United States Government Accountability Office

GAO

Report to Congressional Committees

August 2010

EXPORT PROMOTION

Increases in Commercial Service Workforce Should Be Better Planned

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GAO-10-874

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Highlights

Highlights of GAO-10-874, a report to congressional committees

Why GAO Did This Study

Since the recent recession, policymakers have emphasized the role exports can play in strengthening the U.S. economy and in creating higher paying jobs. In March 2010 the President signed an Executive Order creating the National Export Initiative (NEI), with a goal of doubling U.S. exports in 5 years. However, since 2004 the workforce of the U.S. and Foreign Commercial Service (CS) has shrunk, calling into question the ability of this key agency to increase its activities to assist U.S. businesses with their exports.

In response to a conference committee mandate, GAO reviewed (1) how well CS managed its resources from 2004 to 2009, and (2) the completeness of CS's workforce plans and the quality of its fiscal year 2011 budget request. GAO analyzed data from the Departments of Agriculture, Commerce, and State; reviewed agency documents; and interviewed agency officials.

What GAO Recommends

GAO recommends to the Secretary of Commerce that CS (1) strengthen management controls, (2) improve workforce planning, and (3) improve cost estimating related to CS's budget estimate. Commerce agreed with our findings and recommendations.

View GAO-10-874 or key components.
For more information, contact Loren Yager at (202) 512-4347 or yagerl@gao.gov.

What GAO Found

CS had management control weaknesses over its resources from 2004 to 2009. During this period, CS's budgets remained essentially flat as per capita personnel costs and administrative costs increased. However, CS leadership did not recognize the long-term implications of these changes because it lacked key financial and workforce information and risk analysis necessary for good management control. CS continued to pay fees associated with positions it maintained in U.S. embassies that were vacant but not officially eliminated. As CS's financial constraints grew, officials delayed their impact by using a variety of financial management practices. For example, the International Trade Administration (ITA), CS's parent agency, attributed some of CS's centralized costs to other units. However, as the availability of offsetting funds declined and costs continued growing, CS leadership failed to recognize the risks from these changes in accordance with good management controls, and reached a "crisis" situation in 2009. Officials froze hiring, travel, training, and supplies, compromising CS's ability to conduct its core business. CS's workforce declined by about 14 percent from its peak level in 2004 through attrition—affecting the mix and distribution of personnel.

CS intends to rebuild its workforce but lacks key planning elements for doing so, and its budget request has weaknesses that could affect its ability to meet its goals. CS will have a central role in implementing the NEI. The President's 2011 budget requested $321 million for CS, $63 million more than its 2010 appropriation. The budget would fund a major staff increase. CS is allocating $5.2 million of its 2010 appropriation to begin recruiting new staff. However, as new executive-level leadership was arriving, GAO found that CS lacked key planning elements, including a clear sense of strategic direction and an analysis to determine its workforce needs. Also, it had not updated its workforce plans to address staffing gaps since fiscal year 2007. Adding more staff could be delayed because CS's human resources office is itself understaffed and because CS requires up to 2 years to hire and train new Foreign Service Officers. GAO also found that the 2011 budget request, though sound in many respects, has weaknesses; it lacks some documentation, and it lacks risk analysis and contingency plans for highly variable program costs, which could lead to cost overruns.

CS Staff Lost from 2004 to 2009, and Planned Staff Increases in 2011

Type of staff	Number of staff in 2004	Staff lost from 2004 to 2009	Increase in staff based on 2011 request	Net change
Foreign Service Officers	246	13	59	46
Locally employed staff	944	128	138	10
Civil Service	541	98	71	-27
Total	**1,731**	**239**	**268**	**29**

Source: GAO analysis of Commerce data.

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Abbreviations

CS	U.S. and Foreign Commercial Service
CSCSP	Capital Security Cost Sharing Program
FAS	Foreign Agricultural Service
FSO	Foreign Service Officer
FTE	full-time equivalent
ICASS	International Cooperative Administrative Support Services
ITA	International Trade Administration
LES	locally employed staff
NEI	National Export Initiative
OMB	Office of Management and Budget
ORAM and DRAM	Overseas and Domestic Resource Allocation Models
USDA	U.S. Department of Agriculture
USEAC	U.S. Export Assistance Center

GAO
Accountability * Integrity * Reliability

United States Government Accountability Office
Washington, DC 20548

August 31, 2010

The Honorable Barbara A. Mikulski
Chairwoman
The Honorable Richard C. Shelby
Ranking Member
Subcommittee on Commerce, Justice, Science,
and Related Agencies
Committee on Appropriations
United States Senate

The Honorable Alan B. Mollohan
Chairman
The Honorable Frank R. Wolf
Ranking Member
Subcommittee on Commerce, Justice, Science, and Related Agencies
Committee on Appropriations
House of Representatives

With the recent recession and high unemployment rate, U.S. policymakers are looking for ways to improve the economy and create jobs. One avenue they are exploring is expanding exports. U.S. exports of goods and services[1] have grown steadily in recent years. In 2009, U.S. exports of goods and services reached about $1.5 trillion, approximately a $0.5 trillion or 55 percent increase since the beginning of the decade. Policymakers believe that investing more in promoting U.S. exports can strengthen the economy and generate higher paying jobs. On March 11, 2010, President Obama signed an Executive Order creating the National Export Initiative (NEI), with a presidential cabinet to oversee trade promotion and a goal of doubling exports in the next 5 years.[2] The Secretary of Commerce committed to supporting this goal by employing the U.S. and Foreign Commercial Service (CS) in assisting more U.S. companies to export, with a 2-year goal of helping more companies that already export to one country to start exporting to new markets. However, since 2004 the workforce of CS, a key agency in promoting the export of U.S. manufactured goods and services, has declined, calling into question

[1]Including agricultural goods.

[2]Exec. Order No. 13,534, 75 Fed. Reg. 12,433 (Mar. 11, 2010).

its ability to increase its activities and represent U.S. business interests internationally.

In response to a conference committee mandate,[3] we reviewed (1) how well CS has managed its resources over the past 5 years, and (2) the completeness of CS's workforce plans and the soundness of its fiscal year 2011 budget request. In addition, we are providing information on how CS export promotion funding compares with funding for the Department of Agriculture (USDA) and Department of State (State) for analogous activities from 2004 to 2009.[4]

We used GAO's standards for internal control[5] to assess how well CS managed its resources from 2004 to 2009. We analyzed data provided by CS on staffing losses and gains domestically and overseas by post, identifying the number of civil servants, political hires, Foreign Service Officers (FSO), and locally employed staff (LES). We also analyzed CS's appropriations and full-time equivalent (FTE) staffing levels from 2004 through 2009 and supporting information, and interviewed CS officials. To determine how complete CS's plans for rebuilding its workforce are, we reviewed CS's 2010 and 2011 budget requests and available workforce planning and human capital resource information, interviewed CS officials about their practices and how decisions were made, and evaluated their efforts using GAO's five key principles of effective strategic workforce planning.[6] (Further information on our scope and methodology is provided in app. I.) To evaluate the soundness of CS's 2011 budget request, we assessed the request using the 12 elements GAO has identified as best practices for an effective cost estimate in our *GAO Cost Estimating and Assessment Guide*.[7] Appendix III explains the 12 principles and associated characteristics in detail. We also interviewed the agency officials

[3]This report is in response to House Report 111-366, which was the conference report for the Consolidated Appropriations Act, 2010. Pub. L. No. 111-117, 123 Stat. 3034 (2009).

[4]All years in this report are fiscal years unless otherwise indicated.

[5]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999). The terms internal control and management controls are used synonymously in this report. See OMB Circular No. A-123 *Management Accountability and Control*, June 1995.

[6]GAO, *A Model of Strategic Human Capital Management*, GAO-02-373SP (Washington, D.C.: March 2002).

[7]GAO, *GAO Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs*, GAO-09-3SP (Washington, D.C.: March 2009).

responsible for developing the request and reviewed related information. We conducted this performance audit from September 2009 to August 2010, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

CS Plays a Major Role in Export Promotion

CS plays a major role in U.S. export promotion activities as the primary agency providing export assistance to individual businesses, especially small- and medium-sized businesses. It is a unit of the Department of Commerce's (Commerce) International Trade Administration (ITA), and its services include the following:

- *Counseling and intelligence.* CS assists U.S. businesses in understanding foreign markets and developing export marketing plans including overseas product pricing, best prospects, market entry strategies, and distribution channels, and facilitates access to export financing and public and private export promotion assistance.
- *Matchmaking.* CS organizes and participates in trade events and forums, and introduces U.S. businesses to qualified overseas agents, distributors, end users, and other partners.
- *Advocacy services.* CS alerts U.S. firms to major overseas projects and procurement, and advocates on behalf of U.S. firms bidding on projects.

CS has about 300 staff members in U.S. Export Assistance Centers (USEAC) located throughout the United States who work with firms that are new to exporting or want to expand their exporting efforts. USEACs provide counseling and planning services, such as working with firms to select target markets and develop marketing plans. They also coordinate with CS posts overseas, which provide matchmaking, advocacy, and market intelligence services in the target markets. About 1,000 CS international field staff—made up of FSOs and LES—are located at posts around the world to provide these services. LES are generally natives of the countries in which they are located, making them well-suited to help

U.S. companies make local connections.[8] USEAC staff and overseas post staff are supported by about 180 staff at headquarters in Washington, D.C.

For the purposes of this report we reviewed CS activities related to providing information, counseling, and assistance for exports of services and manufactured goods, which is CS's main focus. USDA and State also conduct export promotion activities.[9] USDA's Foreign Agricultural Service focuses on promoting commodities produced by U.S. farmers and ranchers. State supports CS's efforts in countries where CS does not have a presence (see app. II).[10] However, U.S. export promotion activities are multifaceted and also include reducing trade barriers, government-to-government advocacy, financing and other monetary assistance, and other activities.

Export Promotion Is a Priority of the Current Administration

U.S. plans to increase exports are generally articulated in the Trade Promotion Coordinating Committee's National Export Strategy, which is issued annually. Established in 1993, the Trade Promotion Coordinating Committee is an interagency group established to provide a framework to coordinate the export promotion and export financing activities of the U.S. government.[11] As of 2010, 20 U.S. agencies have a role in export promotion.[12] However, we have reported for a number of years that the annual National Export Strategies have limitations that affect the Coordinating Committee's ability to coordinate trade promotion activities. For example, National Export Strategies provide limited information on

[8] LES can also be U.S. citizens who live in the host country.

[9] See app. II for activities provided by USDA and State. While USDA has a large budget for export promotion activities, most of it is directed at promoting raw commodities rather than services and manufactured goods.

[10] The Departments of Commerce and State signed a Memorandum of Understanding in January 2009 formalizing State's role of promoting exports at U.S. embassies where CS does not have a presence. State provides designated export promotion services at 45 posts around the world.

[11] Exec. Order No. 12,870, 58 Fed. Reg. 51,753 (Sept. 30, 1993); 15 U.S.C. § 4727.

[12] The Trade Promotion Coordinating Committee has 20 member agencies. However, it generally reports in the National Export Strategy on the budgets and activities of around 10. The 2008 strategy included budget authority information for 9 agencies: the Departments of Agriculture, Commerce, State, and the Treasury; Export-Import Bank of the United States; Office of the U.S. Trade Representative; Overseas Private Investment Corporation; Small Business Administration; and U.S. Trade and Development Agency.

member agencies' goals and progress, relative to broad national priorities, to guide future efforts.[13]

Another effort is under way that could facilitate better interagency coordination. On January 27, 2010, President Obama announced the NEI in an effort to support U.S. economic recovery following the recession. A newly created Export Promotion Cabinet that reports to the President will coordinate and implement the goals of the NEI, and is expected to deliver a report to the President with a plan to implement the goals of the NEI in September 2010. While many aspects of the NEI are still in the planning stages, the NEI will have three main components:

- Educating U.S. companies about export opportunities; directly connecting them with new customers, partners, and distributors overseas; and advocating for their interests.
- Providing access to credit through the Export-Import Bank of the United States with a special focus on small- and medium-sized businesses.
- Removing trade barriers.

The first component of the NEI, educating U.S. companies about export opportunities, will be carried out in large part by the Department of Commerce through CS.[14]

CS's Budget Is Driven by Personnel and Administrative Costs

The majority of CS's costs are related to the personnel that staff CS's headquarters and its domestic and overseas export assistance posts. According to CS, 60 percent of its budget in 2009 was associated with personnel costs, including salaries, benefits, and FSO support costs for officers posted overseas. FSO support costs include relocation, travel, training, home leave allowances, and shipping and storage of household goods. Administrative payments to State associated with having personnel stationed overseas, including International Cooperative Administrative Support Services (ICASS) and Capital Security Cost Sharing Program

[13]GAO, *Export Promotion: Trade Promotion Coordinating Committee's Role Remains Limited*, GAO-06-660T (Washington, D.C.: Apr. 26, 2006).

[14]Other agencies that will play a role in the NEI include the Departments of Agriculture and State, Export-Import Bank of the United States, Office of the U.S. Trade Representative, and Small Business Administration.

(CSCSP) charges,[15] as well as payments to ITA, CS's parent agency, for shared overhead totaled 29 percent.[16] The remaining 11 percent included CS-specific overhead costs including rent, communications, utilities, program-related travel, supplies, printing, and equipment costs as well as costs for developing and enhancing software for CS worldwide.

CS charges fees for export promotion services that benefit individual companies, such as connecting them with potential buyers and distributors. CS uses the fees it collects to cover the costs of the related program expenses. CS reported that it collected approximately $10 million in fees in 2008.

CS's Management of Increasing Costs and Declining Staff Levels from 2004 to 2009 Had Weaknesses

CS leadership lacked systematic information about CS's workforce, and did not fully recognize or adequately respond to program risks created by growing administrative costs and declining staff levels from 2004 to 2009. Management control standards require entities to ensure that program managers have systems to provide needed operational and financial information in a timely manner to carry out their management and oversight responsibilities.[17] In the case of CS, the most important management responsibilities were related to workforce decisions, since workforce expenses are the largest portion of CS's budget. Additionally, these standards require management to identify and analyze the relevant risks an agency faces from internal and external sources so it can proactively manage them. From 2004 to 2009, CS's budgets remained essentially flat as per capita personnel costs and administrative costs increased.[18] Although CS leadership was aware of this trend, they did not have processes in place to analyze and respond to the long-term financial implications of these costs on CS's workforce. Additionally, CS was not

[15]State charges both ICASS and CSCSP costs to U.S. agencies that are in embassies and other diplomatic and consular missions overseas. CSCSP funds the construction of new embassy compounds. ICASS charges are for services like building maintenance, vehicle operations, and travel. Payments are made by all agencies in proportion to their overseas presence.

[16]CS budget breakdown data presented in this section are based on CS's accounting system records. ICASS charges were calculated based on charges for CS only, even though other parts of Commerce also pay their ICASS through CS.

[17]GAO/AIMD-00-21.3.1.

[18]Administrative costs include centralized costs charged by Commerce as well as ICASS and CSCSP.

fully aware of the costs associated with positions it maintained in U.S. embassies that were vacant but not officially eliminated and did not take steps that would have saved money on them. As CS's financial constraints grew, officials delayed their impact through a variety of financial management practices such as using unobligated funds from prior years' appropriations. However, as the availability of these offsetting funds declined and costs continued growing, CS leadership failed to recognize the risks entailed by the financial problems, and the organization reached a "crisis" situation in 2009. Officials froze hiring, travel, training, and supplies, compromising CS's ability to conduct its core business. CS's workforce declined by about 240 staff from its peak level in 2004 through attrition—affecting the mix and distribution of personnel.

CS's Budgets Were Flat as Costs Increased

From 2004 to 2009, CS's budgets remained essentially flat, while at the same time the agency faced increasing per capita personnel costs. CS appropriations grew about 1.9 percent on average per year during that time frame. This represented a total increase of about 10 percent from 2004 to 2009, as shown in table 1.

Table 1: CS's Appropriations and Obligations, Fiscal Years 2004-2009

Dollars in millions

	2004	2005	2006	2007	2008	2009
CS appropriations	$217	$222	$232	$232	$237	$238
CS prior year funding obligated	12	12	12	11	7	5
CS funds obligated	$225	$227	$236	$235	$242	$243

Source: Presidents' budgets, appropriations bills, and internal CS budget documents.

Note: In internal CS budget documents, funds obligated are equal to the sum of appropriations and prior year funding obligated. However, with the exception of 2009, CS appropriations in appropriations legislation, which are listed here, differ from the amounts listed in CS internal budget documents.

Although CS's budget was adjusted for inflation and other increases such as pay raises and changes in benefit contribution rates, its annual increases did not cover its full costs, according to CS officials. For example, administrative costs grew from 20 percent ($44 million) of its obligations in 2004 to 30 percent ($72 million) in 2009.[19] CS officials

[19]These dollar amounts include ICASS, CSCSP, payments to ITA for shared overhead, and earmarks. ICASS amounts include charges for other parts of Commerce; all Commerce ICASS charges are paid through CS.

calculated the total cumulative funding gap for 2004 to 2009—the difference between its annual appropriations and full costs—to be $24 million.

Since 2004, CS faced increased administrative payments to State that consumed larger shares of its funds. One factor increasing costs was State's CSCSP, which began in 2005 to support the building of new secure embassies and consulates. The fee was phased in over a 5-year period, with the full annual charge levied for the first time in 2009. In 2005, the fee for CS was about $3.1 million, and in 2009 it was $23.7 million. Other factors included increasing costs for personnel, benefits, and rent, which include adjustments for inflation.

CS made up the difference by not filling positions. CS budget requests were based partly on an estimated number of FTEs. CS overestimated the number of FTEs it would support with its budget every year, as shown in table 2. The actual numbers averaged 142 FTEs, or 11 percent, less than their estimates. CS used the funds it was provided based on these overestimated FTE levels to pay expenses such as administrative costs. The fact that this happened over so many years indicates that CS did not fully recognize how its workforce was being affected by increasing administrative costs.

Table 2: CS's Estimated and Actual FTE Levels, Fiscal Years 2004-2009

	2004	2005	2006	2007	2008	2009
FTEs in budget justification (estimated/requested)	1,286	1,386	1,386	1,254	1,254	1,137
FTEs actual	1,254	1,238	1,149	1,106	1,061	1,041
Difference between requested and actual FTEs	32	148	237	148	193	96

Source: Congressional budget justifications.

Note: FTE numbers in this table include some, but not all, LES.

CS Lacked Financial and Workforce Information Necessary to Manage Its Programs

CS leadership had information about growing costs as early as 2006, but they did not recognize the severity of the situation. CS had data about the growth in unfunded adjustments to base, which are essentially the difference between what CS needed in terms of funding to cover increased costs and the appropriation it received. However, CS leaders said they were not fully aware of the long-term financial and workforce implications of increasing costs until 2009 when CS switched to a new financial management system, which according to CS officials illuminated how little discretionary funding was available. In 2009, they undertook an exercise to analyze and more fully understand the costs that affected the CS budget. Additionally, CS lacks an automated workforce information system to provide up-to-date staffing information, which also has financial implications. For example, without this information CS could not easily review ICASS and CSCSP charges in order to confirm whether State's charges for these activities were correct. Currently, CS officials compile information from quarterly reports supplied by the posts to determine staffing totals. The lack of risk assessment and the lack of workforce information are both management control weaknesses.

CS Did Not Eliminate Vacant Positions or Restructure Its Operations

CS has incurred costs for administrative payments related to overseas staff that officials consider to be "fixed costs," but which can be reduced by eliminating vacant positions, downsizing, or eliminating offices. For example, CS incurs CSCSP charges for positions officially established at overseas posts, regardless of whether there is a person in the position. CS has access to information on the number of positions at its overseas posts through State's Executive Agency Personnel Support system, which tracks the number of positions at posts. The information is used to determine the number of positions CS is paying for including the number of vacant positions at posts. However, Commerce officials indicated they find the system difficult to use, and they do not use the information to manage their overseas workforce. The only way to eliminate a CSCSP charge is to officially eliminate the position.[20] In 2010, there were about 200 unfilled positions at posts incurring CSCSP charges that CS did not eliminate. Charges for vacant positions cost CS approximately $2 million annually, according to a CS budget official. The last time CS eliminated a significant number of vacant positions was in 2004. According to a senior CS official, CS recognized that State's CSCSP charge would put a cost on every overseas position whether or not it was filled, so in 2004 before the new charge was implemented, the Office of International Operations reviewed its global presence and eliminated all non-essential positions. CS may also have incurred ICASS charges for vacant positions. To avoid ICASS charges for vacant positions, CS must inform State that the position will not be filled in the upcoming fiscal year.

[20]Agencies are required to formally seek permission from the Chief of Mission to place a person overseas. Likewise, if an agency wants to eliminate a position overseas, it must formally request that the position be eliminated.

Regarding office closures, CS last eliminated offices under its Transformational Commercial Diplomacy Initiative, which was planned beginning in 2006 and implemented starting in 2007. The initiative was focused both on realigning CS's efforts with its mission to focus on emerging markets, and on rightsizing its operations. Under the initiative, 23 offices were closed, mainly in Europe, and 8 offices were supposed to be opened. However, as of the end of 2009, only 3 of the 8 offices were open and staffed.

Financial Management Practices Temporarily Offset Funding Constraints

Several financial management practices temporarily helped mitigate CS's growing funding constraints. These included using unobligated funds from prior years' appropriations, redistributing centralized costs to other ITA units, and redirecting user fees to ensure CS did not spend more funds than were authorized.

First, CS used its balance of unspent funds from prior years' unobligated appropriations to cover funding shortfalls. However, Congress changed CS's appropriations from no-year funding to 2-year funding in 2006. Whereas CS obligated $12 million in unspent funds in 2004, in 2009 it obligated only $5 million, as unobligated funds from prior years were depleted and some funds were no longer available.

Second, ITA officials told us they attributed some centralized costs that would have been charged to CS to other ITA programs in order to help CS with its financial problems. For example, in 2009, ITA redistributed $3 million of CS's centralized costs to other ITA units (Market Access and Compliance, Manufacturing and Services, and Import Administration) to assist CS. Centralized costs include headquarters rent, utilities, information technology support, and secretarial travel. ITA normally apportions these costs based on individual staffing levels.

Third, CS fee collections were an additional source of revenue that CS used to address its resource constraints. CS obligations of fees and reimbursements averaged $9.8 million a year from 2004 through 2009.[21] CS's domestic and overseas offices create surplus fees when they charge exporters for services, and funds remain after the bills associated with the

[21] CS receives reimbursements from other federal agencies for services provided through interagency agreements. CS provided us with the total obligations for fees plus reimbursements for 2004-2009.

service are paid.[22] Historically, surplus service fees were used at the location where they were earned to pay for program activities in support of CS's mission such as travel with an ambassador to another city to promote exports. As funding constraints increased, CS management began centrally controlling these fees, requiring posts to seek permission to use them. CS officials told us they took control over these surplus fees to ensure they would not spend more money than Congress authorized and violate the Antideficiency Act.[23]

CS Froze Hiring, Travel, Training, and Supplies, which Compromised Operations

Once the growth in costs reached what CS officials characterized as a "crisis" situation, CS took a number of actions such as imposing a hiring freeze in 2008 and 2009.[24] CS also cut travel funds by 28 percent from 2008 to 2009, and saved money by asking FSOs to stay in their current locations rather than relocating to them to new posts. CS also cut training and supplies. According to a senior CS official, currently CS has no discretionary travel or training funds. Although CS took actions to mitigate the impact of increasing costs as noted above, they were not timely and reflected management control weaknesses. These weaknesses include the lack of a process for promptly identifying risks as they emerge and lack of analysis of the possible effect these mitigating actions could have on CS's ability to effectively and efficiently carry out its operations. CS did not identify a long-term sustainable solution to the change in its financial situation.

Staff in both the domestic and the foreign field offices commented in a 2009 assessment of their operations that staff shortages and budget constraints, including a lack of travel funds, compromised CS's ability to conduct its core business.[25] In the domestic field offices, staffing shortages

[22] In March 2009, we reported that CS needed to ensure there was a sound basis for setting fees, which would help to ensure that user fees recover the intended portion of full costs. GAO, *Export Promotion: Commerce Needs Better Information to Evaluate Its Fee-Based Programs and Customers*, GAO-09-144 (Washington, D.C.: Mar. 4, 2009).

[23] 31 U.S.C. § 1341.

[24] ITA, including CS, had been operating under a partial hiring freeze since 2006 because of resource constraints. During this period ITA granted some exemptions that allowed CS to hire staff.

[25] The assessments conducted are referred to as Strengths, Weaknesses, Opportunities, Threats (SWOT) analyses and were based on formal feedback from CS's international and domestic field offices.

and budgetary constraints were mentioned as weaknesses or threats in seven of eight regions. One domestic region stated, “With a hiring freeze in place and severe budget limitations, current vacancies cannot be filled in USEACs on a timely basis. As well, important travel necessary to reach clients/partners, engage in professional development, and lead efforts on trade missions and at trade shows cannot be funded.” Likewise, all six regions overseas indicated that lack of resources was a weakness, and four of the six identified staffing shortages as a problem. For example, one overseas region stated that “budget limitations constrict the extent to which posts can travel, which directly impacts their ability to find and assist clients.” Additionally, the capacity to keep up with ever-growing demand for services was mentioned as a problem by some domestic and overseas locations.

CS’s Workforce Declined by Almost 14 Percent

As a result of CS’s flat budget, the size of its workforce declined through attrition from 2004 to 2009, and the composition and location of personnel shifted. During this period, CS’s workforce declined by over 200 staff, from 1,731 to 1,492. The number of FSOs declined by 5 percent, LES by 14 percent, and civil servants by 18 percent (see table 3). The number of staff in foreign field offices declined by 12 percent, in domestic field offices by 9 percent, and at headquarters by 28 percent (see table 4).

Table 3: Change in CS Staff by Type, Fiscal Years 2004-2009

	Number of staff in 2004	Number of staff in 2009	Change in staff, 2004 to 2009	Percent change, 2004 to 2009
FSO	246	233	-13	-5.3%
LES	944	816	-128	-13.6
Civil Service	541	443	-98	-18.1
Total	**1,731**	**1,492**	**-239**	**-13.8%**

Source: GAO analysis of Commerce data.

Table 4: Change in CS Staff by Location, Fiscal Years 2004-2009

	Number of staff in 2004	Number of staff in 2009	Change in staff, 2004 to 2009	Percent change, 2004 to 2009
Foreign field offices	1,190	1,049	-141	-11.8%
Domestic field offices	286	260	-26	-9.1
Headquarters	255	183	-72	-28.2
Total	**1,731**	**1,492**	**-239**	**-13.8%**

Source: GAO analysis of Commerce data.

CS Lacks Key Planning Elements to Rebuild Its Workforce, and Its 2011 Budget Request Has Some Weaknesses

Although CS is taking steps to rebuild its workforce, it lacks key elements in its workforce planning, and its 2011 budget request has some weaknesses that could affect its ability to meet its goals. In 2010, CS received an appropriation of $258 million, of which CS planned to use $5.2 million to begin reversing CS staffing declines. In addition, the President's 2011 budget asks for a major CS staffing increase. The 2011 budget requests $321 million for CS, $63 million more than its 2010 appropriation. Although CS began the process of reversing its previous years' staffing declines through these funding increases, we found that CS has not been following workforce planning principles and lacks current workforce plans for utilizing the new staff. CS's understaffed Office of Foreign Service Human Resources and the long lead time needed to hire and train FSOs could delay staffing increases. Additionally, we found that its budget development methodology was sound in many respects, but had a few weaknesses that could affect CS's ability to meet its goals, such as not assessing potential risks of estimated costs, which if overly optimistic could lead to cost overruns.

CS Plans to Rebuild Its Workforce

CS Is Increasing Staff to Implement the NEI

CS is rebuilding its workforce and taking other measures to fulfill its major role in implementing the NEI in 2011.[26] Commerce, through the Trade Promotion Coordinating Committee, leads the administration's trade promotion efforts and will "operationalize" the NEI, according to the

[26]The agencies implementing the NEI are to develop a plan for the initiative by September 2010.

Secretary of Commerce. To that end, the Secretary indicated that with the additional resources requested in 2011, ITA expects to hire new trade experts—mostly in foreign countries—to advocate and find customers for U.S. companies, allowing CS to help more than 23,000 clients to begin or grow their export sales in 2011. Additionally, CS will focus on increasing the number of small- and medium-sized businesses exporting to more than one market by 50 percent over the next 5 years.

CS already began the process of rebuilding its workforce by designating $5.2 million of its 2010 appropriations to expand its presence in critical emerging markets. CS planned to use the funds to develop a more robust presence in challenging and developing markets in Africa, Eastern Europe, and Asia, where its presence was limited. CS projected hiring a total of 30 new positions in 2010—8 FSOs and 22 LES. In April 2010, CS approved 17 hiring freeze exemptions. It extended offers to 14 certified applicants; 11 individuals accepted the offers, according to a CS official. CS hopes to bring them on in August 2010 and anticipates they will fill vacancies in domestic and overseas locations.[27] These individuals are filling positions created by retirements and attrition that occurred in 2008 and 2009. CS also expects that at least another 7 current officers will leave the service in 2010. CS may fill those potential vacancies as it completed the process of identifying and creating a list of certified applicants, on July 12, 2010.

However, a senior CS official noted that rather than using funds to hire people in 2010, CS is focused on creating more exports sooner by increasing marketing, the number of companies going on trade missions, the number of potential trade partners brought to the United States on reverse trade missions, and matchmaking efforts. The rationale was to focus on activities that could provide quick results, according to CS officials, as it takes about 18 months to prepare a company to export, whereas it takes about 6 to 9 months to assist a company that has already exported to one market with exporting to a second market.

CS Requested a Major Staffing Increase for 2011

CS requested a major staffing increase for 2011, seeking to hire a total of 268 staff in support of the NEI. CS plans to hire 130 FSOs and civil

[27]Positions in three overseas offices will be filled with limited noncareer appointments, as CS lacks staff with the necessary skills, knowledge, and abilities to fill those positions. Limited noncareer appointments are members of the general public hired for specific locations and tours of duty based on specialized skills or experience. First tours of duty are limited to 2 years, and limited appointments can not serve with CS more than 5 consecutive years.

servants, a 20 percent increase over its 2010 level of 659 staff in these categories. Additionally, CS plans to hire 138 LES, a 17 percent increase over its 2010 level of 795 staff.[28] The requested increase would reverse the 239-person decline in CS's overall staffing that occurred from 2004 to 2009. Table 5 identifies the staff CS lost over the past 5 years and the number of staff it plans to hire in 2011.

Table 5: CS Staff Lost Over the Past 5 Years and Planned Increase in Staff Based on 2011 Budget Request

	Staff lost, 2004 to 2009	Planned increase in staff based on 2011 budget request	Net change
FSO	13	59	46
LES	128	138	10
Civil Service[a]	98	71	-27
Total	**239**	**268**	**29**

Source: GAO analysis of Commerce staffing data.

[a]Civil Service includes staff serving both in Washington, D.C. and at USEACs.

Whereas staffing declines overseas for both FSOs and LES may be addressed if the budget request is approved, there will still be fewer staff compared with 2004 in Washington, D.C. and the domestic field offices, which are generally staffed by civil servants. Additionally, the 63 FSOs and 84 civil servants who are eligible to retire as of March 2010 may not be replaced by the staff requested in the 2011 budget request.

Another factor affecting overseas staffing is the use of FSOs in domestic positions. FSOs are sometimes assigned to work in USEACs, serve in multilateral development banks, or work in headquarters (see table 6). For example, in the fourth quarter of 2009, 23 percent of 233 FSOs were in domestic positions, with 27 FSOs specifically in USEACs. CS expects FSOs to serve a 2-year assignment at a USEAC, usually within the first 7 years of

[28]CS also had 9 Schedule C employees and 4 Personal Service Contract employees in the first quarter of fiscal year 2010. No new Schedule C or Personal Service Contract hires are planned for fiscal year 2011.

their service.[29] CS believes that what FSOs learn in their domestic rotations improves their ability to serve clients overseas.

Table 6: FSOs Serving in the United States in the Fourth Quarter of Fiscal Year 2009

	USEACs	Multilateral Development Banks	Headquarters	Language and other training	Total
Number of FSOs	27	5	10	12	**54**
Percent of all FSOs (domestic and overseas)	12%	2	4	5	**23%**

Source: GAO analysis of Commerce staffing data.

Note: FSOs in headquarters are in positions supporting the Foreign Service, e.g., one is the Deputy Assistant Secretary for International Operations and another is a Career Development and Assignment Officer.

CS Lacks Complete Strategic Workforce Plans to Utilize New Staff

Although CS requested a significant increase in funding to hire new staff in the 2011 budget request, it has not followed key principles in workforce planning to guide its use of these staff. Strategic workforce planning addresses two critical needs: first, aligning an organization's human capital program with its current and emerging mission and programmatic goals, and second, developing long-term strategies for acquiring, developing, and retaining staff to achieve programmatic goals. While agencies' approaches to workforce planning vary, the five key principles that strategic workforce planning should address irrespective of the context in which the planning is done are (1) setting strategic direction, (2) conducting workforce needs analysis, (3) developing workforce strategies to fill the gaps, (4) evaluating and revising strategies, and (5) involving management and employees throughout the process.[30] We focused our review on steps one through three, because it was premature for us to evaluate steps four and five given the status of CS's efforts during our review. CS executive-level leadership was new and was just beginning to assess CS operations.

[29]CS FSOs are not the only FSOs required to serve a domestic tour. The Department of State also has a domestic tour requirement. The Foreign Service Act of 1980 includes a requirement that its FSOs serve a domestic tour at least once every 15 years. 22 U.S.C. § 3984.

[30]GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, GAO-04-39 (Washington, D.C.: Dec. 11, 2003).

CS Lacked Executive-Level Leadership and Strategic Direction

Until recently, CS lacked executive leadership and strategic direction in its workforce planning efforts because of key vacancies between administrations. One of the lessons from our prior work on human capital issues is the importance of having leadership that is clearly and personally involved in strategic workforce planning and provides organizational vision in times of change. Effective organizations integrate human capital approaches as strategies for accomplishing their mission. They stay alert to emerging mission demands and human capital challenges and remain open to reevaluating their human capital practices in light of their demonstrated successes or failures in achieving the organization's strategic objectives.

According to a senior CS official, the lack of political leadership hampered efforts to analyze and make decisions regarding the organization's longer term workforce needs and to ensure its ability to undertake its mission and achieve its goals. Instead, CS's recent workforce planning efforts have primarily focused on short-term responses to its constrained budget situation, such as not hiring new staff, and extending FSO tours at some posts to avoid the cost of moving them to different posts.

While ITA and CS experienced key leadership vacancies for more than a year, CS now has new executive-level leaders who are focused on determining CS's direction and resource needs. In February 2010, the new Assistant Secretary for Trade Promotion and Director General of the U.S. and Foreign Commercial Service was confirmed, and in March 2010, the new Undersecretary for International Trade was sworn in. In addition, Commerce announced the creation of a new Director's position to coordinate and direct the Department's NEI efforts, filling the position in April 2010. The new Assistant Secretary is currently reviewing all of CS's budgets, activities, and personnel to determine what its structure should be to accomplish its goals, including those of the NEI.

CS has also lacked a clear sense of strategic direction. For example, the Trade Promotion Coordinating Committee did not issue a 2009 National Export Strategy, which has a role in directing the nation's export promotion priorities and goals of CS; the last National Export Strategy was issued in October 2008 by the previous administration.[31] A plan to carry out the NEI is due in September 2010. The NEI may have important

[31]According to the Director of the Trade Promotion Coordinating Committee, a National Export Strategy is not released in transition years between administrations.

implications for CS workforce planning, especially for the locations of staff and offices.

CS has already developed several initiatives that include staff allocations and a list of "candidate" countries for new offices, which also appears in its budget request. These are preliminary plans for how CS will pursue activities in support of the NEI's goals. However, CS did not have support for how the staffing allocations were developed and the countries were identified; we therefore are unable to determine how these decisions were made.

CS Has Not Conducted a Workforce Needs Analysis to Determine Staff Levels or Placement

CS has not conducted a systematic workforce needs analysis to determine the number or type of staff (FSOs, LES, or civil servants) needed or where those staff would be located domestically and overseas. Our prior human capital work has found that a fact-based, performance-oriented approach to human capital management is crucial for maximizing the value of human capital as well as managing risk.[32] High-performing organizations identify their current and future human capital needs, including the appropriate number of employees, the key competencies and skills mix for mission accomplishment, and the appropriate deployment of staff across the organization and then create strategies for identifying and filling gaps. Valid and reliable data are critical to assessing an agency's workforce requirements and heighten an agency's ability to manage risk by allowing managers to spotlight areas for attention before crises develop and identify opportunities for enhancing agency results. Although the costs of collecting data may be significant, the costs of making decisions without the necessary information can be equally significant. In preparing its 2011 budget request, CS did not make staffing decisions based on an overall analysis of its needs, according to CS officials. Rather, it made decisions based on anecdotal information about the demand for services.

Additionally, CS only recently began to systematically monitor how many vacancies it had and how many positions it might need to carry out its mission in the future. CS took approximately 3 months to provide us with data on staffing, in part because it lacks an automated personnel system and had to use data sources such as quarterly staffing reports. A Commerce official told us that the number of staff requested in the 2011 budget request was not based on vacancies.

[32] GAO-02-373SP.

CS's lack of a workforce needs analysis also has implications for staff placement. Whereas CS's strategic focus has been on priority markets such as Brazil, China, and India as well as emerging markets in countries such as Azerbaijan and Qatar, staff placements may change under the NEI. As mentioned above, CS's budget request includes a list of 22 countries that are "candidates currently being considered for new overseas offices," where CS is considering placing staff. Commerce officials told us the list was not comprehensive, and the reasons for selecting those countries were not well documented. Among the "candidates" were offices that were closed under the Transformational Commercial Diplomacy Initiative such as Amsterdam, Netherlands; Barcelona, Spain; Kingston, Jamaica; Hamburg, Germany; Port of Spain, Trinidad and Tobago; and Lyon, France. Additionally, according to a State official, the NEI may target Colombia, Indonesia, Saudi Arabia, South Africa, Turkey, and Vietnam. Shifting CS's focus could change the skills and experience its workforce needs to be effective in those markets. For example, even though CS is hiring 11 new FSOs in 2010, three important posts in Brasilia, Algiers, and Kuwait are being filled with limited non-career appointments, because of a shortage of experienced officers. None of the new candidates has the necessary skills, abilities, and knowledge to take one of these positions as a first post.

CS Has Not Systematically Addressed Staffing Gaps Since 2007

CS has not followed workforce planning principles such as developing a plan to address its staffing gaps. Once an agency identifies its needs, it can develop strategies tailored to address gaps in the number, skills and competencies, and deployment of its workforce and the alignment of human capital approaches that will sustain the workforce in the future. Strategies include programs, policies, and practices that enable an agency to recruit, develop, and retain staff needed to achieve program goals.[33] In addition, agencies need to understand the strengths and weaknesses of their current human capital program.

According to a senior CS official, CS does not plan to fill all of its vacant positions. Rather, it will fill what it considers to be priority vacancies, including staffing new offices with seasoned officers. The official told us they have a reasonably good idea of where those priority locations are; one such possibility was Baku, Azerbaijan, where CS planned to open an

[33] When considering strategies, it is important for agencies to consider the full range of flexibilities available under current authorities, as well as flexibilities that might need additional legislation to be adopted.

office under the Transformational Commercial Diplomacy Initiative but did not due to a lack of funds. However, when asked if the 22 locations in the 2011 budget request were the priority locations, we were told they are possible locations but are not necessarily where people would be placed.

It is also important for agencies to align their workforce to achieve their program goals. However, since the implementation of the Transformational Commercial Diplomacy Initiative, CS workforce strategies have not been based on a systematic analysis, but were ad hoc according to Commerce officials. Commerce officials told us that in some instances they asked FSOs to extend their overseas tours at their current locations as a cost-saving measure rather than being moved somewhere else, at substantial cost, based on a systematic determination of where they are most needed.[34] CS also made decisions to leave some posts without an FSO. Instead, these posts were managed by LES—there were 25 such posts at the end of the last quarter of 2009.[35]

CS has not used its available staffing allocation model to make overseas staffing decisions since 2007, as part of its Transformational Commercial Diplomacy Initiative.[36] Under the initiative, CS used its staffing allocation model to identify locations to close, open, or add staff. The model analyzed CS's staff allocations using quantitative factors such as the macroeconomic strength of each country and other factors related to each market's size and structure. It also integrated qualitative factors including foreign and trade policy priorities, levels of economic development, geographic coverage, and commercial environments. A similar model exists for the placement of staff domestically at USEACs. The model's goal is to create a starting point for determining which U.S. locations have the highest export potential. Other factors affecting the placement of staff at USEACs include geographic coverage, policy initiatives, locations of commercial centers, and the skills and abilities of local staff.

[34]An FSO's standard overseas tour of duty is generally 4 years for nonhardship posts, and 1 to 3 years for posts in hardship locations. Officers may extend their tour of duty in 1-year increments. However, the maximum stay at a post is 5 years.

[35]Posts managed by LES are under the supervision of FSOs who are in nearby cities or countries. According to CS, it has used this arrangement to reduce costs and facilitate coordination.

[36]The model is called the Overseas Resource Allocation Model and was developed by contractors for CS.

CS's Understaffed Human Resources Office and the Long Lead Time Needed to Hire and Train FSOs Could Delay Staffing Increases

Besides the lack of a quality workforce plan, CS's capacity to implement what CS officials said may be the biggest hiring effort in CS history is compromised because its human resources office is understaffed.[37] CS's Office of Foreign Service Human Resources, which manages the hiring process for FSOs, only had staff in 10 of its 19 positions in 2009. However, CS planned to increase the number of staff in 2010. According to a senior CS official, the office recently received permission to fill 5 of the 9 vacant existing positions. As of June 2010, 3 of the 5 positions were filled, although the office also just lost another staff person.

CS needs a lead time of approximately 2 years to accomplish the major staffing increase requested in the 2011 budget request. It takes about 1 year to put together a list of qualified applicants, which involves advertising the position, identifying qualified candidates, interviewing candidates, selecting candidates, and making offers. Once a candidate is selected, he or she must obtain security and medical clearances. Commerce started the hiring process for 59 new FSOs in July 2009 and CS hopes to make offers to qualified candidates in summer 2010. Additionally, depending on the post, some positions require language training, which can take up to a year. Thus, it could take almost 2 years to hire, train, and field a new FSO. The process for hiring LES is much shorter, generally 6 weeks to 5 months, according to a senior CS official. CS is not responsible for hiring LES, who are hired overseas by State on CS's behalf.

The 2011 Budget Request Has Weaknesses That Could Affect CS's Ability to Meet Its Goals

For 2011, ITA developed a $321 million budget request for funding to support CS's activities and hire new staff.[38] The request was $63 million higher than its 2010 appropriation. We evaluated the methodology that ITA used to develop this request using best practices identified in the *GAO Cost Estimating and Assessment Guide*.[39] See Appendix III for more

[37] CS maintains its own Office of Foreign Service Human Resources, which hires FSOs. Hiring of civil servants for CS is conducted by Commerce's Human Resource Operations Center, and hiring of LES is handled by State.

[38] The $321 million request for CS was included in the $534 million President's budget request for all of ITA, of which CS is a unit.

[39] The *GAO Cost Estimating and Assessment Guide* was developed to establish a consistent methodology that is based on best practices that can be used across the federal government for developing, managing, and evaluating cost estimates. If followed correctly, these practices should result in reliable and valid cost estimates that (a) can be easily and clearly traced, replicated, and updated, and (b) enable managers to make informed decisions. GAO-09-3SP.

information on our evaluation, including detailed descriptions of the best practices criteria. ITA's methodology was sound in many respects, with good calculations for current costs such as overseas administrative fees, a good amount of detail for certain costs such as the purchase of vehicles, as well as error-checking processes that helped to ensure accuracy. However, the request also has weaknesses that could affect CS's ability to meet its goals. Among the weaknesses we identified using the *GAO Cost Estimating and Assessment Guide* are (1) a lack of information regarding potential risks associated with the costs presented in the budget request, such as changes in exchange rates, which could lead to overly optimistic estimates and cost overruns, and (2) the lack of sufficient documentation, specifically back-up data, to clearly track costs over time, allow for the budget request to be validated, and enable new staff members to understand the request in the event of staff turnover.

The 2011 Budget Request Is Sound in Many Respects

The methodology used to develop the budget request is sound in many respects, and CS took steps to ensure its accuracy. ITA budget analysts made many of their calculations in ways that are endorsed by the *GAO Cost Estimating and Assessment Guide*. They also broke the request down to an appropriate level of detail based on the standards in the guide, which both improves accuracy and facilitates good management.

In an effort to determine the accuracy of the estimate, we reviewed ITA's calculations for technical soundness and found them to be acceptable. ITA used rigorous budgeting practices to develop many parts of the request. For example, officials used relevant historical cost data and incorporated adjustments for inflation. They also followed best practices by varying their estimation methodologies as appropriate for different situations, which increased the request's accuracy. For example, based on Office of Management and Budget (OMB) guidance, ITA estimated that the personnel they anticipated hiring in 2011 would come on board 3 months after the start of the fiscal year, on average, and the request reflected this hiring lapse.

Additionally, ITA performed thorough error checking on its request, enabling CS management to make hiring and spending decisions with reasonable confidence that no costs had been forgotten or miscalculated. CS's process in developing the request included multiple reviews to ensure accuracy, including internal reviews by various stakeholders within Commerce and external reviews by OMB. CS used the feedback from these reviews to update the request as needed. Also, CS routinely updated the costs in the budget with actual costs as they became available, enabling them to see if the estimate was on track.

CS's 2011 budget request also broke down costs to a level of detail that met the standards in the *GAO Cost Estimating and Assessment Guide* in most cases, ensuring that activities and costs were broken down into small pieces that management could individually plan for, schedule, and control. For example, salaries were calculated separately for several different types of employees rather than using one salary cost as the basis for all the calculations, and the cost of replacing 37 vehicles was identified separately. One of the benefits of including this level of detail is ensuring that cost elements are not omitted or double counted.

The 2011 Budget Request Lacks a Risk Analysis and Contingency Plans

ITA did not perform a risk analysis on its budget request for CS, which could lead to overly optimistic estimates of costs and cost overruns.[40] We have found that most agency budget requests are overly optimistic, underestimating average costs.[41] A risk analysis would help correct for this tendency by providing levels of confidence so that ITA would understand the probability of executing the budget successfully given the risks that were assessed. The risk analysis would identify the assumptions driving the estimate, and provide a range of costs that span the best and worst case scenarios. This would inform CS management of the probability that costs for salaries or other key items might exceed funding levels requested, and enable them to develop contingency plans for making spending and hiring decisions accordingly. For example, new staff will be located in different locations with vastly different costs. According to an ITA official, salaries for LES range from $12,000 in Vietnam to $100,000 in Frankfurt, Germany. However, the budget request did not provide a range of possible LES salary costs. Instead, ITA used an overly simplistic averaging approach to estimate LES costs, failing to give management perspective on how these costs might vary with different staff placement scenarios, changing exchange rates, etc. Although ITA is not required to perform a risk analysis by OMB's annual budget development guidelines, it is a best practice according to the *GAO Cost Estimating and Assessment Guide*.[42]

[40]A risk analysis provides a range of costs that span best and worst case scenarios. According to best practices, it is better for decision makers to know the range of potential costs that surround an estimate and the reasons behind what drives that range rather than just having a point estimate from which to make their decision.

[41]GAO-09-3SP.

[42]OMB endorsed the guidance in the *GAO Cost Estimating and Assessment Guide* as sufficient for meeting most cost-estimating requirements, including for budget formulation.

Assumptions that drive the budget request were not fully explained, contributing to the inability to perform a risk analysis. Major assumptions in the 2011 budget request include salary estimates, annual salary increases, currency fluctuation, and travel costs, none of which were fully explained. Since ITA prepares its budget 2 years in advance, e.g., drafting its 2011 budget request in 2009, there is substantial uncertainty in these assumptions. Some assumptions were documented, such as using 2009 amounts with appropriate adjustments to estimate costs for 2011, but others were not explained. For example, travel costs were presented with a single number, without further explanation of how they arrived at this figure. Also, the reasoning behind estimating a particular exchange rate was not explained. Exchange rates can vary substantially. For example, over the course of 2009, the average monthly exchange rate of the dollar to the Brazilian real varied from a low of 1.8 to a high of 2.4, a difference of 30 percent. Likewise, the Mexican peso's average monthly exchange rate with the dollar varied by 16 percent, the euro varied by 12 percent, the Japanese yen varied by 11 percent, and the Indian rupee varied by 7 percent. Without details and explanations, CS could not calculate risk distributions for assumptions like these, which would enable it to understand how much costs might vary if the situation changes.

ITA's Budgeting Methodology Lacks Some Documentation

ITA's budget request lacks sufficient supporting documentation, making it difficult for Congress or other parties to understand how the budget request was developed. For example, the budget request broke down changes in the budget for 2011, and these changes were added to 2010 costs to arrive at the total request. However, the budget request did not include the 2010 cost information. According to the *GAO Cost Estimating and Assessment Guide*, it is a best practice to provide sufficient detail so that the documentation allows for clear tracking of cost estimates over time.[43] By documenting all steps in the development of its budget request, ITA would be able re-create its estimates in the event of budget staff turnover. This is particularly important since only a small number of people develop the budget. Additionally, thorough documentation of calculations and back-up data would allow the request to be checked and validated. Without this information, it is impossible for an outside reviewer to corroborate the information in the request.

ITA briefed department-level officials in Commerce as well as the Office of Management and Budget on the 2011 budget request. However, we were

[43]CS indicated that the 2011 budget request is its cost estimate.

unable to obtain any documentation of what was presented at the briefings, so we could not determine whether the briefings contained enough detail for management to understand the level of accuracy, completeness, and quality of the estimate, which is a best practice.

Conclusions

In the wake of growing financial constraints and staffing declines, CS's leadership faces significant challenges in its efforts to rebuild its workforce and play a major role in the President's NEI. Additionally, depending on the direction set by the current administration, CS officials may need to make significant changes such as realigning CS's workforce and offices. While the President's plan is being finalized, the Assistant Secretary has opportunities to improve management controls over CS's resources and proactively address the issues that led to their "crisis" situation in 2009. These opportunities include improving long-term financial and workforce information necessary to recognize significant changes affecting the organization; routinely reviewing operations to identify potential cost savings, such as administrative fees related to overseas posts; and recognizing risks and considering alternative responses to significant resource changes in a systematic manner so as to minimize actions such as freezing hiring, travel, and training that compromise CS's ability to conduct its core business.

CS currently lacks two key capabilities that would better position it to implement its 2011 budget and rapidly respond to any new priorities. The first is a workforce plan developed in accordance with workforce planning principles that is linked to the agency's strategic goals and that would enable agency managers to regularly identify workforce gaps and develop a workforce strategy that fills them, including using or adopting its current staffing model. The implementation of such planning needs to be supported by adequate human capital management resources. The second capability is to estimate the budgetary costs of any changes in its operations according to best practices. This includes risk analyses to ensure that factors that could negatively impact its ability to fully fund its operations are understood and considered; contingency plans to address possible funding shortfalls; and documentation in support of the costs used to construct the estimate, so that future management and new budget staff can understand the estimate's assumptions, costs, and contingencies.

Recommendations for Executive Action

To better ensure CS effectively and efficiently uses its resources in support of its strategic goals and the President's National Export Initiative, we are making the following three recommendations:

The Secretary of Commerce should direct the Undersecretary for International Trade to

- strengthen management controls over CS's financial and workforce resources,
- improve workforce planning and better align CS's workforce with its strategic goals and available resources on a routine basis, and
- improve cost estimating to better ensure that CS's budget estimate includes sufficient resources to support its planned operations and addresses potential risks.

Agency Comments and Our Evaluation

In written comments on a draft of this report, Commerce concurred with our findings and recommendations. The Secretary of Commerce indicated that he has directed the International Trade Administration to use this report to develop stronger management controls, improve workforce planning, and improve cost estimates during the budget process.

The Secretary of Commerce also indicated that ITA has been engaged in a vigorous strategic planning effort to align its focus, activities, and personnel to strengthen CS and support the President's NEI, since January 2010.

Additionally, Commerce provided technical comments to our draft, which we reviewed. The technical comments provided additional information or clarified CS activities or statements in the draft, and we made changes to reflect some of these points.

We are sending this report to other interested Members of Congress and to the Secretaries of Agriculture, Commerce, and State. In addition, the report will be available free of charge at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-4347 or yagerl@gao.gov. Contact points for our offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix IV.

Loren Yager
Director, International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

In response to a Congressional mandate,[1] GAO reviewed (1) how well the U.S. and Foreign Commercial Service (CS) managed its resources from 2004 to 2009, and (2) the completeness of CS's workforce plans and the quality of its 2011 budget request. In addition, in appendix II, we provide information on how CS export promotion funding compares with the funding for Department of Agriculture (USDA) and Department of State (State) for analogous activities from 2004 to 2009.

To determine the changes in CS's workforce from 2004 to 2009, we analyzed data provided by CS on staffing losses and gains by type of position, identifying the number of civil servants, political hires, Foreign Service Officers (FSO), and locally employed staff (LES) during that 5-year period of time. We also identified staff losses and gains by location at foreign posts, U.S. Export Assistance Centers (USEAC), and CS headquarters in Washington, D.C. We traced CS data back to source documents where possible and found them sufficiently reliable to report on the loss of staff throughout CS. We used the staffing data provided by CS to identify where FSOs were serving in domestic positions.

To determine how much funding CS had available, what the major cost components of its budget were, how administrative costs changed over time, and what impact changing costs had on CS, we reviewed CS's appropriations and full-time equivalent (FTE) levels from 2004 through 2009. We used internal CS budget documents, ITA Congressional Budget Justifications, President's budgets, and appropriations bills to gather and corroborate budget data, and based on consistency among these documents, we found these data to be sufficiently reliable to report on CS's budget history. We also interviewed CS officials responsible for managing the budget. We analyzed the foreign posts' and USEACs' 2009 written comments to determine weaknesses and threats that were commonly reported.

To determine the completeness of CS's plans to rebuild its workforce, we reviewed CS's 2010 and 2011 budget requests to ascertain whether the staffing increases CS requested were sufficient to cover its staffing changes from 2004 to 2009. We interviewed CS officials who were involved in developing the requests. We also interviewed CS officials regarding their

[1]This report is in response to a study requested in House Report 111-36, which was the conference report for Commerce, Justice, Science, and Related Agencies' fiscal year 2010 appropriations.

process for hiring and placing new staff overseas, and reviewed CS policy requiring FSOs to serve in domestic positions. To determine whether CS had conducted workforce planning, we evaluated its efforts using GAO's five key principles of effective strategic workforce planning.[2] We reviewed CS's previous workforce planning efforts under its 2006 Transformational Commercial Diplomacy Initiative including CS's use of its Overseas and Domestic Resource Allocation Models (ORAM and DRAM), and its cost benefit model. We interviewed CS officials regarding how workforce planning decisions were made since the ORAM and DRAM models were last used. We also interviewed a senior CS official about the human resource office's potential to handle the projected large increase in FSOs that is contained in CS's budget requests for 2010 and 2011.

To determine the quality of the International Trade Administration's (ITA) 2011 budget request for CS, we determined the extent to which ITA followed the best practices outlined in the *GAO Cost Estimating and Assessment Guide*.[3] The guide identifies 12 practices that are the basis for effective cost estimation, including cost estimation for annual budget requests. It associates these practices with four characteristics: accurate, well documented, comprehensive, and credible. The Office of Management and Budget (OMB) endorsed this guidance as being sufficient for meeting most cost estimating requirements, including for budget formulation. If followed correctly, these practices should result in reliable and valid budgets that (a) can be easily and clearly traced, replicated, and updated, and (b) enable managers to make informed decisions. In performing this analysis, we examined the 2011 budget request and supporting documentation provided by ITA, and we conducted interviews with ITA budget staff. After conducting this assessment, we identified major strengths and weaknesses of the 2011 budget request.

To describe the level of funding CS received compared with State and USDA for analogous export promotion activities in appendix II, we worked with State and USDA to determine which of their programs and activities were analogous to CS's export portfolio. We jointly agreed on what elements of their budget could be attributed to export promotion. We

[2] GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, GAO-04-39 (Washington, D.C.: Dec. 11, 2003). Also see GAO: *A Model of Strategic Human Capital Management*, GAO-02-373SP (Washington, D.C.: March 2002).

[3] GAO, *GAO Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs*, GAO-09-3SP (Washington, D.C.: March 2009).

focused on (1) marketing and market research, (2) technical assistance and training for exporting businesses, and (3) advocacy that benefits individual companies. We reviewed the President's budget requests and agency budget justifications for CS, which are included in the budgets of the Department of Commerce's ITA, as well as the budgets for USDA's Foreign Agricultural Service and State's Office of Commercial and Business Affairs to identify those programs and activities in their budgets that supported those functions in order to develop the comparison. We determined that USDA's budget summaries were reliable by reviewing financial audits for the 6-year time period of our review. Audits for 2 of the years found that the financial statements fairly presented USDA's finances with some adjustments needed to internal controls, and the audits for the other 4 years found that the financial statements fairly presented USDA's finances without caveat. There is one limitation to USDA's budget summaries, which is that salaries and expenses are listed by function rather than by program. To address the limitation, we included these amounts, because it seemed sufficiently clear which functions related to export promotion, although the labels were different from the program names. State was not able to provide sufficient budget data for 2004 to 2008, so we only reported on 2009.

We conducted this performance audit from September 2009 to August 2010, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: U.S. Agencies Promote Exports with Varying Levels of Funding and Different Promotion Models

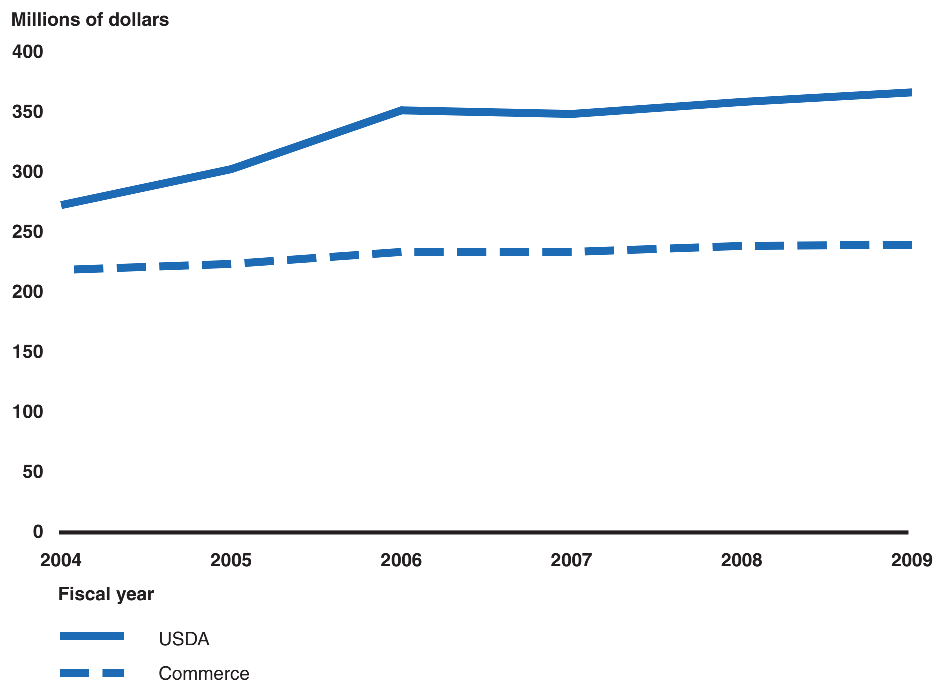
The Departments of Agriculture (USDA), Commerce, and State are the three main U.S. agencies tasked with promoting exports through advocacy for individual companies, marketing, and technical assistance and training. In 2009, USDA's Foreign Agricultural Service (FAS) had 97 offices in 75 countries, Commerce's U.S. and Foreign Commercial Service (CS) had 127 offices in 76 countries, and State had 45 offices in 45 countries. Commerce, State, and USDA have different funding levels for export promotion. Additionally, USDA's export promotion model is different from the one employed by Commerce and State.

Commerce, State, and USDA Have Different Levels of Export Promotion Funding

In 2009, Commerce received $238 million, and USDA received $365 million for export promotion.[1] State estimated it spent $17 million in support of export promotion for 2009. See figure 1 for funding levels for USDA and Commerce from 2004 through 2009.

[1]In addition, CS has resources available from unobligated funds from prior years and surplus service fees. In 2009, CS spent $15 million earned from service fees, and $5 million from prior year funding that was carried over to 2009.

Figure 1: Export Promotion Budgets for Commerce and USDA, Fiscal Years 2004-2009



Source: GAO analysis of Commerce and USDA data.

Note: USDA totals include salaries and expenses that were associated with the functions most closely linked to export promotion. These functions may not align precisely with the programs described below.

Funding for State is not included in the figure, as State was unable to determine the personnel costs associated for FSOs and LES who supported its export promotion efforts from 2004 through 2008. State estimated that FSO costs totaled $15 million in 2009. In addition, State funded small export promotion projects at posts and had staff in Washington, D.C., bringing the total State estimated it spent in 2009 to $17 million, excluding LES. If LES costs were included, the level of funding State spent on export promotion would be higher.

USDA Has a Different Export Promotion Approach from Commerce and State

While all three agencies conduct export promotion activities, the amount of funding the agencies receive cannot be directly compared, since USDA uses a different approach to promote exports than Commerce and State. Also, while Commerce and State use the same model, they operate in different locations and have different numbers of posts.

Commerce's model focuses on direct services to exporters, especially small- and medium-sized businesses. CS provides counseling and market intelligence, matchmaking (connecting exporters to customers), and advocacy on behalf of individual businesses. Its overseas posts coordinate with U.S. Export Assistance Centers throughout the United States.

USDA's FAS primarily promotes the export of commodities indirectly through funding for external programs, unlike CS which provides services directly to exporters. Additionally, the majority of FAS's activities are focused on promoting U.S. agricultural commodities in general, whereas Commerce's focus is on assisting individual businesses seeking to export. FAS provides funding to agricultural trade associations, state and regional trade groups, small businesses, and cooperatives that plan and carry out export promotion activities. The two largest programs are the following:

- *The Market Access Program* funds consumer promotions, market research, and technical capacity building to develop, maintain, and expand foreign markets for U.S. agricultural goods, including branded goods and generic commodities. In 2009, FAS allocated $200 million to this activity, which represented 55 percent of its total export promotion budget.
- *The Foreign Market Development Program* focuses on long-term development of foreign markets for generic U.S. agricultural commodities. In 2009, FAS allocated $34 million to this activity, which represented 9 percent of its total export promotion budget.

These programs are supplemented by smaller funding programs. One program helps trade organizations provide sample agricultural products, another provides funding to help overcome technical barriers to exporting, and a third funds development of exports in emerging markets. Additionally, FAS staff overseas provide market intelligence for U.S. firms, and work on export promotion activities including market research and trade shows.

State supports U.S. exporters in locations where CS does not have a presence.[2] Commerce and State signed a Memorandum of Understanding in January 2009, formalizing this representation. Prior to that, State acted on behalf of CS informally. Under the memorandum, State staff at these

[2]State's economic officers at embassies and consulates around the world are also involved in government-to-government advocacy and several other areas such as negotiating reductions in foreign trade barriers. However, this report does not focus on those activities.

partnership posts provide services developed by CS, including matching businesses with potential customers and market research. Providing CS services at partnership posts is not a full-time job for State FSOs and LES. In a survey of the amount of time partnership post staff spent on export promotion efforts in 2009, FSOs indicated they spent about one-quarter of their time on export promotion, and LES at these posts spent about half of their time on it.

State also provides approximately $340,000 to $400,000 per year in financial support for posts' business promotion and commercial outreach activities through a Business Facilitation Incentive Fund.

Appendix III: Assessment of ITA's 2011 Budget Estimate for CS Using *GAO Cost Estimating and Assessment Guide*

To analyze the International Trade Association's (ITA) 2011 budget request for the U.S. and Foreign Commercial Service (CS), we determined the extent to which ITA followed the best practices outlined in the *GAO Cost Estimating and Assessment Guide*.[1] The guide identifies 12 practices that are the basis for effective cost estimation, including cost estimation for annual budget requests. It associates these practices with four characteristics: accurate, well documented, comprehensive, and credible. The Office of Management and Budget (OMB) endorsed this guidance as being sufficient for meeting most cost-estimating requirements, including for budget formulation. If followed correctly, these practices should result in reliable and valid budgets that (a) can be easily and clearly traced, replicated, and updated; and (b) enable managers to make informed decisions. As table 7 illustrates, we found that CS's budget development methods substantially met two, partially met one, and minimally met one of these four practices. After conducting this assessment, we identified major strengths and weaknesses of the 2011 budget request.

Table 7: Extent to Which CS Budgeting Methods Reflect GAO Best Practices

Best practice	Explanation	Satisfied?
Comprehensive	The cost estimates should include both government and contractor costs over the program's full life cycle, from the inception of the program through design, development, deployment, and operation and maintenance to retirement. They should also provide an appropriate level of detail to ensure that cost elements are neither omitted nor double counted and include documentation of all cost-influencing ground rules and assumptions.	Substantially met
Well documented	The cost estimates should have clearly defined purposes and be supported by documented descriptions of key program or system characteristics. Additionally, they should capture in writing such things as the source data used and their significance, the calculations performed and their results, and the rationale for choosing a particular estimating method. Moreover, this information should be captured in such a way that the data used to derive the estimate can be traced back to, and verified against, their sources. The final cost estimate should be reviewed and accepted by management.	Partially met

[1]GAO, *GAO Cost Estimating and Assessment Guide: Best Practices for Developing and Managing Capital Program Costs*, GAO-09-3SP (Washington, D.C.: March 2009).

Best practice	Explanation	Satisfied?
Accurate	The cost estimates should provide for results that are unbiased and should not be overly conservative or optimistic. In addition, the estimates should be updated regularly to reflect material changes in the program, and steps should be taken to minimize mathematical mistakes and their significance. Among other things, the estimate should be grounded in a historical record of cost estimating and actual experiences on comparable programs.	Substantially met
Credible	The cost estimates should discuss any limitations in the analysis performed due to uncertainty surrounding data or assumptions. Further, the estimates' derivation should provide for varying any major assumptions and recalculating outcomes based on sensitivity analyses, and their associated risks/uncertainty should be disclosed. Also, the estimates should be verified based on cross-checks using other estimating methods and by comparing the results with independent cost estimates.	Minimally met

Source: GAO analysis.

The following explains the definitions we used in assessing ITA's methods for estimating costs in its annual budget submission:

- Met—ITA provided complete evidence that satisfies the entire criterion.
- Substantially met—ITA provided evidence that satisfies a large portion of the criterion.
- Partially met—ITA provided evidence that satisfies about half of the criterion.
- Minimally met—ITA provided evidence that satisfies a small portion of the criterion.
- Not met—ITA provided no evidence that satisfies any part of the criterion.

The sections that follow highlight the key findings of our assessment.

2011 Budget *Substantially Met* Characteristics for Comprehensiveness

Best practices for comprehensiveness include an estimating plan that includes sufficient resources, an estimating approach with standard cost elements broken down to sufficient detail, and clear identification of ground rules and assumptions.

- *Estimating plan.* The budgeting team had the proper number and mix of resources to develop the budget request, and team members were from a centralized office. The team leader had appropriate experience and qualifications, although CS did not provide us with enough information to determine whether other team members were qualified.

- *Estimating approach.* The budget used a standard cost element structure that defined all cost elements and addressed relevant costs. CS broke down pertinent costs to an acceptable level of detail. CS properly separated contractor costs from government costs, although it detailed contractor costs more explicitly for costs that were new in 2011 than for ongoing costs.

- *Ground rules and assumptions.* CS relied on ground rules and assumptions, such as using 2010 amounts with adjustments appropriate for each cost element to estimate costs for 2011, but assumptions were not fully documented. CS did not determine risk distributions for all assumptions, which would enable it to perform an uncertainty analysis for key cost elements.

2011 Budget *Partially Met* Characteristics for Being Well Documented

Best practices for being well documented include clearly defining the estimate's purpose, defining key characteristics of the budget including primary cost drivers and systems for updating the budget, clearly identifying ground rules and assumptions, obtaining data properly, documenting the estimate so that corroborating data and calculations can be identified, and presenting clear and sufficient information to management for approval.

- *Purpose of estimate.* CS clearly defined the purpose and scope of its budget request, and all applicable costs were estimated.

- *Budget characteristics*. The number of staff is the primary driver of the cost of the 2011 budget request. CS received a $5.2 million total increase in 2010 for increasing CS's presence in emerging and developing economies. Program staff reviewed the budget and sent corrections on inaccurate items to the budget team, although there is no ongoing system for updating the budgeting team, and CS did not provide us with information on whether there was one centralized place where budget update information was stored.

- *Ground rules and assumptions.* See above under the discussion of comprehensiveness. The best practice of setting ground rules and assumptions is relevant to both being well documented and to comprehensiveness.

- *Data.* Consistent with best practices, CS used historical data to estimate key operational costs. CS performed cross-checks on its data by having program staff verify assumptions in new estimates against historical data, and developed a computer program to check for common errors. However, salaries for locally employed staff (LES) vary widely, which causes uncertainty in the cost estimate.

- *Documentation.* In some cases, we required the guidance of CS budget analysts to identify backup support because the documentation was insufficient to allow someone unfamiliar with the budget to locate detailed corroborating data. The budget documentation did not provide a step-by-step description of the budgeting process, methods, or sources. ITA staff said that documenting and chronicling the information that was used to create it would be a best practice they aspire to but is not something they currently do.

- *Presenting to management for approval.* CS presented the budget to department-level officials in the Department of Commerce as well as to OMB and the House Appropriations Committee. However, we were unable to obtain any documentation of what was presented at the briefings, so we could not determine whether it contained enough detail for management to understand the level of accuracy, completeness, and quality of the estimate.

2011 Budget *Substantially Met* Characteristics for Accuracy

Best practices for accuracy include appropriate methodology for developing the point estimate, and updating the estimate to reflect actual costs and changes.

- *Point estimate.* CS officials used relevant historical cost data and considered adjustments for general inflation when estimating costs. They varied their estimation methodologies as appropriate for different situations. However, although they were aware that salaries were their largest cost driver, they used an overly simplistic averaging approach to reflect likely new staff salaries at hiring. Additionally, since CS did not perform a risk analysis, it is not possible to know whether its point estimate was the most likely actual reflection of costs, or was overly optimistic or conservative. We found no mathematical mistakes in the request, and CS validated the request by looking for errors. CS also cross-checked the budget estimates with program staff and with budget staff at both Commerce and OMB.

- *Update with actual costs and changes.* ITA updated the request based on feedback from program staff reviews. Additionally, actual costs were compared with estimates on a monthly basis. However, CS did not share changes to the cost estimate with us, so we were unable to assess whether changes were properly updated.

CS's 2011 Cost Estimate *Minimally Met* Criteria for Credibility

Best practices for credibility include conducting a sensitivity analysis and conducting a risk analysis.

- *Sensitivity analysis.* CS did not perform a sensitivity analysis on each of the major assumptions to determine how outcomes would vary if they changed. Major assumptions included salary estimates, annual salary increases, impact of currency fluctuation, and travel costs.
- *Risk analysis.* CS did not perform a risk analysis to quantify the overall risk associated with changes to the assumptions that drive its budget.[2] A risk analysis would help provide CS managers with information to determine the probability that costs for key operations, such as salaries, may exceed funding levels requested in the budget, so that they could make spending and hiring decisions accordingly.

[2] A risk analysis provides a range of costs that span a best- and worst-case spread. According to best practices, it is better for decision makers to know the range of potential costs that surround an estimate and the reasons behind what drives that range rather than just having a point estimate from which to make their decision.

Appendix IV: Comments from the Department of Commerce

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

August 5, 2010

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 titled "Export Promotion: Increases in Commercial Service Workforce Should be Better Planned." In this report, GAO reviewed both (1) how well the U.S. and Foreign Commercial Service (USFCS) managed its resources from 2004 to 2009, and (2) the completeness of the USFCS' workforce plans and its fiscal year (FY) 2011 budget request. I agree with the overall findings and recommendations of your report. Indeed I have been aware of some of these issues since becoming Secretary and have been working to address them. I have directed the International Trade Administration (ITA) to use your report to develop stronger management controls, improve workforce planning, and improve cost estimates during the budget process.

As you note, President Obama announced the National Export Initiative (NEI) in January 2010. The Department of Commerce has a critical role to play in the execution of this Initiative, and I am pleased your report acknowledges that our new ITA executive leadership is on board to spearhead this effort. At my direction, ITA management has been engaged since January 2010 in a vigorous strategic planning effort to align its focus, activities, and personnel to strengthen the USFCS and support the President's NEI. Our leadership team is accelerating those efforts now as they plan implementation of the FY 2011 budget and develop contingency plans.

Our specific technical comments relating to the text of the report are enclosed; we hope you take these comments into consideration when issuing the final version of this report.

Sincerely,

Gary Locke

Enclosure

Appendix V: GAO Contacts and Staff Acknowledgments

GAO Contact

Loren Yager, (202) 512-4347 or yagerl@gao.gov

Staff Acknowledgments

In addition to the individual named above, Adam Cowles, Assistant Director; Gezahegne Bekele; Elizabeth Bowditch; Karen Deans; Martin DeAlteriis; Julie Hirshen; Grace Lui; Karen Richey; Meredith H. Trauner; and Amanda Weldon made key contributions to this report.

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