



U.S. Department of Agriculture



Office of Inspector General
Northeast Region

Audit Report

Foreign Agricultural Service Trade Promotion Operations

Report No. 07601-1-Hy
February 2007



UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250



February 22, 2007

REPLY TO

ATTN OF: 07601-01-Hy

TO: Michael W. Yost
Administrator
Foreign Agricultural Service

ATTN: James Gartner
Acting Director
Compliance, Security and Emergency Planning Division

FROM: Robert W. Young /s/
Assistant Inspector General
for Audit

SUBJECT: Trade Promotion Operations

This report presents the results of our audit of the Foreign Agricultural Service's Trade Promotion Operations. Your response to the official draft, dated February 9, 2007, is included as exhibit A. Excerpts of your response and the Office of Inspector General's (OIG) position are incorporated into the Findings and Recommendations section of the report. Based on your response, we were able to reach management decision on Recommendations 1 and 3. Please follow your agency's internal procedures in forwarding documentation for final action to the Office of the Chief Financial Officer.

We have not reached management decision on Recommendations 2, 4, and 5. The information needed to reach management decision on these recommendations are set forth in the OIG Position section after each recommendation. In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the planned corrective actions and the timeframes for implementing them for Recommendations 2, 4, and 5. Please note that the regulation requires management decision to be reached on all findings and recommendations within 6 months from report issuance.

We appreciate the courtesies and cooperation extended to us by members of your staff during this audit.

Executive Summary

Foreign Agricultural Service Trade Promotion Operations (Audit Report No. 07601-1-Hy)

Results in Brief

In response to a request from three Members of Congress, we reviewed the extent to which the U.S. Department of Agriculture (USDA), through the Foreign Agricultural Service's (FAS) market development programs,¹ fosters expanded trade activities in the exporting of U.S. agricultural products. Specifically, we evaluated information to answer questions on how FAS collects and disseminates information to interested U.S. organizations and how the agency works with the U.S. Trade Representative (USTR) to secure relief from trade barriers. We also answered questions on the link, if any, between USDA accomplishments for promoting exports with the National Export Strategy (NES) and assessments of the effectiveness of the Market Access Program (MAP) in the Philippines.

Similar requests were made of other Offices of Inspectors General (OIG), such as the U.S. Agency for International Development (USAID), to review their respective trade promotion operations. The Members of Congress requested that we work with the Senior Trade Advisor with the Committee on Small Business, U.S. House of Representatives, to establish the scope and timing of our review. The Senior Trade Advisor requested that we provide the results of our review by November 2006. Accordingly, we limited the scope of our work due to the constraints on the amount of time to perform audit tests and certain information that was not available for our review (e.g., program evaluations for the Philippines). FAS officials stated that there were program evaluations completed of markets other than the Philippines. However, FAS was unable to provide these program evaluations that would assess MAP effectiveness following the evaluation criteria specified in the regulations.² We conducted interim briefings with both FAS officials and the Senior Trade Advisor to provide them timely information for their deliberation and use.

In addition to the administration of market development programs, FAS carries out other activities to support the expansion of U.S. agricultural exports. These include collecting and disseminating market information; working with other agencies such as USTR to remove trade barriers; and participating in interagency activities on trade promotion. In addition, legislation and regulations require FAS to provide export information to domestic producers, the agricultural trade, and the public; and to promote commercial markets abroad.³ FAS is to disseminate, upon request, information on subjects connected with agriculture that has been acquired by USDA

¹ There are a total of five FAS market development programs consisting of the Market Access Program (MAP), the Foreign Market Development (FMD) Program, the Emerging Markets Program, the Quality Samples Program, and the Technical Assistance for Specialty Crops program. We focused on MAP for this review because it was the largest of these programs in fiscal year (FY) 2005 and in FY 2006.

² Title 7, *C.F.R.* § 1485.20 (c) (3)

³ Title 7, *U.S.C.*, § 1761 and Title 7, *C.F.R.*, Subtitle A, §2.43 (a) (3)

agencies that may be useful to the U.S. private sector in expanding foreign markets and investment opportunities.⁴

- FAS carries out its trade promotion programs in partnership with agricultural trade associations, State Regional Trade Groups (SRTG), and State Departments of Agriculture. For example, SRTGs have resources to educate both new and experienced U.S. companies in exporting their products. These resources include online export guides assisting U.S. companies with the basics of exporting, as well as export help lines for companies to receive assistance unique to their products. FAS provides funding to these groups through MAP to assist U.S. companies in pursuing international sales and marketing efforts. For fiscal year (FY) 2005, FAS allocated \$140 million in funding for MAP and \$200 million in FY 2006. FAS recently reorganized its operations, in part, to realign functions and personnel to increase its effectiveness. One of the goals of the reorganization, which became effective in November 2006, was to provide program participants with better service that is streamlined and transparent. As part of our review, we identified additional areas for FAS to address as it takes action to strengthen the agency's trade promotion programs.
- FAS does not formally track its efforts to expand trade activities in exporting U.S. agricultural products or outreach to U.S. exporters. As a result, there is no assurance that FAS' outreach efforts are effective in expanding U.S. agricultural exports. FAS does, however, use a variety of resources to identify and disseminate information on trade constraints and business opportunities to interested U.S. organizations. These resources include information gathered by FAS staff in overseas field offices and data posted on the FAS website and Export.gov. In a strategic alliance, FAS also relies on SRTGs and other industry trade groups to identify trade constraints, obtain information on foreign agricultural business opportunities, and disseminate information on constraints and opportunities to interested U.S. organizations. Interested organizations are not always aware that the SRTGs are a primary source of market related information. According to the companies we contacted, which included small and medium-sized entities, they rely on their own sources, as opposed to FAS, to identify trade constraints and obtain information on foreign business opportunities.
- FAS does not present trade barriers⁵ to USTR and then wait for USTR to secure relief from these barriers. Also, the agency does not have a mechanism for summarizing trade barrier information. FAS promotes the

⁴ Title 7, *C.F.R.*, Subtitle A, §2.43 (a) (38)

⁵ According to FAS officials, FAS distinguishes trade barriers as a subset of trade constraints and generally deals with them differently. Constraints include such items as a lack of consumer awareness of the product or the lack of sufficient cold storage facilities in the country of import. Trade barriers are generally recognized as foreign government actions that inhibit trade, whether reasonable or unreasonable. Trade barriers that do not violate international trading rules are generally handled within the Department.

growth of U.S. agricultural products by maintaining a close working relationship with USTR. FAS officials across many organizational units maintain contact with USTR on a regular and recurring basis. According to FAS officials, this close working relationship has proven to be effective for resolving trade barriers, which can change rapidly.

- The 2006 NES submitted to Congress did not present USDA's annual accomplishments for promoting the export of U.S. agricultural products or link information to the USDA's Performance and Accountability Report (PAR). This occurred because the U.S. Department of Commerce's Trade Promotion Coordinating Committee (TPCC), which is responsible for publishing the NES, did not require FAS to submit this type of information. As a result, USDA's performance goals and measures regarding exports could not be linked with the goals of the TPCC.

According to FAS regulations, a MAP participant shall conduct periodic evaluations of its program and activities, which contain, among other things, a description of additional sales achieved, to assess the effectiveness of the program.⁶ According to FAS officials, participants may use third-party independent evaluations to fulfill the reporting requirements set forth in the regulations.

We limited our review of MAP to one country to complement the review by USAID's Inspector General of USAID's trade capacity building activities. We chose to review the Philippines because the participants received the largest request for MAP funds in 2006 of the five countries in the USAID review. FAS provided over \$1 million in MAP funding to all participants operating in the Philippines in FY 2005. Participants operating in the Philippines also requested more than \$1.2 million in MAP funding in FY 2006. For a more detailed analysis, we selected the top three participants that received nearly 78 percent of MAP funding in the Philippines in FY 2005. Overall MAP allocations totaled \$140 million in FY 2005.

- We found that participants do not conduct program evaluations on a schedule. This occurred because FAS does not have a mechanism that ensures comprehensive, periodic program evaluations are conducted by participants to assess MAP effectiveness. In addition, FAS officials stated that third-party evaluations would be prohibitively expensive for participants that received limited MAP funds. FAS officials explained that these three participants contracted for independent evaluations in markets other than the Philippines on a regular basis. However, FAS was unable to provide these program evaluations that would assess MAP effectiveness. According to FAS officials, they use the participant's application, country progress reports, attaché reviews, and discussions

⁶ Title 7, C.F.R., § 1485.20 (c) (3)

with FAS marketing specialists to assess participant performance. They acknowledged that these assessments do not necessarily take the place of independent evaluations. As of September 2006, these three participants received over \$780,000 in MAP funding during FY 2005 and requested more than \$609,000 for FY 2006 for use in the Philippines.

To strengthen FAS' trade promotion programs, the agency needs to improve efforts to outreach to U.S. agricultural interests and work with TPCC to link USDA accomplishments with the NES. FAS also needs to ensure participants conduct evaluations to assess MAP effectiveness.

Recommendations In Brief

FAS should identify those areas where tracking and analyzing specific data would be useful to the agency's efforts to expand exports of U.S. agricultural products, and based on this documented analysis, implement a formal system to track this information. FAS needs to ensure that organizations interested in exporting agricultural products are aware that FAS works through the industry trade groups to outreach to the organizations and provide information on foreign trade constraints and business opportunities. Also, FAS needs to work with TPCC to implement standard reporting requirements to provide a linkage between USDA's annual accomplishments and the NES submitted to Congress. Finally, FAS needs to implement methodologies to ensure participants conduct periodic program evaluations to effectively measure their accomplishments with MAP funding.

Agency Response FAS acknowledged the challenges and complexities faced by OIG in completing this audit under difficult constraints. Despite these issues, FAS generally concurred with the report recommendations; however, the agency had some concerns with parts of the audit and its conclusions.

For example, FAS' response stated that limiting the scope of the review of MAP to program activities in the Philippines provided no credible basis for drawing conclusions about the entire program. In addition, FAS provided examples of evaluations of MAP participants for activities in countries other than the Philippines and explained that MAP participants are not required to conduct evaluations for every individual market in a given year.

We have incorporated excerpts from FAS' response in the Findings and Recommendations section of this report, along with the OIG position. FAS' response is included as exhibit A.

OIG Position As noted in this section and in the Scope and Methodology section of this report, we limited our review of MAP to program operations in the Philippines. We did not draw conclusions about the entire program. In addition, we reported that FAS was unable to provide program evaluations that assessed MAP effectiveness in the Philippines following criteria specified in

the regulations. We acknowledged that MAP participants are not required to conduct evaluations for every individual market in a given year. We also appreciated the examples of evaluations FAS officials provided for activities of MAP participants in several countries other than the Philippines. However, when providing these evaluations, an FAS official acknowledged that the materials provided at the end of our review were “consumer or market surveys” and that “these surveys do not strictly follow the evaluation criteria laid out in the MAP and FMD regulations.”

Despite its concerns with the report, FAS generally concurred with the recommendations. And based on FAS’ response, we accepted management decision on two of the five recommendations in the report (Recommendations 1 and 3). The Findings and Recommendations section of this report provides the details of the additional information needed to reach management decision on Recommendations 2, 4, and 5.

Abbreviations Used in This Report

C.F.R.	Code of Federal Regulations
FAS	Foreign Agricultural Service
FMD	Foreign Market Development
FY	Fiscal Year
GAIN	Global Agricultural Information Network
GAO	Government Accountability Office
GPRA	Government Performance and Results Act of 1993
MAP	Market Access Program
NES	National Export Strategy
OIG	Office of Inspector General
OMB	U.S. Office of Management and Budget
PAR	Performance and Accountability Report
SRTG	State Regional Trade Group
TPCC	Trade Promotion Coordinating Committee
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
USTR	U.S. Trade Representative

Table of Contents

Executive Summary	i
Abbreviations Used in This Report	vi
Background and Objectives	1
Findings and Recommendations.....	5
Section 1. FAS Needs to Improve Tracking of Efforts to Expand Trade Activities and Outreach to U.S. Exporters.....	5
Finding 1	5
Recommendation 1	8
Recommendation 2	9
Section 2. Linkage Between USDA Accomplishments and the National Export Strategy Needed	11
Finding 2.....	11
Recommendation 3	12
Section 3. Program Evaluations to Assess MAP Effectiveness in the Philippines Not Conducted by Participants or FAS.....	13
Finding 3.....	13
Recommendation 4	15
Recommendation 5	16
Scope and Methodology.....	17
Exhibit A – Agency Response	19

Background and Objectives

Background

The Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture (USDA) works to improve foreign market access for U.S. products, build new markets, and improve the competitive position of U.S. agriculture in the global marketplace. The agency also provides food aid and technical assistance to foreign countries. FAS has the primary responsibility for USDA's international activities, including the expansion of exports for U.S. agricultural, fish, and forest products; support of international economic development and trade capacity building; and efforts to improve the sanitary and phytosanitary system to facilitate trade. FAS has a staff of nearly 1,100 employees stationed in Washington D.C., and in about 80 countries around the world.

Export Promotion

FAS programs help U.S. exporters develop and maintain markets for hundreds of food and agricultural products, from bulk commodities to brand name items. The largest FAS promotional programs are the Market Access Program (MAP) and Foreign Market Development program (FMD), which were allocated \$200 million and \$34.5 million, respectively, for fiscal year (FY) 2006. Promotional activities under these programs use funds from USDA's Commodity Credit Corporation. These programs are carried out in partnerships with agricultural trade associations, State Regional Trade Groups (SRTG), State Departments of Agriculture, small and medium-sized businesses, and cooperatives that plan, manage, and contribute staff resources and funds to support these efforts. As of November 2006, there were approximately 75 participants, including 4 SRTGs participating in FAS' promotional programs.

FAS uses a variety of resources to identify and disseminate information on trade constraints and business opportunities to interested U.S. organizations. These resources include information gathered by FAS staff in overseas field offices and data posted on the FAS website and Export.gov. FAS also refers U.S. exporters to industry trade groups, such as State Departments of Agriculture or SRTGs, in order to provide assistance in foreign marketing efforts. SRTGs are nonprofit organizations composed of State agricultural promotion agencies that use Federal, State, and industry resources to promote the export of agricultural products. For example, the State Departments of Agriculture and SRTGs offer a wide range of programs and services to potential novice, and even experienced exporters. This includes export readiness seminars, trade leads and matchmaking services, market information, and participation in trade shows or missions.

In 2005, the U.S. Office of Management and Budget (OMB), using the Program Assessment Rating Tool, assessed the performance of FAS' market development programs and rated them as being "moderately effective."⁷ In general, programs rated "moderately effective" have set ambitious goals and are well-managed but likely need to improve their efficiency in order to achieve better results. OMB concluded in its program assessment summary that the market development programs do not necessarily serve a clear need because many of the participants receiving funds are partly supported by large corporations that can afford to support their own export promotion efforts. OMB also concluded that the unique impact of the programs are unclear given there is no way to know whether the activities funded by these programs would occur without government funding. Finally, OMB found that the market development programs do help reduce trade barriers that have been erected against U.S. agricultural exports.

FAS contracted with a consultant to conduct an independent, third-party review of the agency's export market development programs, including MAP and the FMD program. The summary report⁸ of the review was released in November 2006 and concluded that the market development partnership between government and industry had significant impacts on U.S. exports. In addition, it found that overall U.S. agricultural exports under the 2002 Farm Bill increased \$25 for every market development dollar expended by government and industry. The findings also indicated positive impacts on cash receipts, farm income, farm asset values, and reduced government spending on domestic support payments.

FAS participates in interagency committees regarding the promotion of agricultural trade. For example, the Trade Promotion Coordinating Committee (TPCC), consisting of 19 Federal agencies and chaired by the U.S. Department of Commerce, was established by Congress in 1992 to provide a unifying interagency framework in the coordination of U.S. export promotion activities and to develop a government-wide strategic plan. TPCC annually submits to Congress a National Export Strategy (NES), which reports member agencies' activities and trade promotion budget authority, and establishes broad priorities.

FAS also promotes U.S. agriculture through its work on agricultural trade policy. In this capacity, FAS coordinates with other USDA agencies and the Office of the U.S. Trade Representative (USTR) to carry out USDA's responsibilities in international trade negotiations. FAS also works with other USDA agencies, particularly the Animal and Plant Health Inspection Service and the Food Safety and Inspection Service, to identify and reduce foreign trade barriers, constraints, and policies that hinder U.S. agricultural exports.

⁷ OMB has completed assessments for 793 Federal programs with 15 percent rated "effective," 29 percent rated "moderately effective," 28 percent rated "adequate," 4 percent rated "ineffective," and 24 percent rated "results not demonstrated."

⁸ OIG did not assess or validate the information reported in this review due to time constraints.

FAS' Reorganization

Since FAS' establishment in 1953, world agricultural trade has changed significantly. To address these changes and challenges, in 2004, FAS coordinated a top-to-bottom review of what the agency does, how effectively it functions, and what it could do better. This effort pointed out the need for a new strategic focus for FAS and a realignment of functions and personnel to increase the effectiveness of the agency.

As a result, FAS reorganized its operations, which became effective in November 2006. The goals of the reorganization included more effectively linking the country expertise of FAS overseas offices with an increased focus in Washington, D.C., on key countries; providing program participants with better, streamlined, and transparent service; grouping staff members, who were scattered throughout the agency working on various aspects of trade barrier removal, into single work units with coherent missions; and strengthening FAS' ability to support the dispute settlement efforts of USTR.

Congressional Request

In August 2006, the Office of Inspector General (OIG) received a request from three Members of Congress to conduct a brief review of FAS' trade promotion operations to identify areas for internal improvement to achieve greater results. Similar requests were made of other OIGs, such as the U.S. Agency for International Development (USAID), to review their respective trade promotion operations. The Members of Congress requested that we work with the Senior Trade Advisor with the Committee on Small Business, U.S. House of Representatives, to establish the scope of the review. The Senior Trade Advisor requested that we provide the results of our review by November 2006. Accordingly, we limited the scope of our work due to the constraints on the amount of time to perform audit tests and certain information not being available for our review. FAS officials stated that there were program evaluations completed of markets other than the Philippines. However, FAS was unable to provide these program evaluations that would assess MAP effectiveness following the evaluation criteria specified in the regulations.⁹

Objectives

The overall objective of the audit was to determine the extent to which the USDA, through FAS' market development programs, fosters expanded trade activities in the exporting of U.S. agricultural products.

Specifically, we determined the extent to which: (1) FAS is actively outreaching to U.S. agricultural interests to identify trade constraints and foreign agricultural business opportunities and if FAS is disseminating this

⁹ Title 7, C.F.R. § 1485.20 (c) (3)

information to U.S. interested organizations; (2) FAS is summarizing and presenting identified trade barriers to USTR and FAS' private sector participants and determining whether these bodies are securing relief from these barriers; and, (3) efforts to promote the export of U.S. agricultural products by USDA are being presented, with measurable benchmarks, in the NES submitted to Congress and linked to USDA's Performance and Accountability Report (PAR).

We also examined FAS' assessments of the effectiveness of MAP to promote the export of U.S. agricultural products and identify and secure relief from trade constraints. This evaluation was intended to be limited to one country to complement and build upon the review by USAID's Inspector General of USAID's trade capacity building activities. We chose to review the Philippines because it received the most requests for MAP funds by participants in 2006 of the five countries selected for review by USAID OIG.

Findings and Recommendations

Section 1. FAS Needs to Improve Tracking of Efforts to Expand Trade Activities and Outreach to U.S. Exporters

Finding 1

FAS carries out its trade promotion programs in partnership with agricultural trade associations, SRTGs, and State Departments of Agriculture. As of November 2006, there were approximately 75 industry trade groups, including 4 SRTGs, participating in FAS' promotional programs. For example, SRTGs have resources to educate both new and experienced U.S. companies in exporting their products. These resources include online export guides assisting U.S. companies with the basics of exporting, as well as export help lines for companies to receive assistance unique to their products. FAS provides funding to these groups through MAP to assist U.S. companies in pursuing international sales and marketing efforts. For FY 2005, FAS allocated \$140 million for MAP and \$200 million in FY 2006. FAS recently reorganized its operations, in part, to realign functions and personnel to increase its effectiveness. One of the goals of the reorganization, which became effective in November 2006, was to provide program participants with better service that is streamlined and transparent. As part of our review, we identified additional areas for FAS to address as it takes action to strengthen the agency's trade promotion programs.

FAS does not formally track its efforts to expand trade activities in exporting U.S. agricultural products or outreach to U.S. exporters. As a result, there is no assurance that FAS' outreach efforts are effective in expanding U.S. agricultural exports. FAS does; however, use a variety of resources to identify and disseminate information on trade constraints and business opportunities to interested U.S. organizations. These resources include information gathered by FAS staff in overseas field offices, announcements by the FAS Public Affairs Office, and data posted on the FAS website and Export.gov. In a strategic alliance, FAS also relies on SRTGs and other industry trade groups to identify trade constraints, obtain information on foreign agricultural business opportunities, and disseminate information on constraints and opportunities to interested U.S. organizations. Interested organizations are not always aware that the SRTGs are a primary source of market related information. According to the companies we contacted, which included small and medium-sized entities, they rely on their own sources, as opposed to FAS, to identify trade constraints and obtain information on foreign business opportunities.

Legislation and regulations require FAS to provide export information to domestic producers, the agricultural trade, and the public; and to promote

commercial markets abroad.¹⁰ In addition, FAS is to disseminate, upon request, information on subjects connected with agriculture which has been acquired by USDA agencies that may be useful to the U.S. private sector in expanding foreign markets and investment opportunities.¹¹

FAS fosters the expansion of exports of U.S. agricultural products by partnering with industry trade groups and U.S. agricultural officials in overseas posts to identify trade constraints and foreign agricultural business opportunities. However, companies that we interviewed explained that they primarily rely on other sources, rather than on FAS, to identify constraints and opportunities. For example, two industry trade groups we spoke with learned of trade constraints from exporters once they encountered them. In addition, we spoke with three small and medium-sized companies. One company exports branded and specialty food products, the second exports primarily rice products, and the third is a small food marketing distribution and exporting company. Two of the three companies did not obtain foreign business opportunities using FAS resources because the amount of information was overwhelming and not easily accessible in a centralized location. One of the companies also told us that his company could not rely on FAS to provide timely information on potential trade constraints such as tariffs, duties, and levies.

Coordination with Industry Trade Groups to Collect and Disseminate Information on Business Opportunities and Trade Constraints

FAS provides funding to SRTGs and the State Departments of Agriculture to assist U.S. companies in pursuing international sales and marketing efforts in identifying foreign business opportunities through trade shows and reverse trade missions. A reverse trade mission is a domestic trade show where foreign buyers are brought to the United States. According to FAS officials, they refer U.S. companies to SRTGs and the State Departments of Agriculture because the SRTGs and State Departments of Agriculture have the expertise to help companies export. In addition, FAS officials explained that this conserves scarce FAS resources. However, the companies we contacted were not always aware or informed that SRTGs and the State Departments of Agriculture are a source for this market-related information.

SRTGs have resources to educate both new and experienced U.S. companies in exporting their products. The SRTG websites include online export guides assisting U.S. companies with the basics of exporting, as well as export helplines for companies to receive assistance unique to their products. In discussions with SRTGs, we determined that they also provide export readiness consultations, which are designed to offer both novice and veteran

¹⁰ Title 7, U.S.C., § 1761 and Title 7, C.F.R., Subtitle A, §2.43 (a) (3)

¹¹ Title 7, C.F.R., Subtitle A, §2.43 (a) (38)

exporters the opportunity to receive individual assistance with their most challenging export issues.

Industry trade groups learn of trade constraints through their offices located in countries to which they export. They also attend trade shows overseas, which provide a good source for identifying foreign business opportunities. Industry trade groups rely heavily on informal methods (e.g., e-mails, telephone calls) to provide information on constraints and opportunities to FAS.

FAS also becomes aware of trade constraints and foreign agricultural business opportunities by receiving reports from U.S. agricultural officials in overseas posts (e.g., agricultural attachés). Through FAS' Global Agricultural Information Network (GAIN), attachés issue market reports such as "Product Briefs" and "Exporter Guides."¹² These reports contain up-to-date country market information, including factors affecting demand for U.S. products, as well as market promotion opportunities to help U.S. agricultural producers export to foreign markets.

Coordination with USTR to Address Trade Barriers

FAS also promotes the growth of U.S. agricultural products by maintaining a close working relationship with USTR for resolving trade barriers. According to FAS officials, FAS does not present trade barriers to USTR and then wait for USTR to secure relief from these barriers. Rather, FAS and USTR work jointly as partners to mitigate them. Also, FAS does not have a mechanism for summarizing trade barrier information. FAS officials across many organizational units maintain contact with USTR on a regular and recurring basis. According to FAS officials, this close working relationship has proven to be effective because it allows for the flexibility vital to resolving trade barriers, which can change rapidly.

FAS abandoned prior efforts to centrally track such items as trade barriers because, according to FAS officials, the system was difficult to maintain and provided little benefit to the agency. However, FAS maintains an internal list of key outstanding sanitary and phytosanitary issues, which represent, according to an FAS official, approximately 75 to 90 percent of the trade barriers that can be addressed in any given year outside of formal trade negotiations.

FAS' Reorganization

Under FAS' reorganization, the new Office of Country and Regional Affairs will develop and disseminate overseas post reporting requirements in

¹² Not all reports issued by FAS' agricultural attachés are accessible by the public. For example, Trade Policy Monitoring Reports, that provide an overview of a country's trade policy measures affecting policy interests of the United States, are intended for USDA internal distribution only.

consultation with other stakeholders. It will also review reports from, and exchange information with, overseas posts to assure that information, advice, and analysis reach appropriate audiences and that the information receives proper attention. The new Office of Negotiations and Agreements will function as the USDA's lead on formal trade negotiations and trade agreements and principal liaison with USTR. Finally, the new Office of Trade Programs will serve as the agency point of contact for exporter assistance and on all matters related to export program participation, procedures, and policy. It will also organize and oversee outreach activities to ensure that all persons, especially those who previously may not have participated fully, know the availability of export programs and how to use them.

On November 14, 2006, we met with FAS officials to discuss our tentative audit conclusions. During this meeting, we suggested, as a potential recommendation, that FAS implement a system to track the agency's efforts to expand exports of U.S. agricultural products. However, according to FAS officials, it would be more practical for the agency to focus resources on specific areas that would be useful to aid the agency in tracking its efforts to expand exports.

FAS' mechanisms for disseminating trade constraints and foreign business opportunities to various U.S. agricultural interests, particularly small and medium-sized companies, need improvement. The companies we contacted rely on their own sources, rather than FAS, for information on constraints and opportunities. As part of the reorganization, FAS needs to identify those areas where tracking and analyzing specific data would be useful to the agency's efforts to expand exports of U.S. agricultural products. FAS should coordinate this tracking and analysis with its Government Performance and Results Act of 1993 (GPRA) reporting requirements because the agency does not currently consolidate this information. In addition, FAS needs to ensure that organizations interested in exporting agricultural products are aware that FAS works, in part, through industry trade groups to outreach to organizations and provide information on trade constraints and business opportunities.

Recommendation 1

Identify the areas where tracking and analyzing specific data would be useful to the agency's efforts to expand exports of U.S. agricultural products. Based on this documented analysis, FAS should implement a formal system to track this information and coordinate this effort with the agency's GPRA reporting requirements.

Agency Response

In connection with its recent reorganization, FAS has begun to catalogue the existing information and reporting systems that support the Agency's mission to expand U.S. agricultural exports. The review and assessment of these existing systems will be an important first step in the analysis recommended in the report. For example, the Committee on Agriculture tracking system is used to track and disseminate information related to market constraints and market access issues which have been raised by the United States in the World Trade Organization's Committee on Agriculture.

An initial review of mechanisms needed to support existing GPRA reporting related to market access issues will be completed by March 15, 2007. FAS already is in the process of designing an electronic tracking system to identify and track the range of agricultural market access issues while also retooling its coordinated SPS list. These will replace the previous mechanisms used to support GPRA reporting. Further review of other data and reporting mechanisms will be completed by the end of calendar year 2007, in coordination with an agency-wide effort to review overseas-post reporting requirements and implement country strategy plans.

OIG Position

We accept FAS' management decision.

Recommendation 2

Review the FAS website and other outreach efforts to ensure that the broadest appropriate audience is aware of the export marketing information and assistance that is available from FAS and through industry trade groups, including the SRTGs and the State Departments of Agriculture. Based on this review, if the appropriate audience is not fully aware of the information and assistance available to them, develop and implement a plan to increase this awareness.

Agency Response

Over the years, FAS has conducted extensive outreach efforts to industry trade groups and individual exporters. Due to limited resources and increasing demand for export services, FAS has actively increased use of our industry trade group partners, including the SRTGs, to help disseminate information to individual exporters and as a source of critical market constraint and market opportunity information.

FAS also maintains what is widely acknowledged to be the most comprehensive system of agricultural data and information in the world. FAS overseas offices submit a wide range of reports containing detailed

information on overseas markets, including export opportunities and constraints. All of these reports and other critical information are easily accessed through the FAS website.

In FY 2007, FAS is scheduled to review its website and other outreach efforts and, if the review finds that the appropriate audience is not fully aware of the agricultural product export information and assistance available to them, the agency will develop and implement a plan to increase awareness contingent upon the resources available to do so.

OIG Position

We do not accept FAS' management decision. Although the agency agreed to review its website and other outreach efforts with the intent of possibly strengthening its dissemination of agricultural product export information and assistance to all users, we need more specific information before we can accept management decision. Specifically, we need the results of FAS' review and its determination, including timeframes, on how the agency will address the results of the review, if appropriate.

Section 2. Linkage Between USDA Accomplishments and the National Export Strategy Needed

Finding 2

The 2006 NES submitted to Congress did not present USDA's annual accomplishments for promoting the export of U.S. agricultural products or link information to USDA's PAR. This occurred because TPCC, which is responsible for publishing the NES, did not require FAS to submit this type of information. As a result, USDA's performance goals and measures regarding exports could not be linked with the goals of TPCC.

According to an FAS official, TPCC decides the outline of what will be included in the NES. TPCC also makes the decision on what information submitted by FAS is included in the final version of the NES. TPCC did not require FAS to submit USDA's annual accomplishments that could be linked to USDA's PAR. FAS needs to work with TPCC to implement standard reporting requirements to provide a linkage between USDA's annual accomplishments and the NES submitted to Congress.

TPCC is mandated to develop a government-wide strategic plan for carrying out Federal export promotion and export financing programs.¹³ GPRA requires agencies to develop performance measures and assess performance.

In a 2002 report,¹⁴ the Government Accountability Office (GAO) recommended to TPCC that its NES consistently identify specific goals established by the agencies within the strategies' broad priorities; identify allocation of agencies' resources in support of their specific goals; and analyze the progress made in addressing the recommendations in TPCC's prior annual strategies. In its 2006 testimony before the Committee on Small Business,¹⁵ GAO reported there was no record of TPCC submitting an action plan to OMB in response to this recommendation.

Under FAS' reorganization, two separate offices will be responsible for coordinating with TPCC and reporting on FAS' accomplishments. The new Office of Trade Programs will serve as the FAS liaison with TPCC with respect to U.S. Government policy coordination of export promotion and export financing. The new Office of Administrative Operations will coordinate the agency strategic planning process through implementation of GPRA.

¹³ 15 U.S.C. § 4727 (a)(2)

¹⁴ GAO, *Export Promotion: Mixed Progress in Achieving a Government-wide Strategy*, GAO-02-850 (September 4, 2002).

¹⁵ GAO, *Export Promotion: Trade Promotion Coordinating Committee's Role Remains Limited*, GAO-06-660T (April 26, 2006).

Recommendation 3

Work with TPCC to implement standard reporting requirements that link information reported in the NES to USDA's PAR for annual accomplishments in promoting the export of U.S. agricultural products.

Agency Response

FAS agrees with the desirability of implementing standard reporting requirements that link information reported in the NES to USDA's PAR for annual accomplishments in promoting the export of U.S. agricultural products, and in FY 2007 will continue to work with TPCC to establish them.

OIG Position

We accept FAS' management decision.

Section 3. Program Evaluations to Assess MAP Effectiveness in the Philippines Not Conducted by Participants or FAS

Finding 3

FAS provided over \$1 million in MAP funding to all participants operating in the Philippines in FY 2005. Participants operating in the Philippines also requested more than \$1.2 million in MAP funding in FY 2006. We limited our review of MAP to the three participants that were approved to use the most MAP funds in the Philippines in FY 2005. These three participants received 78 percent of MAP funds for the Philippines in FY 2005 and requested 51 percent of the funds in FY 2006. According to FAS regulations, a MAP participant shall conduct periodic evaluations of its program and activities to assess the effectiveness of the program.¹⁶ FAS officials explained that these participants contracted for evaluations in markets other than the Philippines on a regular basis. However, FAS was unable to provide these program evaluations that would assess MAP effectiveness following the criteria specified in the regulations.

In FY 2005, MAP funding allocated to participants operating in the Philippines represented only a small sliver of overall MAP funds.¹⁷ However, FAS considers the Philippines as a key market in Southeast Asia for U.S. agricultural exports, with sales reaching \$825 million in 2005. Top U.S. exports to the Philippines in 2005 were wheat (\$270 million), soybean and soybean meal (\$168 million), and dairy products (\$63 million), with total U.S. agricultural exports rising 16 percent compared to 2004.

According to FAS regulations, a program evaluation shall contain, among other things: a concise statement of the constraint(s) and the goals specified in the activity plan; a description of the evaluation methodology; a description of additional export sales achieved, including the ratio of additional export sales in relation to MAP funding received; and a summary of the findings, including an analysis of the strengths and weaknesses of the program.¹⁸ According to FAS officials, participants may use third-party independent evaluations to fulfill the reporting requirements set forth in the regulations. However, we found that participants do not conduct program evaluations on a set schedule. This occurred because FAS does not have a mechanism that ensures comprehensive, periodic program evaluations are conducted by participants to assess MAP effectiveness. In addition, FAS officials stated that third-party evaluations would be prohibitively expensive for participants that received limited MAP funds.

¹⁶ Title 7, C.F.R., § 1485.20 (c)(1)(ii)(iii)

¹⁷ MAP allocations totaled \$140,000,000 in FY 2005.

¹⁸ Title 7, C.F.R., § 1485.20 (c) (3)

According to FAS officials, they use the participant’s application, country progress reports, attaché reviews, and discussions with FAS marketing specialists to assess participant performance. They acknowledged that these assessments do not necessarily take the place of independent evaluations.

We limited our review of MAP in order to better respond to the request from the Members of Congress. We chose the Philippines to complement and build upon the review being performed by the USAID Inspector General to assess USAID’s trade capacity building activities. We reviewed the following three participants: (1) the California Tree Fruit Agreement, (2) the California Table Grapes Commission, and (3) the U.S. Wheat Associates. Together these participants accounted for nearly 78 percent of the MAP funding for the Philippines in FY 2005. (See Table 1.) These participants expressed satisfaction with the program and described it as effective in promoting their products in the Philippines.

Table 1. 2005 Country Summary Report – Philippines MAP Funding

Participant	Requested	Approved	Percentage of Approved Funds
American Soybean Association	30,000	30,000	3.0%
California Agricultural Export Council	35,000	35,000	3.5%
California Table Grape Commission	138,900	248,505	24.8%
California Tree Fruit Agreement	55,000	70,000	7.0%
National Dry Bean Council	50,000	25,000	2.5%
Raisin Administrative Committee	115,000	65,000	6.5%
U.S. Wheat Associates	343,700	461,770	46.0%
USA Dry Pea and Lentil Council	85,000	48,000	4.8%
USA Poultry and Egg Export Council	40,000	20,000	2.0%
Washington Apple Commission	84,000	0	0.0%
TOTAL FOR PHILIPPINES	\$976,600	\$1,003,275	

However, only one of the three participants selected for our review contracted with a third party to conduct a review. Furthermore, although this review was specific to the Philippines, it did not measure the effectiveness of MAP. The review considered a range of matters including quality management systems, product usage, quality and specifications, research and development and training, trends in the product market, and best prospects for the product. According to FAS officials, these three participants contracted for independent evaluations in other markets but acknowledged these evaluations were not specific to MAP. FAS officials also could not provide these program evaluations for our review.

In November 2006, a consultant contracted by FAS released a summary report¹⁹ of their cost-benefit analysis of the agency's export market development programs, including MAP and FMD. The consultant concluded that the market development partnership between government and industry had significant impacts on U.S. exports. According to the summary report, U.S. agricultural exports under the 2002 Farm Bill increased \$25 for every market development dollar expended by government and industry.

FAS needs to implement methodologies to ensure participants conduct periodic program evaluations to assess MAP effectiveness and to assist those participants receiving limited MAP funding. Recognizing this weakness, FAS officials explained that they intend to set up a central fund that would be used to provide third-party reviews for participants that received limited MAP funding. FAS officials stated that their expectation is to have the central fund operating in FY 2007.

Recommendation 4

Develop and implement a mechanism that ensures periodic program evaluations are conducted by participants to effectively measure their accomplishments with MAP funding.

Agency Response

In the 2005 PART review of FAS market development programs, OMB gave FAS very high marks for performance measurement, evaluations, and strategic planning; program management; and program results. OIG also noted the positive conclusions from the recent Cost-Benefit study of these market development programs. FAS maintains that greater weight should have been given to these two reports, as these were program wide assessments that provide a more accurate view of overall program effectiveness.

The regulations state that "a program evaluation is a review of the MAP participant's entire program or any appropriate portion of the program to determine the effectiveness of the participant's strategy in meeting specified goals." FAS already has procedures in place which ensure that MAP participants meet this and all other obligations as stipulated in the regulations and, in FY 2007, will study the need for any additional mechanisms to further ensure that existing MAP regulations requiring periodic program evaluations are being met.

OIG Position

We do not accept FAS' management decision. FAS' response states that the agency already has procedures in place that ensures periodic program

¹⁹ OIG did not assess or validate the information reported in this review due to time constraints.

evaluations are conducted by MAP participants. However, during our review of the three participants that were approved to use the most MAP funds in the Philippines in FY 2005, we found these participants did not conduct program evaluations on a set schedule.

We acknowledged that MAP participants are not required to conduct evaluations for every individual market in a given year. We also appreciated the examples of evaluations FAS officials provided for activities of MAP participants in several countries other than the Philippines. However, when providing these evaluations, an FAS official acknowledged that they were “consumer or market surveys” and that “these surveys do not strictly follow the evaluation criteria laid out in the MAP and FMD regulations.”

To reach management decision, FAS needs to develop and implement a mechanism that ensures periodic program evaluations are conducted by participants to effectively measure their accomplishments with MAP funding and to identify the timeframe for completing this action.

Recommendation 5

Establish a mechanism to assist participants receiving limited MAP funds to conduct regular program evaluations.

Agency Response

All MAP participants, regardless of the amount of program funding they receive, are obligated to conduct regular program evaluations. However, the regulations also make plain that participants may, but are not required to, contract with an independent evaluator to conduct third party evaluations. Previously, FAS noted that contracting for independent evaluations and/or evaluating the few activities conducted in small markets (such as the Philippines) can be cost prohibitive for smaller MAP participants. While the competitive UES review process and self-assessments by MAP participants in the form of Country Progress Reports help ensure that market development funds are being used efficiently and effectively, FAS acknowledges that independent evaluations can provide additional benefits and will consider ways to provide funding to smaller participants for third-party evaluations.

OIG Position

We do not accept FAS’ management decision. To reach management decision, FAS needs to provide an action plan, with a proposed completion date, for establishing at least one mechanism to assist participants receiving limited MAP funds to conduct regular program evaluations.

Scope and Methodology

Our review of USDA's trade promotion operations was initiated in response to a request from three Members of Congress. The Members of Congress requested that we work with the Senior Trade Advisor with the Committee on Small Business to establish the scope of the review. The Senior Trade Advisor requested that we provide the results of our review by November 2006. Accordingly, we limited the scope of our work due to the constraints on the amount of time to perform audit tests and certain information not being available for our review. FAS did not provide documentation of evaluations performed to assess the use of MAP funding for the participants we reviewed. We conducted interim briefings with both FAS officials and the Senior Trade Advisor to provide them timely information for their deliberations and use.

At FAS Headquarters, we interviewed FAS program officials and obtained and reviewed relevant documentation. We also interviewed by teleconference FAS' Agricultural Counselor and Agricultural Attaché located in the Philippines. We interviewed these officials to determine the extent of FAS' efforts to outreach to external groups to identify trade impediments and foreign agricultural business opportunities. We also determined whether FAS was disseminating this information to U.S. interested organizations. In addition, we interviewed FAS officials to learn how FAS identifies, summarizes, and presents identified trade constraints to the USTR. Finally, we interviewed an FAS official to determine whether USDA's annual accomplishments were reported in the NES and if not, the reasons for their omission.

We spoke with a limited number of industry trade groups and three small to medium-sized companies to determine how they interact with FAS and what efforts FAS makes to assist them in exporting U.S. agricultural products. We also obtained and reviewed documents received from these groups. We judgmentally selected 3 SRTGs to interview: the Food Export Association of the Midwest, the Food Export Association of the Northeast USA, and the Southern U.S. Trade Association. Finally, we interviewed officials from the National Association of State Departments of Agriculture and nine trade associations represented by the U.S. Agricultural Export Development Council based on input from FAS officials.

We interviewed representatives from 3 small to medium-sized companies: Groceries USA, Rice Economics, and SB Global to solicit their input on the extent to which FAS actively outreaches to them to identify trade leads and assist them in mitigating trade constraints. These companies were contacted based on input from one of the SRTGs.

In order to better serve the request from the Members of Congress, we narrowed our review to complement and build upon the review by USAID's Inspector General of USAID's trade capacity building activities. USAID OIG selected the following countries in its review: El Salvador, Honduras, Nicaragua, the Philippines, and South Africa. The Philippines received the most requests for MAP funding by participants in 2006 of any of the five countries and was selected as the country for our review on that basis. We also judgmentally selected a sample of participants to solicit their comments on the effectiveness of FAS' efforts, through its MAP, to promote the export of products to the Philippines. These three participants (the U.S. Wheat Associates, the California Table Grape Commission, and the California Tree Fruit Agreement) were selected because they accounted for nearly 78 percent of the total funding for the Philippines for 2005.

FAS allocated \$140 million for MAP in FY 2005 and \$200 million in FY 2006. FAS provided over \$1 million in MAP funding to all participants operating in the Philippines in FY 2005. Participants requested more than \$1.2 million for FY 2006. The three participants we reviewed received over \$780,000 in MAP funding during FY 2005 and requested more than \$609,000 in FY 2006 for use in the Philippines.

The fieldwork was performed from August 2006 to November 2006 and was conducted in Washington, D.C.

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards.

Exhibit A – Agency Response

Exhibit A page 1 of 5



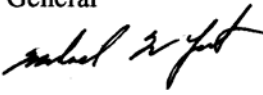
United States
Department of
Agriculture

Farm and Foreign
Agricultural
Services

Foreign
Agricultural
Service

1400 Independence
Ave, SW
Stop 1060
Washington, DC
20250-1060

TO: Robert W. Young
Assistant Inspector General for Audit
Office of Inspector General

FROM: Michael W. Yost  FEB - 9 2007
Administrator

SUBJECT: Response to OIG Official Draft Audit Report -- "Foreign Agricultural Service Trade Promotion Activities" (07601-1-Hy)

The Foreign Agricultural Service (FAS) acknowledges the challenges faced by the Office of Inspector General (OIG) in completing this audit under difficult constraints. FAS also recognizes that subsequent changes in the scope of the review created additional complexities for both OIG and FAS. Despite these issues, FAS generally concurs with the recommendations presented in the report, however, there are some concerns with parts of the audit and its conclusions.

By choosing to limit its study of the Market Access Program (MAP) to program activities in the Philippines--a market in which less than one-half of one percent of MAP funds are spent--the OIG report resulted in observations that are not representative of typical program activity and conclusions not applicable to the program as a whole. By choosing the Philippines--one of USAID's largest partner countries--OIG's observations serve as a representative sample for the USAID audit. By contrast, a study of the nascent MAP activity in the Philippines (in OIG's own words "only a small sliver of overall MAP funds") provides no credible basis for drawing conclusions about the entire program.

In a similar manner, OIG attempted to determine the extent of FAS's outreach efforts to U.S. agricultural interests by interviewing just three of the hundreds of companies that work with FAS either directly or indirectly through the industry trade groups. Based upon these interviews, OIG concluded that small and medium sized exporters "primarily rely on other resources, rather than FAS, to identify constraints and opportunities," and then contradicts their report by stating that two of the three companies interviewed indicated that the amount of information available from FAS was "overwhelming."

- 2 -

OIG also asserts that it found no evidence that comprehensive, periodic program evaluations are conducted by participants to assess MAP effectiveness and that, as a result, there is no way to ensure that MAP is being managed effectively. FAS provided examples of such evaluations for activities in several countries other than the Philippines and explained that program participants are not required to conduct evaluations for every individual market in a given year. While FAS acknowledges that these samples may have been received too late for inclusion in the final report, the request for them came very late in the audit process and no fixed deadline was given for their submission.

The OIG report focused relatively little attention on FAS's comprehensive annual review of participant applications for market development funds through the Unified Export Strategy structure. This process involves a number of evaluative criteria, including evidence of administrative capacity and long-term strategic planning, as well as demonstration of progress toward measurable goals and performance standards. In effect, these reviews serve as annual assessments and evaluations of each participant.

Contrary to the implications contained in the report, the unique partnership between FAS and MAP participants, including the State Regional Trade Groups (SRTG), has delivered significant and measurable results. In fact, U.S. exporters are successfully entering new markets and maintaining existing markets in the face of increasingly strong competition from exporters in other countries. As reported in the 2005 Office of Management and Budget (OMB) Program Assessment Rating Tool (PART) review of the USDA/FAS market development programs, since 2001 nearly 2,000 small companies reported making their first export sale with the support of these programs. These successes are due in large part to the successful leveraging of federal and industry funds to conduct generic market development activities that benefit all U.S. exporters of food and agricultural products.

As for the five recommendations contained within the OIG report, FAS's response to each is provided as follows:

Recommendation 1:

Identify the areas where tracking and analyzing specific data would be useful to the agency's efforts to expand exports of U.S. agricultural products. Based on this documented analysis, FAS should implement a formal system to track this information and coordinate this effort with the agency's GPRA reporting requirements.

- 3 -

FAS Response:

In connection with its recent reorganization, FAS has begun to catalogue the existing information and reporting systems that support the Agency's mission to expand U.S. agricultural exports. The review and assessment of these existing systems will be an important first step in the analysis recommended in the report. For example, the Committee on Agriculture tracking system is used to track and disseminate information related to market constraints and market access issues which have been raised by the United States in the World Trade Organization's Committee on Agriculture.

An initial review of mechanisms needed to support existing GPRA reporting related to market access issues will be completed by March 15, 2007. FAS already is in the process of designing an electronic tracking system to identify and track the range of agricultural market access issues while also retooling its coordinated SPS list. These will replace the previous mechanisms used to support GPRA reporting. Further review of other data and reporting mechanisms will be completed by the end of calendar year 2007, in coordination with an agency-wide effort to review overseas-post reporting requirements and implement country strategy plans.

Recommendation 2:

Review the FAS website and other outreach efforts to ensure that the broadest appropriate audience is aware of the export marketing information and assistance that is available from FAS and through industry trade groups, including SRTGs and the state departments of agriculture. Based on this review, if the appropriate audience is not fully aware of the information and assistance available to them, develop and implement a plan to increase this awareness.

FAS Response:

Over the years, FAS has conducted extensive outreach efforts to industry trade groups and individual exporters. Due to limited resources and increasing demand for export services, FAS has actively increased use of our industry trade group partners, including the SRTGs, to help disseminate information to individual exporters and as a source of critical market constraint and market opportunity information.

FAS also maintains what is widely acknowledged to be the most comprehensive system of agricultural data and information in the world. FAS overseas offices submit a wide range of reports containing detailed information on overseas markets, including export opportunities and constraints. All of these reports and other critical information are easily accessed through the FAS website.

- 4 -

In FY 2007 FAS is scheduled to review its website and other outreach efforts and, if the review finds that the appropriate audience is not fully aware of the agricultural product export information and assistance available to them, the agency will develop and implement a plan to increase awareness contingent upon the resources available to do so.

Recommendation 3:

Work with TPCC to implement standard reporting requirements that link information reported in the NES to USDA's PAR for annual accomplishments in promoting the export of U.S. agricultural products.

FAS Response:

FAS agrees with the desirability of implementing standard reporting requirements that link information reported in the NES to USDA's PAR for annual accomplishments in promoting the export of U.S. agricultural products, and in FY 2007 will continue to work with TPCC to establish them.

Recommendation 4:

Develop and implement a mechanism that ensures periodic program evaluations are conducted by participants to effectively measure their accomplishments with MAP funding.

FAS Response:

In the 2005 PART review of FAS market development programs, OMB gave FAS very high marks for performance measurement, evaluations, and strategic planning; program management; and program results. OIG also noted the positive conclusions from the recent independent Cost-Benefit study of these market development programs. FAS maintains that greater weight should have been given to these two reports, as these were program wide assessments that provide a more accurate view of overall program effectiveness.

The regulations state that "a program evaluation is a review of the MAP participant's entire program or any appropriate portion of the program to determine the effectiveness of the participant's strategy in meeting specified goals." FAS already has procedures in place which ensure that MAP participants meet this and all other obligations as stipulated in the regulations and, in FY 2007, will study the need for any additional mechanisms to further ensure that existing MAP regulations requiring periodic program evaluations are being met.

- 5 -

Recommendation 5:

Establish a mechanism to assist program participants receiving limited MAP funds to conduct regular program evaluations.

FAS Response:

All MAP participants, regardless of the amount of program funding they receive, are obligated to conduct regular program evaluations. However, the regulations also make plain that participants may, but are not required to, contract with an independent evaluator to conduct third party evaluations. Previously, FAS noted that contracting for independent evaluations and/or evaluating the few activities conducted in small markets (such as the Philippines) can be cost prohibitive for smaller MAP participants. While the competitive UES review process and self-assessments by MAP participants in the form of Country Progress Reports help ensure that market development funds are being used efficiently and effectively, FAS acknowledges that independent evaluations can provide additional benefits and will consider ways to provide funding to smaller participants for third-party evaluations.

If you have any questions or concerns regarding this memorandum, or if you need additional information, please contact James Gartner, FAS's Audit Liaison, on (202) 720-0517.

cc: Ernest Hayashi
Howard Albers