some prior assessments of CS's export promotion programs and user fees.

Table 5: Some Studies of CS's Export Promotion Programs and User Fees

Date	Study	Relevant findings	Relevant recommendations
2003	OMB Program Assessment Rating Tool	CS's primary assessment mechanism has been customer service surveys. Although these surveys yield relevant information, they do not provide a comprehensive independent assessment of CS's products and services.	CS should perform ongoing competitor and market analysis.
January 2003	ITA <i>User Fee Study</i>	<ul style="list-style-type: none"> • The contractor said that ITA was unable to provide them with useful customer information to conduct the study because its systems did not properly track information that would assist them in further understanding its customer base. • The contractor did not conduct a price sensitivity survey of CS's customers, which it had intended, but instead conducted an internal survey of ITA's trade specialists' perception of customers' willingness to pay for ITA's products and services, among other things. • The low response rate (40%) of the survey impacted the contractor's ability to precisely quantify market demand and price sensitivity for all of the products and services the contractor was asked to evaluate. 	ITA should set fees that align with established strategic position, using accurate product cost information. Factors that need to be considered when making this determination include the characteristics of the customer that buys the product, what demand ITA has experienced for the product at the current price, the market price for the product, and ITA's strategic objective in offering the products.
March 1999	CS study on the <i>Impact of Product Price Increases on Clients and Revenues</i>	<ul style="list-style-type: none"> • The contractor reported that, based on its estimate of price sensitivity of demand, the reduction in participation from a price increase would result in a reduction in revenues. • Increasing revenues through across-the-board price increases will negatively impact the mission to develop SME exports. 	No relevant recommendation.

Date	Study	Relevant findings	Relevant recommendations
May 1998	ITA <i>Product Pricing Study</i>	<ul style="list-style-type: none"> • Due to major cost and price data limitations, price and revenue projections cannot be made with confidence. • Based on estimated price sensitivity, ITA can increase revenue by raising prices on some existing products or services, charging for some products for which ITA has not historically charged, and charging for selected new products or services. • However, price increases will result inevitably in the loss of some current and prospective clients. Thus, pursuing revenue generation has important implications for ITA's mission of maximizing its services to SME clients. 	Initiate a tiered pricing structure based on factors, such as size of firm or export maturity using appropriate OMB (A-25) waivers and approvals.

Sources: GAO analysis of OMB and Commerce data.

Note: These reports contain several recommendations. We used the terms "relevant findings and recommendations" to mean those that address the fee or pricing structure with regard to CS's clients.

According to CS, it is difficult to compare CS prices to others offering similar services, such as private sector providers. CS officials informed us that many consultants are reluctant to talk to them or share their pricing schedules. GAO also contacted some private sector firms to determine what export advisory services they offer and the fees charged but either these firms did not provide such services or the firms did not respond to our inquiries for information on fees. Our survey of states' trade offices found none of the 45 states that responded, including those we visited, had conducted an evaluation on the effects of user fees on SMEs' participation in federal export promotion programs.

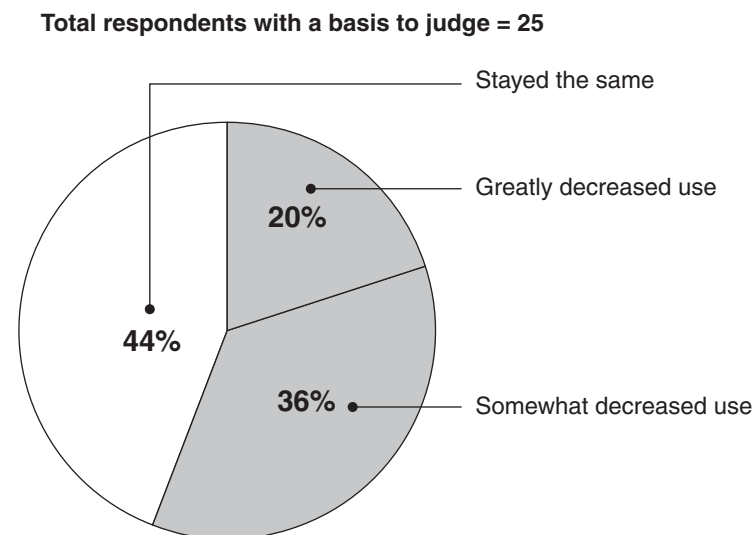
States Had Differing Opinions About the Impact of CS's 2005 Fee Schedule

Because state governments play a potentially important role in helping their businesses compete in the global economy, partner with CS, and are sometimes customers themselves, we obtained the states' trade offices' views on the impact of CS's change in user fees in 2005 on states' use of certain services.⁴⁹ States had mixed views about the impact of CS's 2005

⁴⁹CS did not have set fees for its services prior to 2005, so we categorized the 2005 fees as "fee change." It is unclear what fees were charged prior to 2005.

fee change. Some states said that the introduction of the 2005 fee schedule had no impact on their use of certain CS services, while others said that it caused them to decrease their use of those services. For example, of the states that had a basis to judge, 56 percent (14 of 25) reported that the 2005 fee schedule caused their offices to decrease their use of CS's Gold Key Service, compared with 44 percent (11 of 25) reporting that their use stayed the same.⁵⁰ (See fig. 6.)

Figure 6: States' Trade Offices Use of Gold Key Service under 2005 Fee Schedule



Source: GAO analysis of states' trade offices survey responses.

Note: Forty-four states' trade offices responded to this question, but 19 had no basis to judge.

Based on CS's data, for the total number of standardized services purchased, SMEs' participation fluctuated before and after the 2005 fee change. For example, the Gold Key Service showed a decline in purchases of about 26 percent from 2005 to 2006 and slightly increased in 2007 by about 3 percent above the 2006 level. CS officials said that these large

⁵⁰We highlighted the Gold Key Service throughout the report because, based on our survey, most states' trade offices said that they have primarily purchased the Gold Key Service from Commerce over the past 3 years.

changes are due in part to a spike in demand in 2005 as companies rushed to sign up for certain services before the 2005 fees went into effect in April 2005.

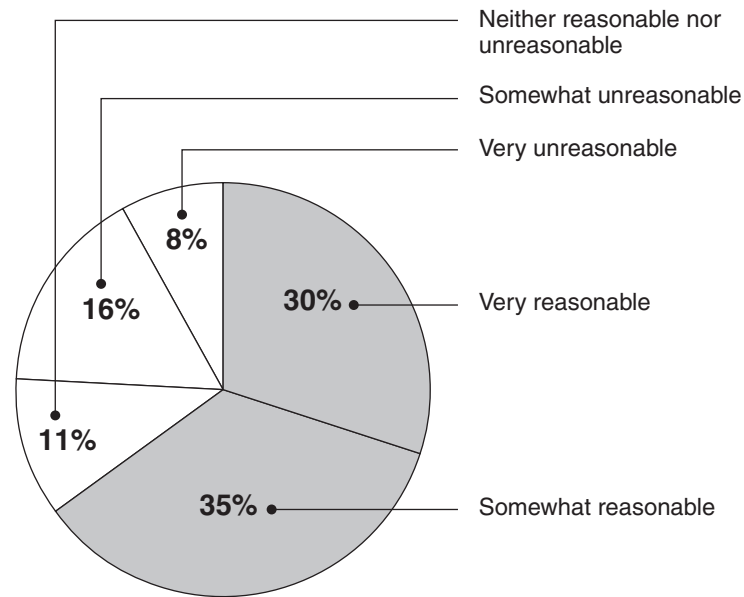
CS Projects Increase in SMEs' Demand with New Fee Schedule

CS projects a 10 percent increase in SMEs' total demand for its services in fiscal year 2009 based on its new user fees, but support for this projection is unclear. According to CS officials, although the fees for Featured U.S. Exporter and Business Service Provider (domestic) will increase for SMEs with the new fee schedule, overall collections are expected to rise, with higher demand for services such as Gold Key, International Company Profile, and International Partner Search that are now priced lower in most markets. In particular, CS expects an increase in demand for Gold Key Service in the expensive markets that now offer SMEs lower fees. The 10 percent increase in SMEs' demand is not based on any analysis of historical data. According to CS, the projected increase is based on anecdotal reports from its offices in the field, some businesses, SIDO, and DEC officials. With the new-to-export pilot incentive fee introduced for the first time, CS also anticipates an increase in demand from new-to-export SMEs, but the assumption of how much demand will change is a "wild guess," according to CS officials. CS said it expects participation by large firms to remain constant or to decrease moderately. CS arrived at the assumption for large firms on the basis that large firms are less sensitive to the fees and will often use CS's services to expand their overseas markets even when fees increase.

Our survey showed states' trade offices' reaction to the new fee schedule was generally positive, but there were some negative views. Most states view CS's new fee schedule to be reasonable. As figure 7 shows, almost two-thirds (24 of 37) of the states that had a basis to judge reported that they considered CS's new fee schedule to be very reasonable or somewhat reasonable. In addition, some DEC members in the states we visited believed the new fee schedule for SMEs is reasonable but expect the effect of the fees to vary by company.

Figure 7: States' Trade Offices' Views of CS's 2008 Fee Schedule

Total respondents with a basis to judge = 37



Source: GAO analysis of states' trade offices survey responses.

Note: Forty-three states' trade offices responded to this question, but 6 had no basis to judge.

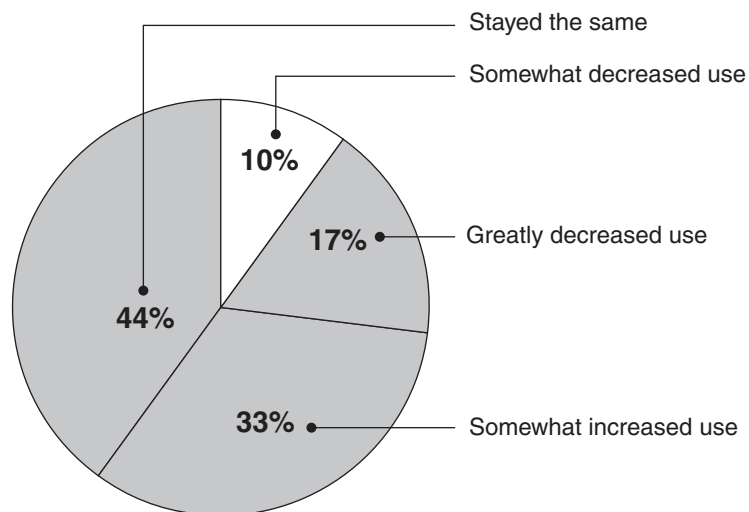
Some states' trade offices elaborated on their views regarding the reasonableness or unreasonableness of the new user fees. For those states' trade offices that considered the new fee schedule to be somewhat or very reasonable, one said that it is very happy with the new fee schedule and has been promoting it and that the concept behind the low fees for new-to-export companies is "really brilliant." Another state said that SMEs will still complain about having to pay for services, but that the new fee schedule is fair and makes CS's services much more accessible for very small firms, while another state said that lower fees for SMEs is a good start but ignores the need to invest more in trade and investment promotion. For those states' trade offices that considered the fees to be somewhat or very unreasonable, one said that SMEs need assistance and support to increase exports and that CS should provide available services at reasonable cost instead of trying to get more money from U.S. business taxpayers. One state said that the majority of its companies have fewer than 10 employees and that these companies find it difficult to justify paying the government fees for services, while another state said that the

majority of its SMEs are not currently using CS's programs due to the cost involved and that alternatives may be less expensive but take longer to achieve similar results.

We asked states' trade offices for their views on the new fees' projected impact on their use of certain services purchased directly to assist SMEs. Of the three standardized services we asked about (Gold Key, International Company Profile, and International Partner Search), at least 85 percent of those that had a basis to judge for each service said that their use would increase or stay the same. For example, 27 of the 30 states (90 percent) that had a basis to judge reported that their use of the Gold Key Service for SMEs would either increase or stay the same under the new fee schedule. (See fig. 8.)

Figure 8: States' Trade Offices' Views of Gold Key Service under 2008 Fee Schedule

Total respondents with a basis to judge = 30



Source: GAO analysis of states' trade offices survey responses.

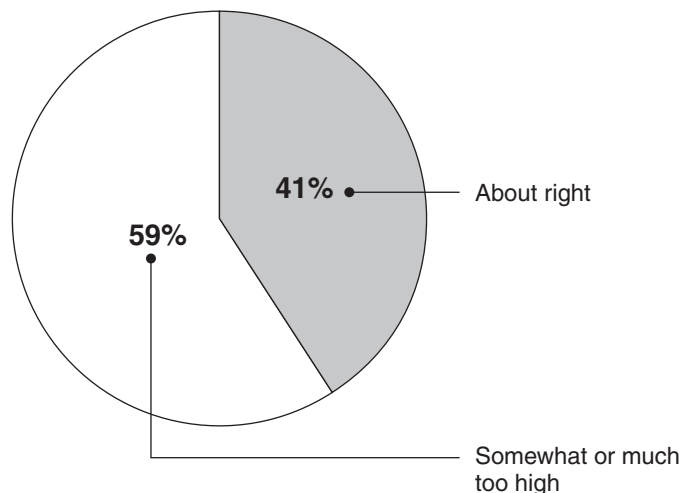
Note: Forty-four states' trade offices responded to this question, but 14 had no basis to judge.

We also asked states' trade offices their views on the new fees CS charges certain customers compared with the fees charged by private sector providers. More than two-thirds of the states that had a basis to judge (27 of 39) indicated that Commerce's new fees for new-to-export SMEs were about right compared with fees charged by private sector providers.

However, states' trade offices had mixed views about the new fees charged to SMEs that already export, and for each of the CS services about which we inquired (Gold Key, International Company Profile, International Partner Search, FUSE, Domestic Business Provider, and the customized services), roughly half of those that had a basis to judge responded that the fees were about right while roughly half reported they were too high compared with private sector providers. For example, figure 9 shows that more than half (16 of 27) thought that the new customized fees charged to SMEs that already export were somewhat or much too high compared with the private sector.

Figure 9: States' Trade Offices' Views of CS's Customized Services Fees Compared to Private Sector Providers' Fees

Total respondents with a basis to judge = 27



Source: GAO analysis of states' trade offices survey responses.

Note: Forty-three states' trade offices responded to this question, but 16 had no basis to judge.

According to SIDO, states can obtain cost competitive services in some markets, but such private sector alternatives are not universally available. CS also subcontracts with private sector providers at lower rates than those of its employees. These private providers state that their knowledge of a particular market or its operational efficiencies allows them to offer lower cost services, such as matchmaking, according to SIDO. However, SIDO states that some states' trade offices might choose CS's services because they are more comfortable working with a federal agency and CS generally offers superior quality control to private sector alternatives. One

study prepared for CS found that export promotion services available from private enterprises and trade groups vary in price, but that a number of private providers' services are significantly more expensive. In addition, the study reported that, in some cases, these enterprises and trade groups work with CS to develop products and services and that some repackage and sell CS's products, particularly market research and contact development information.

Almost all of the states' trade offices with a basis to judge responded that SMEs' use of CS's services would decrease if they were charged the same fees as large firms (which, according to CS, represent the full cost of services). For example, more than 70 percent of these respondents indicated that they would expect a great or very great decrease in services, such as Gold Key (28 of 37) and International Company Profile (22 of 30) if fees were the same as those charged for large firms. Further, DEC members and USEAC officials in the states we visited expect that there would be significant decreases in SMEs' demand for CS's services if they were charged full costs for export promotion services.

Factors Other Than Fees May Affect SMEs' Choice to Use CS's Services

Factors other than fees may affect SMEs' choice to use CS's services including: (1) the types of services CS offers compared with other providers, (2) the individualized attention received, and (3) the quality of the service. First, some states' trade offices and other sources reported that factors such as the types of services required influence the choice of services purchased from CS versus other providers. A 2002 study prepared for the Trade Promotion Coordinating Committee found that more than half of the services used by SME exporters were obtained from the private sector, which leads in providing transaction-related services, such as freight forwarding and helping firms to develop Web sites to promote products to foreign buyers.⁵¹ The study reported that the government's role, including CS's role, was seen as strongest in the provision of basic information to exporters, such as "how to export" information, Web-based information on markets, export counseling, and government procedures

⁵¹Chemonics International in Cooperation with University of North Carolina at Chapel Hill, The Kenan Institute of Private Enterprise, Kenan-Flagler Business School, *Report Card on Trade II: Assessing the Effectiveness of U.S. Government Support to Small and Midsize Exporters* (Chapel Hill: June 12, 2002).

overseas.⁵² In addition, our survey revealed that 36 of 45 states' trade offices (80 percent) use private consultants, including private businesses and American Chambers of Commerce, as providers for trade promotion services. For example, some states' trade offices use private consultants for trade missions and trade shows, market research, and arranging company meetings, which are services CS provides. Services that CS does not provide and which states' trade offices obtain from the private sector include assistance in setting up offices in a foreign country, assistance in sourcing products or manufacturers with sourcing a manufacturing partner, having prototypes or product samples made, and freight forwarding.⁵³

Second, transaction-related services tend to require individualized attention, which is another factor that may influence SMEs' choice of whether to obtain services from CS versus other providers. Based on the 2002 study, Commerce was seen as not being as well-positioned as private providers to provide the intensive attention that transaction-related services may require. We also spoke with officials of one large American chamber of commerce operating in a key market who informed us that its members, including SMEs, are attracted to private providers' intensive "handholding," which, according to these officials, CS is not well known for providing. For example, this chamber of commerce offers a Corporate Visa Program, which, according to the officials, actively helps its member companies to complete paperwork and expedite the visa process within a 1-week time frame. In addition, one state trade office also said that contractors or private consultants offer in-country coordination and individualized attention that the CS no longer offers.

The quality of service is also a key factor that influences SMEs' choice of where to purchase services. A 2003 study⁵⁴ estimated that fees for some CS services that SMEs demand were lower than market comparisons but that CS's market share based on total demand by SMEs for products and

⁵²The study, which looked across all services used, said Commerce emerged as the "clear leader" among the government service providers, accounting for more than a third of all government-provided services.

⁵³CS also purchases services from the private sector. However, the partnership between CS and the private sector was beyond the scope of our review. In addition, we did not further explore states' trade offices' relationship with private sector providers.

⁵⁴*User Fee Study*, prepared for the Department of Commerce, International Trade Administration by KPMG LLP, January 24, 2003.

services similar to CS's was relatively small; it suggested that the quality or type of services provided by CS may not match the quality or type of services demanded by SMEs.⁵⁵ One DEC member also told us that companies may perceive the quality to be better in the private sector since prices for similar services tend to be higher in the private sector and that, in some instances, inexperienced CS staff performed work, which may have led some businesses to the private sector. One state trade office said that the quality of CS's service depends on staff dynamics at the individual post. Another state trade office said that, while price is important, the delivery of consistent quality is more important to companies and that it relies on CS to provide quality service. According to CS, its customer surveys indicate that quality is a key factor in their choice of where to purchase services.⁵⁶ CS officials said that, in reviewing the surveys' open-ended questions, companies cited three drivers of client satisfaction: communication, quality, and consistency.⁵⁷ Price paid for the services, according to the officials, has not been of equal importance.

SIDO officials noted that another factor that may influence SMEs' participation in CS's programs is small firms' general level of awareness about the states' and federal government's export promotion efforts. SIDO officials expressed concern that domestic firms' awareness about U.S. export promotion programs is less than that of foreign firms about the programs in competing countries. However, according to the 2002 study,⁵⁸ small and medium-sized exporters are generally aware of government programs that can help them export, but there is still room for

⁵⁵The study mentioned ITA, but the specific services that were evaluated were those of the CS.

⁵⁶According to CS officials, after the closing of a Participation Agreement (service) or the completion of a trade event, CS sends its customers a comment card, called a Quality Assurance Survey (QAS), in order to track customer satisfaction with its services. The current survey has three questions, two closed-ended and one open-ended.

⁵⁷The three survey questions are: (1) on a scale of 1 to 10, please rate your level of overall satisfaction with the service; (2) on a scale of 1 to 10, how likely is it that you would recommend this service; and (3) comments and suggestions. CS does not have a survey question that specifically relates to the fees it charges.

⁵⁸Chemonics International in Cooperation with University of North Carolina at Chapel Hill, The Kenan Institute of Private Enterprise, Kenan-Flagler Business School, *Report Card on Trade II: Assessing the Effectiveness of U.S. Government Support to Small and Midsize Exporters* (Chapel Hill: June 12, 2002).

improvement. Exporters appear to be broadly familiar with Commerce.⁵⁹ However, SIDO advocates for more resources for CS and state outreach to small firms in order to raise the profile of their programs and increase participation.

Conclusions

CS and states' trade offices provide various types of export promotion programs. These programs share similar goals of increasing the number of exporting firms, especially SMEs, expanding existing markets, and opening up new markets to U.S. exports. Targeting federal government resources to programs that achieve the goals outlined in the National Export Strategy requires knowledge of whether existing programs contribute to these goals, whether customer experiences reveal suggestions for enhancing these programs, and knowledge of the extent to which current intergovernmental partnerships contribute to export promotion goals.

Commerce's \$235 million export promotion program currently collects about \$10 million annually through fees on some services. Commerce decided to collect these fees to cover at least a portion of the costs for providing some of its services. However, Commerce lacks good information on the true costs of providing these services, both fee-based and those offered for free. As a result, it is unclear whether the fees they established reflect their policy objectives or whether they optimize the efficient and effective management of these programs.

Similarly, Commerce lacks reliable information about the size, location, and type of its customers, and about how its fees (or lack thereof) affect their access to the program, or how they compare to state or private sector fees. Fees for particular services affect firms' access to and use of federal export promotion programs. Better information would help CS market its program better, adjust to changes in the marketplace, and address those areas that maximize the impact of its services on promoting U.S. exports. Not much is known about the extent to which user fees or other factors influence SMEs' decisions to rely on CS for export promotion services.

⁵⁹ According to the study, 15 percent of small exporters had not heard of or used Commerce's services, 30 percent had used Commerce's services, and 55 percent had heard of Commerce's services but had not used them. In contrast, 44 percent of small exporters had not heard of or used states' trade offices' services, 15 percent had used states' trade offices' services, and 41 percent had heard of states' trade offices services but had not used them.

Studies and other sources suggest that the types of services CS offers compared with other providers, the level of individualized attention provided, and service quality are factors that also affect SMEs' choice to use CS's services.

Better evaluation of fee-based programs and customers, including states, could improve program continuity, help managers target their resources more efficiently and effectively, assess costs and benefits, and help the Congress make more informed funding decisions. Commerce has taken some initial steps in developing systems that could improve this situation, but it is unclear whether they intend to fully develop this potential.

Recommendations for Executive Action

We recommend that the Secretary of Commerce direct the Assistant Secretary for Trade Promotion and Director General of the U.S. and Foreign Commercial Service to (1) take steps to improve the collection, processing, and documentation of cost information on its export promotion programs and user fees in order to enhance efficient and effective management in line with federal accounting and internal control standards. These steps could, for example, include

- documenting the procedures and processes of the costing methodology in sufficient detail so that staff who work with costing at a later point could understand the specific procedures used and the data sources and cost assignment methods for each step in the process;
- incorporating costs paid by other federal entities for CS's benefits, such as pensions and health insurance paid for by the Office of Personnel Management when determining the full cost of each service;
- updating estimates of the amount of time staff spent performing various activities to realize any efficiency gained and to provide more accurate estimates of full costs; and
- documenting the methods and assumptions for establishing the user fees CS charges different firms for each service to clearly show the linkage between costs and user fees, particularly with regard to the lower user fees for SMEs.

To better understand demand for CS export promotion programs and the level of participation attributable to its user fees, we also recommend that the Secretary of Commerce direct the Assistant Secretary for Trade Promotion and Director General of the U.S. and Foreign Commercial

Service to (2) ensure that the design of CS databases and procedures followed by those entering the data enable CS to produce more accurate, reliable, and complete data on its customers and services, including all fees charged, company size, and export status.

Agency Comments and Our Evaluation

Commerce concurred with our recommendations and stated that CS would take steps to improve the collection, processing, and documentation of cost information on its export promotion programs. Commerce stated that CS developed its new user fee policy from the most accurate data available from its existing database and that its accounting systems were not deficient based on receiving an unqualified audit opinion on its annual financial statements. Its technical comments mentioned CS's conversion to a new financial accounting system, Commerce Business System, which management expects will improve information about CS's costs of delivering services. We support CS's implementation of an improved financial accounting system. We remain concerned, however, that potentially outdated and inaccurate nonfinancial data that are used to determine the unit cost of specific services, such as the time staff spend performing various activities, may not be updated by the new system. Updating that information will help ensure that the full costs of specific services are considered when setting fees. In addition, although an entity's audited financial statements and unaudited cost accounting analyses may use the same underlying financial data, an auditor's opinion on the financial statements does not provide assurance concerning the reasonableness of cost analyses performed using that data.

Commerce also noted an increase in fees collected and services provided to SMEs in fiscal year 2008, which they believe indicates their products and services remain accessible to SMEs. However, we believe that missing and inaccurate data about company size mean that CS cannot reliably or accurately estimate the volume of services provided to SMEs or the fees collected from them. In addition, CS's response relies on aggregate analyses between fiscal year 2007 and fiscal year 2008 that did not take into account changes in the mix of services provided or longer term trends and, therefore, does not provide useful information about the impact of its 2008 fee schedule on SMEs.

Further, Commerce stated that its trade promotion services are greater in depth and scope than those provided by the states, and we discussed this in our report. We clarified this point in various places in our report, taking into account some related information that we received in technical comments from agency officials. Commerce's comments, along with our

responses to specific points, are reprinted in appendix IV. Commerce also provided technical comments, which were incorporated into the report, as appropriate.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to interested congressional committees and the Secretary of Commerce. The report also will be available at no charge on the GAO Web site at <http://www.gao.gov>.

Should you or your staff have any questions about this report, please either contact me at (202) 512-4347 or yagerl@gao.gov or Stanley J. Czerwinski at (202) 512-6806 or czerwinskis@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs can be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix V.

Sincerely yours,



Loren Yager
Director, International Affairs and Trade



Stanley J. Czerwinski
Director, Strategic Issues

Appendix I: Scope and Methodology

Our objectives were to evaluate (1) the relationship between the U.S. Commercial Service (CS) and states' trade offices' export promotion programs, (2) CS's methodology and practices for determining costs and establishing user fees, and (3) how CS's user fees affect small and medium-sized enterprises' (SME) use of its programs. Our scope of work focused on the Department of Commerce's (Commerce) U.S. Commercial Service's and the 50 states' trade offices' export promotion programs and associated user fees.

To determine what export promotion services states' trade offices provide and their relationship with CS's programs and user fees, we reviewed and analyzed both CS's and states' trade offices' export promotion programs and user fee data; data on domestic and overseas staff; export promotion budgets; states' export promotion grant programs, and services states trade offices purchased from CS. In addition, to obtain information on the states' trade offices' export promotion programs, fees, grants, and the importance of Commerce to their activities, we surveyed the 50 states' trade offices. We developed our survey instrument between January and late April 2008. To ensure that the survey respondents understood the questions in the same way, that we had used appropriate terms for this population, and that we had covered the most important issues, we conducted three expert reviews¹ and three formal pretests.² We received 45 responses from the 50 states' trade offices, or a 90 percent response rate. The survey and a more complete tabulation of the results are provided in a supplement to this report (see [GAO-09-148SP](#)). We also conducted site visits in 6 states (California, Connecticut, Idaho, Illinois, Mississippi, and Pennsylvania). We chose these states to ensure a range of characteristics based on the following criteria: the size of the state trade promotion budget, the existence of a grant or subsidy program that funds SMEs' participation in CS's export promotion programs, states' trade offices collocated with U.S. Export Assistance Centers, the number of overseas states' trade offices and representatives, size of the state's economy and population, and states that do not have trade offices. We also reviewed and analyzed information in the 2005-2007 National Export Strategy reports and the State International Development Organizations' (SIDO) annual survey results of states' trade offices. Based on interviews and our analysis, we determined that SIDO's data were sufficiently reliable

¹The expert reviewers were officials from the Commercial Service, the Pennsylvania's state trade office, and from SIDO.

²The pretest states were Iowa, Nevada, and Pennsylvania.

for our purposes. Information on all the states' export promotion budgets were difficult to obtain, and reliable and current data were only available from SIDO for 27 states; however, we used data for only 24 states in our analysis because 3 states did not disaggregate their export promotion budgets from their foreign investment recruitment budgets.

To determine CS's procedures for determining costs and establishing user fees, we interviewed key CS and International Trade Administration staff and reviewed and analyzed available documentation about CS's export promotion programs and user fees based on the 2005 and 2008 user fee changes; CS's methodology for full cost recovery; cost templates of CS's fee-based export promotion programs; data on CS's budget and staff; data on staff time spent on various activities to deliver services; legislation authorizing CS to charge a fee for services (annual appropriations and the Mutual Education and Cultural Exchange Act); OMB Circular A-25, *User Charges*; *Statement of Federal Financial Accounting Standards 4: Managerial Cost Accounting Standards and Concepts*; GAO's *Standards for Internal Control in the Federal Government*,³ and GAO's *Federal User Fees: A Design Guide*.⁴ We did not need to perform an assessment of the reliability of the export promotion programs' cost and user fees data because we did not use the data but noted weaknesses in the cost-finding methodology.

To determine what is known about how CS's export promotion programs' user fees affect SMEs' participation in its programs, we reviewed and analyzed past export promotion programs and user fees studies performed for Commerce by Booz Allen and Hamilton, Inc.,⁵ KPMG LLP,⁶ and Chemonics International.⁷ In addition, we reviewed and analyzed the

³See [GAO/AIMD-00-21.3.1](#).

⁴See GAO, *Federal User Fees: A Design Guide*, [GAO-08-386SP](#) (Washington, D.C.: May 29, 2008).

⁵Department of Commerce, International Trade Administration, *Product Pricing Study* (Washington, D.C.: May 1998) and *Impact of Product Price Increases on Clients and Revenues* (Washington, D.C.: March 1999).

⁶Department of Commerce, International Trade Administration, *User Fee Study* (Washington, D.C.: January 2003).

⁷Chemonics International in Cooperation with University of North Carolina at Chapel Hill, The Kenan Institute of Private Enterprise, Kenan-Flagler Business School, *Report Card on Trade II: Assessing the Effectiveness of U.S. Government Support to Small and Midsize Exporters* (Chapel Hill: June 12, 2002).

Office of Management and Budget's 2003 and 2008 Program Assessment Rating Tool for the CS. We also reviewed and analyzed CS's fee-based export promotion services purchased by its customers and the associated collections from these purchases from 2004 to 2008. While we cited data elements on clients and collections for 2008, having determined that these elements were sufficiently reliable for our purposes, we noted that other data elements, particularly company size and export status, are not fully reliable for the reasons that we have elaborated upon in the report's third objective. We also reviewed ad hoc feedback CS received on its user fees from CS's field staff, client firms, District Export Councils, states' trade offices, and trade and industry associations. Further, we analyzed our survey results regarding states' trade offices' views on the impact of the 2005 and 2008 user fees changes on their purchase of CS's services. We obtained the states' trade offices' views for several reasons: (1) they are experts in offering export promotion programs and services; (2) they work with SMEs that export and, in many cases, they work with the same SMEs as CS; (3) they are purchasers and multipliers of CS's fee services, as well as purchasers of private sector fee services and are able to compare and contrast these service providers; and (4) our research at the beginning of our review indicated that it would be feasible to survey the states within our time frame and achieve an acceptable response rate.

Further, we interviewed Commerce officials in Washington, D.C., and at the six U.S. Export Assistance Centers we visited, as well as officials of the six states' trade offices, District Export Councils, the Office of Management and Budget, the State International Development Organizations, and American chambers of commerce.

To determine the purposes for which we could and could not use Commerce data on customers served and the dollars collected, we interviewed agency officials, attended a demonstration of CS's data systems, and performed checks and analyses of the data themselves. We determined that the data were sufficiently reliable in the aggregate to report on fee services provided, in a broad sense, and dollars collected. We also determined that the data were sufficiently reliable to report on selected fee services by the state of the company purchasing the service, though with the caveat that we could not examine the data by company size. However, we noted several limitations in the data, which we discussed in the body of this report. In particular, the data do not provide accurate counts by company size and export status. Moreover, the data only provide an incomplete picture of the fee services purchased by states' trade offices. We based our review on various internal control standards, such as the GAO's *Standards for Internal Control in the Federal*

Government; the Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control; Internal Control – Integrated Framework*, by the Committee of Sponsoring Organizations of the Treadway Commission,⁸ as well as GAO's guidance on *Assessing the Reliability of Computer-Processed Data*.⁹

We conducted this performance audit from October 2007 to March 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides this reasonable basis.

⁸*Internal Control–Integrated Framework*, by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), September 1992.

⁹GAO, *Assessing the Reliability of Computer-Processed Data*, [GAO-02-15G](#) (Washington, D.C.: September 2002).

Appendix II: Overview of CS's and States' Domestic and International Offices

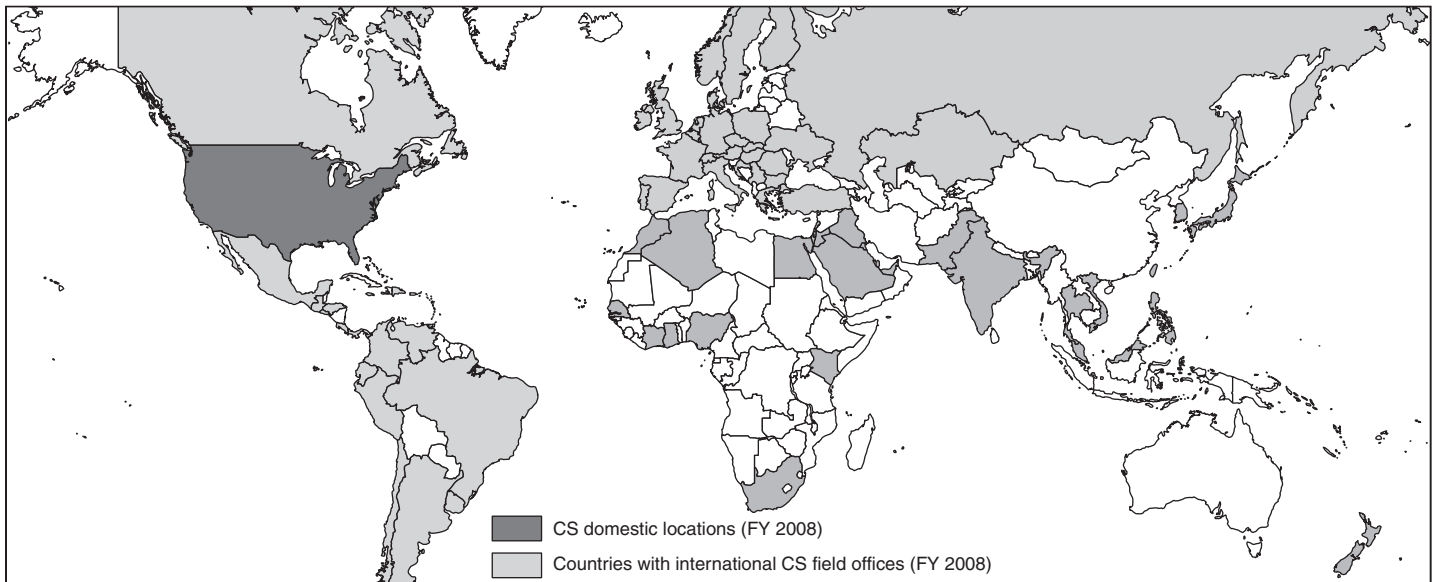
CS and states' trade offices both maintain offices in domestic and international locations to help firms identify export opportunities. CS's trade specialists are currently working in 108 cities in 47 states and Puerto Rico. CS does not currently have an office in Alaska, Delaware, and Wyoming, and CS provides services to customers in these states from U.S. Export Assistance Centers (USEAC) in neighboring states. For example, the USEAC in Seattle provides services to customers in Alaska. In addition, USEACs are colocated with 11 states' trade offices.¹ CS's trade specialists also work in 75 countries or 124 offices worldwide. In some countries, such as Brazil, China, and India, CS has offices in 5 or more cities. In addition, most states' trade offices have 1 or more overseas offices. For example, in 2008, there were 34 countries in which at least one state trade office maintained an office or representative.² In some countries, such as China, multiple states maintain offices, and individual states maintain offices in more than one city. CS also operates offices in each of these 34 countries. However, CS operates in 41 countries where states do not have representation, and some states' trade offices explained they rely heavily on CS services in these countries. The following map (see fig. 10) shows CS's domestic and international locations.

¹The following states' trade offices are colocated with USEACs: Idaho, Mississippi, New Hampshire, New Jersey, New Mexico, New York, Oklahoma, Rhode Island, Tennessee, Texas, and Vermont.

²According to the State International Development Organizations (SIDO), in 2008 states' trade offices had overseas offices or representatives located in the following 34 countries: Argentina, Australia, Belgium, Brazil, Canada, Chile, China, Colombia, Czech Republic, Finland, France, Germany, Hong Kong, India, Israel, Italy, Japan, Jordan, Korea, Mexico, Netherlands, Poland, Qatar, Russia, Saudi Arabia, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, Thailand, United Kingdom, and Vietnam.

**Appendix II: Overview of CS's and States'
Domestic and International Offices**

Figure 10: CS Domestic and International Locations



CS Domestic locations		Western Hemisphere	Europe	Africa/Near East/South Asia	East Asia/Pacific
Alabama	Nebraska	1 Argentina	1 Austria	1 Algeria	2 Australia
Arizona	Nevada	5 Brazil	1 Belgium	2 Egypt	5 China
Arkansas	New Hampshire	5 Canada	1 European Union (Brussels)	1 Ghana	1 Hong Kong
California	New Jersey	1 Chile	1 Bulgaria	7 India	1 Indonesia
Colorado	New Mexico	1 Colombia	1 Croatia	1 Iraq	4 Japan
Connecticut	New York	1 Costa Rica	1 Czech Republic	2 Israel	1 Korea
Florida	North Carolina	1 Dominican Republic	1 Denmark	1 Jordan	1 Malaysia
Georgia	North Dakota	1 Ecuador	1 Finland	1 Kenya	1 New Zealand
Hawaii	Ohio	1 El Salvador	1 France	1 Kuwait	1 Philippines
Idaho	Oklahoma	1 Guatemala	4 Germany	1 Lebanon	1 Singapore
Illinois	Oregon	1 Honduras	1 Greece	1 Morocco	2 Taiwan
Indiana	Pennsylvania	4 Mexico	1 Hungary	1 Nigeria	1 Thailand
Iowa	Rhode Island	1 Panama	1 Ireland	3 Pakistan	2 Vietnam
Kansas	South Carolina	1 Peru	4 Italy	1 Qatar	
Kentucky	South Dakota	1 Uruguay	1 Kazakhstan	3 Saudi Arabia	
Louisiana	Tennessee	1 Venezuela	1 Netherlands	1 Senegal	
Maine	Texas		1 Norway	2 South Africa	
Maryland	Utah		1 Poland	2 United Arab Emirates	
Massachusetts	Vermont		1 Portugal		
Michigan	Virginia		1 Romania		
Minnesota	Washington		3 Russia		
Mississippi	Wisconsin		1 Serbia		
Missouri	West Virginia		1 Slovak Republic		
Montana	Puerto Rico		1 Spain		
			1 Sweden		
			2 Switzerland		
			3 Turkey		
			1 Ukraine		
			1 United Kingdom		

Sources: GAO analysis of Commerce data; Map Resources (map).

The number of CS's staff varies across countries, and states' overseas offices vary in size and composition. The number of CS's trade specialists

working in its overseas offices varies widely across the countries in which it operates. For example, CS has 104 staff in China, 30 staff in Germany, and 12 staff in Australia. In addition, some states maintain large overseas offices in certain countries, which tend to be staffed with full-time employees. Other states' overseas offices are staffed by part-time private consultants working on contract or volunteer representatives. For example, states often maintain full-time offices in primary overseas markets, such as Mexico and Japan, while states tend to employ part-time consultants in smaller markets.

Recently, CS and many states' trade offices have reduced or consolidated their overseas offices but have maintained or opened offices in key markets. CS has recently undertaken the Transformational Commercial Diplomacy (TCD) initiative, which seeks to shift CS resources from more accessible overseas markets to less accessible markets to better align the needs of U.S. exporters with CS resources. Under the TCD initiative, CS has closed a number of small offices in well-developed markets or in small markets with limited commercial opportunities to open offices in new emerging markets with greater commercial potential, such as China and India. For example, under TCD, CS has closed 22 offices and opened 4 offices in Qatar, Tunisia, Libya, and Afghanistan.³ In addition, CS plans to open additional offices in Baku, Azerbaijan; Wuhan, China; Porto Alegre, Brazil; and Recife, Brazil; and add staff at offices in China and India.⁴ Similarly, many states' trade offices have reduced or consolidated their overseas offices but have maintained and opened offices in key overseas markets. For example, some states' trade offices have consolidated their overseas offices in multiple countries of a particular region, such as Europe or Asia, to cover the entire region from a single office. However, many states continue to maintain and expand overseas offices in key markets, including China and Japan. For example, in recent years many states have opened offices in multiple cities in China.

³Under CS's Transformational Commercial Diplomacy initiative, CS has closed offices in Bridgetown, Barbados; Halifax, Canada; Abidjan, Cote d'Ivoire; Lyon, France; Marseille, France; Strasbourg, France; Toulouse, France; Hamburg, Germany; Leipzig, Germany; Naples, Italy; Kingston, Jamaica; Fukuoka, Japan; Luxembourg City, Luxembourg; Rabat, Morocco; Amsterdam, Netherlands; Auckland, New Zealand; Oporto, Portugal; Yekaterinburg, Russia; Barcelona, Spain; Zurich, Switzerland; Port of Spain, Trinidad and Tobago; and Belfast, United Kingdom. CS has recently opened offices in Kabul, Afghanistan; Tunis, Tunisia; Tripoli, Libya; and Doha, Qatar.

⁴CS plans to add staff at offices in Beijing, China; Guangzhou, China; Calcutta, India; Chennai, India; Mumbai, India; and New Delhi, India.

Appendix III: Selected CS Fee Services Purchased by Firms in Each State in 2007 and 2008

This table presents selected fee services purchased by CS's customers in each state for 2 years. The data are for 2007 and 2008 and include 5,890 standardized fee services purchased, out of a total of more than 30,000, or about 20 percent for all fee services in those years. However, they include four of the five standardized fee services that CS offers (Gold Key, International Company Profile, International Partner Search, and Featured U.S. Exporter). Table 6 shows selected CS services that firms purchased from CS by home state in fiscal years 2007 and 2008, sorted by the number of services purchased per state.

Table 6: Numbers of Selected CS Fee Services Purchased by Firms in Each State

State	Selected CS fee services
California	720
Texas	577
New York	506
Virginia	467
Florida	351
Illinois	277
Minnesota	237
Connecticut	230
Pennsylvania	200
Ohio	176
Massachusetts	146
New Jersey	129
Maryland	122
Michigan	104
Arizona	99
Georgia	85
Wisconsin	84
North Carolina	81
Rhode Island	78
Tennessee	77
Indiana	72
Washington	72
South Carolina	71
Oregon	69
Utah	67
Kansas	65

**Appendix III: Selected CS Fee Services
Purchased by Firms in Each State in 2007 and
2008**

State	Selected CS fee services
Alabama	55
New Hampshire	52
Louisiana	51
Colorado	43
Kentucky	41
Montana	40
Missouri	40
Iowa	34
Nebraska	33
Nevada	26
Oklahoma	21
West Virginia	20
South Dakota	19
Idaho	19
North Dakota	16
Delaware	16
Maine	12
New Mexico	8
Mississippi	8
Hawaii	7
Arkansas	4
Alaska	1
Wyoming	1
Vermont	1

Source: GAO analysis of CS's 2007 and 2008 data.

Notes:

The Gold Key, International Company Profile, International Partner Search, and FUSE Services were selected in consultation with CS. A key limitation in this analysis was that CS had to manually review participation agreements to identify companies' home states. These services were selected based on the CS's capacity to perform that review, and what we knew about the completeness of the data on CS's services.

CS identified the companies' home states from information provided in participation agreements it had signed with them. CS could not authoritatively identify the companies' home states from these agreements because companies sometimes used their headquarters contact information and sometimes used their branch contact information. CS was able to identify more than 90 percent of the companies' home states.

In some instances, the companies may have used CS facilities outside of their state; for example, according to CS, companies in the District of Columbia used USEACs in Northern Virginia and Baltimore.

Appendix IV: Comments from the Department of Commerce

FEB 18 2009



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

Dr. Loren Yager
Director, International Affairs and Trade
U.S. Government Accountability Office
Washington, DC 20548

Dear Dr. Yager:

Thank you for providing us with the draft report assessing U.S. and Foreign Commercial Service (CS) operations with respect to user fees and state export promotion programs and services. We concur with the recommendations, and that CS should take steps to improve the collection, processing and documentation of cost information on its export promotion programs.

It is important to note, however, that CS developed its new user fee policy from the most accurate data available from its existing databases. The accounting systems of record then, and now, were not deficient in meeting federal accounting and internal control standards as evidenced by ITA consistently receiving an unqualified audit opinion on its annual financial statement audits. Moreover, this new user fee policy has resulted in increased recovery of user fees, while ensuring that our products and services remain accessible for U.S. small- and medium-size enterprises (SMEs). In fact, in FY 2008 under its new user fee schedule, CS provided the highest number of services to SMEs and collected the most revenues of any prior fiscal year. We believe this speaks to the effectiveness of our trade promotion services, our ability to work closely with state economic development agencies, and our ability to manage our programs in an efficient and economical manner.

In regards to your analysis of CS's trade promotion services versus those conducted by various state agencies, we believe that it is important to highlight the fact that no state provides or is capable of providing services that compare with the depth and extent of CS export promotion services.

Enclosed for your consideration are our specific technical comments relating to the text of the report. Thank you again for the opportunity to comment on the draft report.

Sincerely,

A handwritten signature in black ink that reads "Michelle O'Neill".

Michelle O'Neill, Acting

Enclosure



See comment 1.

See comment 2.

See comment 3.

The following are GAO's comments on the Department of Commerce's letter dated February 18, 2009.

GAO Comments

1. Also, Commerce's technical comments mentioned CS's conversion to a new financial accounting system, Commerce Business System, which management expects will improve information about CS's costs of delivering services. We support CS's implementation of an improved financial accounting system. We remain concerned, however, that potentially outdated and inaccurate nonfinancial data that are used to determine the unit cost of specific services, such as the time staff spend performing various activities, may not be updated by the new system. Updating that information will help ensure that the full costs of specific services are considered when setting fees.¹
2. We believe that missing and inaccurate data about company size mean that CS cannot reliably or accurately estimate the volume of services provided to SMEs or the fees collected from them. In addition, CS's response relies on aggregate analyses between fiscal year 2007 and fiscal year 2008 that did not take into account changes in the mix of services provided or longer term trends and, therefore, does not provide useful information about the impact of its 2008 fee schedule on SMEs.
3. Commerce commented that CS's trade promotion services are greater in depth and scope than those provided by the states, and we discussed this in our report. We clarified this point in various places in our report, taking into account some related information that we received in technical comments from agency officials.

¹Also, auditor opinions on an entity's financial statements focus on whether those principal financial statements present fairly, in all material respects, the financial position of the entity and its net costs, changes in net position, and budgetary resources in conformity with U.S. generally accepted accounting principles. Those audits are conducted for the purpose of forming an opinion on the financial statements taken as a whole. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, while an entity's audited financial statements and unaudited cost accounting analyses may use the same underlying financial data, an auditor's opinion on financial statements does not provide assurance concerning the reasonableness of cost analyses performed using that data.

Appendix V: GAO Contacts and Staff Acknowledgments

GAO Contacts

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Staff Acknowledgments

In addition to the individuals named above, Adam Cowles, Assistant Director; Michelle Sager, Assistant Director; Martin De Alteriis, Assistant Director; Jack Warner, Assistant Director; Yesook Merrill, Assistant Director; Karen Deans; Bradley Hunt; Grace Lui; and Barbara Shields made key contributions to this report. In addition, the following staff provided technical assistance: Jacqueline Nowicki, Assistant Director; Etana Finkler; Sheila Rajaibiu; and Jena Sinkfield.

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