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# BY THE U.S. GENERAL ACCOUNTING OFFICE

## Report To The Chairman, Subcommittee On Legislation And National Security, Committee On Government Operations House Of Representatives

# Key Issues Concerning Department Of State's New Financial Management Centers


The Department of State is planning to open Financial Management Centers at 20 of the larger overseas posts to provide capabilities locally for accounting, budgeting, and disbursing. This change will have an impact on the three regional offices which currently provide certain financial services.

State needs to finalize its plans to address key issues and resolve uncertainties affecting regional office operations. There are indications that equipment and personnel problems may adversely affect the Department's goals for the Financial Management Centers, and the costs and benefits of opening and operating the Centers should be reevaluated.

GAO is making recommendations to the Secretary of State.


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NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-218977

The Honorable Jack Brooks
Chairman, Subcommittee on Legislation
and National Security
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

As requested in your letter dated May 16, 1984, we are reporting on the Department of State's efforts to establish Financial Management Centers overseas as part of its efforts to implement its new worldwide financial management system.

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

Sincerely yours,

Frank C. Conahan

Frank C. Conahan
Director

EXECUTIVE SUMMARY

# KEY ISSUES CONCERNING DEPARTMENT OF STATE'S NEW FINANCIAL MANAGEMENT CENTERS

To help implement its new worldwide financial management system, the Department of State is opening 20 Financial Management Centers to serve overseas posts which were previously served primarily by 3 large regional centers. At the request of the Chairman, Subcommittee on Legislation and National Security, House Committee on Government Operations, GAO reviewed

- o the adequacy of transition plans for integrating the new Financial Management Centers with the existing regional centers,
- o the effect of personnel and equipment problems on establishing the new Centers, and
- o the costs associated with establishing the new Centers.

## BACKGROUND

Before 1984, most of the Department's 260 overseas posts relied on the regional centers for financial management support. With the introduction of the new financial management system, some of the larger posts will obtain their own financial management capabilities--disbursing, accounting, and budgeting--and the capability to service other nearby posts. The Department believes that the new system will provide more useful data to the posts and automate record-keeping and that the new Centers will improve the data's timeliness. At this time, the 20 posts chosen to receive their own capabilities are estimated to account for about 25 percent of the Department's transactions.

Development and implementation of the entire system are long-term efforts which began in 1979. As of February 1985, six new Centers had been opened, with the remainder scheduled to be opened by the end of September 1986. Department of State headquarters and other components are expected to be using the new system by about the same time.



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One proposal for the regional centers is that they become "high technology centers" designed to support the automated equipment and processes being installed at the larger embassies. The regional centers would perform limited equipment maintenance, systems design and maintenance, training, evaluation, backup and contingency operations, and troubleshooting.

This report addresses the Department's plans for transferring financial management capabilities from the regional centers to the new Centers. GAO did not address the new financial management system's overall effectiveness or whether the new system would fulfill management needs.

RESULTS IN BRIEF

Plans to implement the Department's new financial management system at the 20 Financial Management Centers and existing regional centers do not address how currency buying will be carried out and how staffing reassignments will be handled. Furthermore, final determinations have not been made on which posts will be serviced from Financial Management Centers and which from regional centers. Moreover, the plans require close management oversight to ensure that problems are quickly detected and corrected so that they are not replicated at other Centers being established.

State is aware of the existing and potential equipment and personnel problems that could adversely affect the new Centers. State is taking action designed to ensure that inexperienced or insufficiently trained staff, telecommunications shortfalls, and computer downtimes do not jeopardize the accuracy, usefulness, and timeliness goals set for the new system.

Overall costs to open the Financial Management Centers have been understated--mainly because all costs are not being tracked by the Comptroller and more people are needed than initially expected. The Department has not evaluated the costs and benefits of the current design being implemented. The Comptroller is tracking only the contract cost to develop and install software--currently estimated to be about $26 million. Other costs appear to be substantial. Based on information available at the time of its review, GAO identified at least $5 million in additional costs.

PRINCIPAL FINDINGS

Transition Plans

The financial management system plans allow for Financial Management Centers to service other posts. However, the Department of State has not yet decided which overseas posts Financial Management Centers will service and which posts regional centers will service. The Comptroller's Office is determining this jointly with the regional bureaus. Posts will continue to be serviced by the regional centers until decisions are finalized. Regardless of whether a post is serviced by a regional center or a Financial Management Center, the regional centers will continue to provide all posts, including Financial Management Centers, payroll services for American employees.

Decisions have not been made on whether currency buying will be done centrally, at the regional centers as is now largely the case, or at each new Financial Management Center. In addition, original plans to shift people, along with workload, from the regional centers to the new Centers have not materialized and additional personnel have been hired.

Personnel and Equipment

State acknowledges a shortage of qualified budget and fiscal personnel to staff the new Financial Management Centers and has increased its efforts to recruit and train sufficient personnel. However, of the 33 estimated budget and fiscal officers needed in fiscal year 1985, only 25 will be hired. Also, special training for those officers will not be available until November 1985--after 11 new Centers are open.

State is installing computer and telecommunications capabilities at the Centers but has experienced problems maintaining these systems. Lack of availability of repair parts and service personnel for computer equipment has affected operations. The installation and operation of high speed telecommunications lines have been delayed because of technical problems.

Cost

GAO identified about $5 million in additional costs for equipment at 20 centers, staffing increases at 13 centers, and other associated costs at 8 proposed centers.

Cost benefits analyses of opening the new Centers were performed early in the program but may not be valid because the system's design has been changed numerous times. Changes have been made in the number of Centers and where the positions would come from to staff the new Centers.

RECOMMENDATIONS

GAO recommends that the Secretary of State

- o take a number of specific steps, as detailed on page 17, to finalize transition plans and resolve existing uncertainties,
- o take steps, in addition to the actions already underway, to improve equipment usage data and maintenance to further address personnel and equipment problems,
- o identify and track the total cost of opening Financial Management Centers, and reevaluate the costs and benefits of individual Centers as implementation progresses, and
- o determine whether the local disbursing capability is needed and cost effective at all 20 designated Centers.

AGENCY COMMENTS

GAO neither obtained the views of responsible officials on GAO conclusions and recommendations nor requested official agency comments on a draft of this report.

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## ABBREVIATIONS

| | |
|---|---|
| AID | Agency for International Development |
| FMC | Financial Management Center |
| GAO | General Accounting Office |
| RAMC | Regional Administrative Management Center |
| USIA | United States Information Agency |

# CHAPTER 1

# INTRODUCTION

The Department of State has embarked on a project to improve its financial management system. The project--begun in 1979--is intended to overcome problems which State has acknowledged to be very serious. The new system will be phased in, as segments are developed, to replace the current accounting and financial reporting system used by State.

State plans to implement the new system at foreign service posts by opening Financial Management Centers (FMC). The FMCs, which will be part of embassy operations, are designed to eventually handle a range of financial processing functions, which now are performed for posts by the three Regional Administrative Management Centers (RAMC) overseas or by the Washington Finance Center.

State plans to establish FMCs at 20 of the larger foreign service posts. As of February 1985, six FMCs had opened. Three more are planned for fiscal year 1985, and 11 for fiscal year 1986.

This report evaluates State's plans for opening FMCs. It focuses on the Department's rationale, its experience to date, potential problems, and costs. We did not assess the adequacy or overall effectiveness of the new financial management system, nor whether the new system would fulfill management needs. We performed this work at the request of the Chairman, Subcommittee on Legislation and National Security, House Committee on Government Operations.

## STATE ACKNOWLEDGES PROBLEMS

The Department of State's accounting and budgeting systems have evolved over time from entirely manual, decentralized procedures to a combination of manual and large, centrally supported automated systems. Existing Department of State automated financial systems were first designed and implemented as many as 20 years ago. Subsequent changes have made these systems difficult to maintain and have created a decentralized series of nonstandard systems.

In the Department's 1984 statement to the President and the Congress, required by the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b) and (c)), the Secretary of State reported that

--overall, the accounting system is weak and does not meet the requirements of the Comptroller General;

--financial reports are not timely and fail to provide needed management and fiscal information; and

--reported data are based on questionable records of resources and operations.

The Secretary cited the Department's efforts to develop the new financial management system as the primary action being taken to correct these weaknesses.

## FINANCIAL MANAGEMENT IMPROVEMENT PROJECT UNDERWAY

To deal with the numerous weaknesses in its financial management system, the Department of State began a financial management system improvement project in 1979. The Department's goals included improving financial controls at all levels at headquarters and at overseas posts, conforming with approved accounting principles and standards, and obtaining our approval of its systems. The financial management improvements are also intended to enable the Secretary of State to meet the requirements of the Federal Manager's Financial Integrity Act of 1982. Specific system objectives are to

--provide accurate and timely financial information for making management decisions;

--establish sound financial controls and improve system security;

--modernize costly, inefficient, and labor intensive systems; and,

--provide standardization and functional control over organizationally decentralized financial functions.

In May 1980, the Department of State engaged two contractors, Price Waterhouse and American Management Systems, to produce independent system designs. State required the contractors to design a system that would make maximum use of distributed data processing--a concept that would make it possible for data entry, initial processing, and data inquiry to occur at overseas posts. The Department also required the system to be designed so that no increase in personnel would result from its operation.

Both contractors submitted what State determined were technically sound proposals. The Department then developed its own concept, which contained elements of both contractors' proposals. In February 1982, State selected Price Waterhouse to complete the design and implementation of the system.

The Department's proposed system covers the financial management functions in State organizations in the United States, as well as at overseas posts. It comprises three segments: (1) general budgeting and accounting, including disbursements, general ledger, obligation accounting, financial planning, budget execution, and reimbursements; (2) real estate and property accounting; and (3) cost accounting for the Foreign Service Institute.[1] In addition, the Department of State is also developing new payroll systems for American and foreign service national employees.

In March 1982, costs to install the financial management system were estimated to be about $10 million, including training and the installation of equipment. In July 1984, Comptroller officials told us the contract costs for developing and testing software, providing training, and preparing manuals would be about $26 million. Other costs associated with opening FMCs are discussed in chapter 4.

The general budgeting and accounting segment comprises five installments: disbursing, overseas financial management, domestic financial management, enhanced purchasing, and financial planning. The disbursing installment was the first part ready for implementation.

## FOREIGN AFFAIRS AGENCIES STANDARDIZING FINANCIAL SYSTEMS

Successful development and implementation of a new financial management system are important not only to the Department of State but also to other foreign affairs agencies like the Agency for International Development (AID), the Peace Corps, and the United States Information Agency (USIA), which depend on State for providing financial management capabilities to their overseas offices. In addition to these agencies, the Department of State provides similar services to various other agencies operating overseas.

Comptroller officials at State told us that an initiative is underway for the major foreign affairs agencies to adopt State's new financial management system. As of August 1984, representatives of the Department of State, AID, the Peace Corps, and USIA were working as a task group with the Office of Management and Budget to achieve greater uniformity in their accounting systems. In December 1984, the Department of State reported that USIA and the Peace Corps had entered into an agreement with State to fully adopt State's new financial management system.

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[1]The Foreign Service Institute was established in 1947 to provide training to the employees of all U.S. government agencies in the field of foreign affairs. Its curriculum has grown to include professional, management, and technical studies.

Comptroller officials believe that adoption of the new system by other foreign affairs agencies will prove cost beneficial to the U.S. government since it will make maximum use of the software and reduce future software maintenance costs. According to these officials, maintaining one system should prove less expensive than maintaining multiple systems.

## IMPLEMENTING THE NEW SYSTEM OVERSEAS

The Department's existing financial management system largely combines manual processing at the Department's 260 overseas posts, excluding consular agencies, and automated processing at three RAMCs and the Washington Finance Center. Financial services are provided to most overseas posts by the RAMCs. RAMCs were established in Paris (1959), Bangkok (1973), and Mexico (1978) to provide a full range of computerized administrative management support functions to foreign service posts within their respective service areas. RAMC-Paris serves 95 countries, RAMC-Bangkok 26 countries, and RAMC-Mexico 3 countries, with more to be added. Some posts rely on the Washington Finance Center for support, and one post (Brasilia) performs its own disbursing and accounting services.

These arrangements will change under the new financial management system. State plans to establish FMCs at 20 of the larger foreign service posts. Each center will handle the financial processing (data entry and validation, disbursing, accounting, budgeting, and reporting) for the country in which it is located and may eventually handle the processing for other countries in the area. For the present, RAMCs will continue to serve posts which do not have FMCs. RAMCs will also make disbursements for the three embassies in the countries where the RAMCs are located, although these embassies will receive some financial management capabilities.

Comptroller officials stated that additional FMCs may be established in the future. The number and role of FMCs have already undergone considerable change since they were first proposed. Initial contractor plans called for 40-plus FMCs. As late as May 1983, the Department was planning for 32 FMCs, intended to cover all Department locations overseas. In February 1984, a Department report on the new financial management system described the combined FMC/RAMC approach now being followed.

### Rationale for FMCs

The primary purposes of the Department's financial management improvement project are to correct recognized deficiencies in State's current system and to provide Department management with timely and useful information on which to base decisions. FMCs are an overseas component of a total system and were intended to support the system's overall goals. In addition, the Department believes FMCs will provide improved service to posts, attached agencies, and vendors and provide better local internal control. State expects FMCs will produce more timely financial information because reports will be generated locally. Posts with FMCs will also be able to process their own accounting transactions and standardize information now maintained in nonstandard form. Finally, State expects that providing a local disbursing capability at FMCs will allow faster payment of vouchers and reduction of cashier balances. According to the Comptroller's Office, the 20 FMCs will cover about 25 percent of all State transactions.

Six FMCs opened to date

The Department is implementing its new general budgeting and accounting segment in a series of installments or subsystems. Each subsystem consists of a self-contained group of functions or capabilities. Two of these--disbursing and overseas financial management--are being slated for FMCs. A batch processing version of the disbursing and overseas financial management capabilities was added to enable the RAMCs to serve posts not designated as FMCs.

The disbursing subsystem was pilot tested in Bonn, Germany, in late 1983 and installed in Tokyo, Japan, in early 1984. As of February 1985, the Department also installed the disbursing subsystem in Cairo, Brasilia, London, and Brussels. Department and contractor personnel completed installation of the overseas financial management subsystems in Bonn in December 1984, and introduced one of the financial management subsystems in London in February 1985 and in Brussels and Tokyo in March 1985. State plans to open the additional designated FMCs by September 1986 and begin to bring the RAMCs and State headquarters on board at about the same time.

## OBJECTIVES, SCOPE, AND METHODOLOGY

In a letter dated May 16, 1984, the Chairman of the Legislation and National Security Subcommittee, House Committee on Government Operations, asked us to review the Department of State's plans to establish FMCs overseas. Specific objectives of the review included determining

--how the new financial management system will be implemented at all posts;

--how the new FMCs will be integrated with the three existing RAMCs;

--whether sufficient time is built into the implementation process to allow future FMCs to learn from the mistakes of those FMCs established earlier;

--whether needs of the other user agencies have been adequately considered in determining the equipment and resources required for each FMC;

--if staffing, equipment, telecommunications, and other resources will be available where needed to establish FMCs; and

--the cost and feasibility of using FMCs to implement the new system.

Our review did not attempt to assess the adequacy or overall effectiveness of the new financial management system, whether it will comply with GAO principles, standards, and related requirements, the ability of the new system to fulfill management's needs, or whether the new system will accomplish the Department's goals and objectives.

At Department of State headquarters, we performed audit work at the Office of the Comptroller, Information Systems Office, Office of Communications, Foreign Service Institute, Bureau of Personnel, and the Washington Finance Center. We also met with the financial management system contractor. All of these organizations are involved in implementing the new system.

In the field, we performed audit work at the RAMCs in Bangkok, Paris, and Mexico, and at 10 posts worldwide. Posts were selected based on several criteria, including designation as an FMC, scope of financial operations, and representation of different Department of State regional bureaus. The 10 posts visited were Kuala Lumpur, Malaysia; New Delhi, India; Bangkok, Thailand; Tokyo, Japan; Canberra, Australia; Seoul, Korea; Bonn, Federal Republic of Germany; Abidjan, Ivory Coast; Brasilia, Brazil; and Buenos Aires, Argentina. Only limited work was performed at Kuala Lumpur, New Delhi, and at the Embassy in Bangkok.

To meet our objectives, we interviewed Department of State officials at headquarters and in the field, the financial management system contractor staff, and State client agency officials at posts. We also interviewed Department of the Treasury officials about disbursing, currency buying, and cash management issues. We reviewed contract documents, contractor products, implementation plans, Department of State budget and financial documents and reports, and State cables. Our work began in January 1984, concluded overseas in October 1984, and selected portions were updated at headquarters through April 1985.

We did not ask the Department of State to provide official comments on a draft of this report. Except as noted above, our work was performed in accordance with generally accepted government auditing standards.

# CHAPTER 2

## UNCERTAINTIES REGARDING IMPACT ON RAMCS NEED TO BE RESOLVED

The creation of FMCs will have a major impact on RAMC operations. Although six FMCs have opened, and a larger number are scheduled to do so within the next 18 months, uncertainties regarding RAMCs' near term and future role continue.

--The division of responsibilities between the RAMCs and the FMCs is unclear.

--RAMC workload data are not adequate to plan staff reassignments or increases.

Planning for RAMCs to shift some of their work to the new FMCs is complicated by State's organization. One office is responsible for the RAMCs while another office is responsible for implementing the new financial management system and establishing the FMCs to implement it. The office responsible for RAMC operations is proposing new duties for the centers, which may mean that RAMC staffing will not be reduced despite the financial workload shift to FMCs. The net result, as described in chapter 4, may be an increase in staff due to a combination of staffing FMCs and adding new duties to the RAMCs.

Making decisions about the future role of the RAMCs and appropriate levels of staffing will require management involvement at a high enough level to assure that the Department's overall interests, as well as those of different organizational elements, are adequately considered.

### OVERSEAS CENTERS BEING OPENED FIRST

State's schedule for implementing its financial management improvement project gives priority to opening FMCs overseas. The first FMC opened in Bonn in 1983, and all 20 designated FMCs are scheduled to be opened by September 1986 (see appendix I for schedule of FMC openings). In contrast, the new system will not be introduced at State headquarters until early in fiscal year 1987. At about the same time, the RAMCs will receive capabilities to service non-FMC posts using the new system.

The Department is opening FMCs before the new system is in place at State headquarters and the RAMCs because the FMC software is ready and Comptroller officials wish to extend the benefits of automation currently available to the larger posts' budget and fiscal offices. By employing distributed processing, State hoped to modernize a large manual operation while improving financial management.

The approach the Department is using to open FMCs--that is, phasing in software segments at the designated FMCs versus pilot testing the whole system at selected posts and headquarters--has both advantages and risks. State's approach introduces the new system at more locations faster, but multiplies corrective actions needed at a number of posts if problems are discovered in the software.

The posts selected as locations for the early FMCs are generally recognized as having the highest chance for success of any of the Department's posts. For example, Embassy officials in Bonn and Tokyo believe they have high quality foreign service national staff with extensive experience in automated operations. Conditions at subsequent locations are likely to be more demanding.

Schedule has changed

As discussed on page 4, the Department's plans for implementing its new financial management system have been altered to reduce the number of FMCs and to incorporate a role for the RAMCs. Over the same period, schedule changes have occurred. In the May 1983 plan, the system was to be pilot tested at State headquarters in 1984. In the February 1984 plan, the testing was scheduled for November 1985. According to Comptroller officials, pilot testing is now expected in September 1986. Comptroller officials told us the schedule was delayed because the Information Systems Office had not selected the type of computer for headquarters.

Delays have also affected the introduction of the new system at the RAMCs. In February 1984, State planned to operate the new financial management system at the RAMCs by December 1985. In April 1985, Comptroller officials told us the system should be operating at one RAMC around September 1986 and at all three RAMCs in 1987. These officials advised us that development of software for the RAMCs had been delayed so that the contractor could assist FMC-Bonn with installing the financial management system there. According to these officials, slippage in developing RAMC software was necessary because software to be used at the RAMCs will be based, in part, on the financial management capabilities being installed in Bonn. During the installation in Bonn, some problems occurred which had to be corrected before work could continue on the RAMC installment.

Some overseas officials
are critical of schedule

In countries we visited, we heard considerable criticism of the Department's decision to introduce the new system overseas first. Although some officials had little specific knowledge of the new system, they believe State has placed too much emphasis on opening FMCs rapidly. They believe that State should have concentrated on installing the new system at headquarters and the RAMCs first, thereby extending the benefits of the new system worldwide faster. In their view, FMCs could have been introduced as they proved necessary and cost effective.

Some overseas officials are also concerned that FMC concept operations are not being adequately tested before being introduced in additional centers. They believe pilot testing would allow time for the Department to identify and work out any bugs in the system, with minimal disruption.

## Software evaluation schedule

Comptroller officials told us they believe testing the software in Washington before releasing it and running it at one location for several months before installing it at another post are adequate to evaluate the software.

As of March 1985, disbursing software had been operating in Bonn for 18 months without any major problems surfacing. After 4 months in Bonn, it was introduced into Tokyo. Similarly, the software for the remaining overseas financial management functions was introduced in Bonn from October through December 1984, and was introduced into two additional posts after Bonn had operated it 4 months.

As implementation progressed, users have identified ways to improve the disbursing installment. For example, the financial management system software did not provide information to ensure that all disbursements processed by the data entry staff had in fact been disbursed. At the time our overseas audit work ended, no information was available on experience with the remaining overseas posts.

Once the domestic portion of the new financial management system is operational, changes may be required in the system already operating at the FMCs. For example, implementation of State's new payroll system for American employees at the three RAMCs was delayed by approximately 6 months because of the discovery of "unforeseen additional reporting requirements" which had to be incorporated in the system design.

## DIVISION OF RESPONSIBILITIES BETWEEN RAMCS AND FMCS

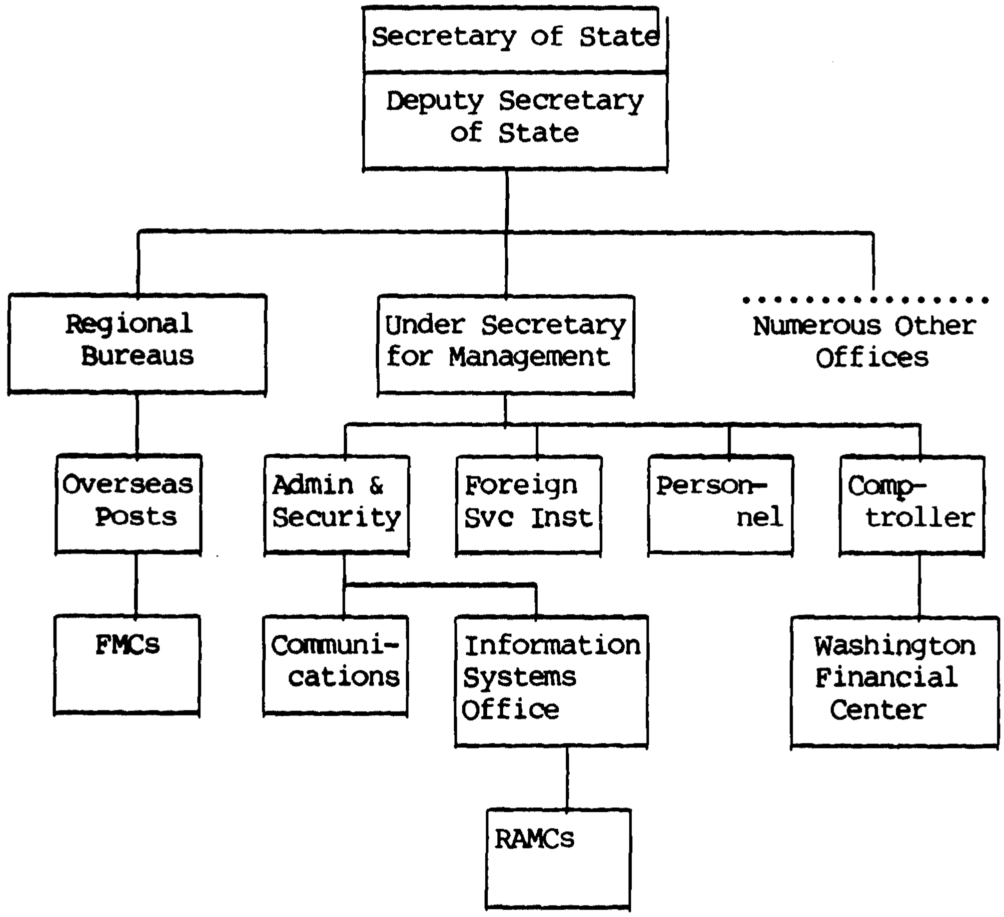
The financial management responsibilities assigned to the RAMCs have changed since State began to implement its new financial management system. Although some plans have been made for the RAMCs, they are not complete. For example, final determinations have not been made on which posts will be serviced by FMCs and which by RAMCs. Furthermore, the Department has not yet decided how currency buying will be accomplished. As discussed on pp. 28-29, State is considering a wide range of options, including leaving it at the RAMCs, moving it to the FMCs, or some type of centralized arrangement. This function is now generally performed by the RAMCs, and removing it entirely from RAMCs, could have an impact on staffing needs. Continued uncertainty about RAMC roles could have a serious negative impact on RAMC staff morale and consequently on the quality of RAMC services.

Organization

As the Department's chief financial officer, the Comptroller promulgates accounting policies and procedures. The Office of the Comptroller is responsible for implementing the new financial management system and establishing FMCs. To do so requires coordination and help from other organization units. For example, once established, the FMC operations will be the responsibility of budget and fiscal officers at posts, who report to State's regional bureaus. On the other hand, the RAMCs report to the Bureau of Administration and Security's Information Systems Office.

The following abbreviated organizational chart illustrates the placement of those offices and the other offices affected by the opening of the new FMCs. The Under Secretary for Management oversees both the Office of the Comptroller and the Bureau of Administration and Security, and thus has responsibility for both establishing the FMCs and operating the RAMCs.

PARTIAL DEPARTMENT OF STATE ORGANIZATIONAL CHART SHOWING KEY OFFICES AFFECTED BY OPENING FMCS




### Which posts will be serviced by FMCs and RAMCs not finalized

Plans for implementing the new financial management system have affected the RAMCs differently over time. Early plans envisioned that the FMCs would assume the accounting and disbursing functions performed by the RAMCs and thereby replace the RAMCs as they are known today. That plan has changed, and RAMCs will continue to perform their current functions for most overseas posts for the time being.

The financial management system plans allow for FMCs to service other posts. However, the Department of State has not yet decided which overseas posts FMCs will service and which posts RAMCs will service. The Comptroller's Office is determining this jointly with the regional bureaus. Posts will continue to be serviced by the RAMCs until decisions are finalized. Regardless of whether a post is serviced by a RAMC or a FMC, the RAMCs will continue to provide all posts, including FMCs, payroll services for American employees.

A Comptroller official told us that difficult personnel, logistics, and communications questions remain to be resolved before FMCs begin to service posts in other countries. Also, some officials we interviewed at overseas posts pointed out that FMCs servicing other posts

--will face the same logistical problems (pouching, training, and telecommunications, for example) as RAMCs, but with less staff and experience to deal with the problems;

--will service only a few posts and may not achieve the same economies of scale as RAMCs can achieve by servicing many countries; and

--will be located at embassies and, unlike the RAMCs which were established to service other posts, may put an embassy's needs before those of the other posts it services.

While RAMCs Bangkok and Paris are losing posts, RAMC-Mexico has begun developing plans to expand the number of posts serviced. The director expects that staffing will increase, but some confusion exists about what posts will be serviced by RAMC-Mexico. The director plans to provide service to Central America, South America, and the Caribbean, except for the three posts in the area designated to become FMCs: Buenos Aires, Brasilia, and Caracas. However, officials in Buenos Aires advised us that FMC-Buenos Aires will be servicing six of the posts which the RAMC-Mexico director plans to service.

### Plans do not define how the benefits of the new system will be extended to all posts

Regardless of how specific posts are serviced--either by a RAMC or by an FMC--it is unclear how the benefits of the new financial management system will be realized at non-FMC posts. The financial management system goals include increasing the accuracy and timeliness of transaction processing overseas and providing more useful financial information to managers at posts and Department of State headquarters. Comptroller officials stated that these goals will be achieved at FMC posts since they will be processing their own transactions and generating reports locally. However FMCs only cover 25 percent of State's transactions. Thus far, no plans have been finalized for how the non-FMC posts will receive the benefits.

Comptroller officials recognize it will be a challenge to provide the benefits of the new financial management system to posts that will not become FMCs. They intend to explore what functions of the new financial management system can be automated on smaller word processing or computer equipment, which is or can be installed at smaller and remote posts. Telegraphic input of transactions from posts to RAMCs and the use of electronic bank transfers are methods currently being used to cut down on transaction times for remote posts.

RAMC workload data not adequate to plan staff reassignments or increases

According to an Information Systems Office official, continued uncertainty about RAMC roles could have a serious, negative impact on RAMC staff morale and consequently on the quality of RAMC services. RAMC officials told us that they had very little knowledge of plans for implementing the new financial management system.

Information Systems Office officials and RAMC directors are aware of the need to develop RAMC transition plans. During visits to the RAMCs, the Information Systems Office official observed a high level of concern among foreign service national staff about what will happen at the RAMCs as implementation of the new financial management system progresses. In October 1984, the RAMC directors met with Information Systems Office and Comptroller officials and discussed the transition facing the RAMCs. Regarding personnel, the Deputy Assistant Secretary for Information Systems stated there are no plans for reducing the number of employees at the RAMCs by eliminating positions in the near term--about the next 4 years. Positions that become vacant through normal attrition may not, however, be filled. Instead, as discussed below, the Information Systems Office is planning to develop new jobs over time and to retrain current employees to perform the new duties associated with the new RAMC responsibilities.

Staffing reassignments at RAMCs Paris and Bangkok may be difficult to plan. RAMC officials told us that workload data are not sufficient for determining when and where staff decreases should be made as workload is lost to FMCs. RAMC-Mexico, on the other hand, does not have adequate workload statistics to support its plans for staff increases. Workload is measured by quantifying various actions, including the number of accounting lines processed, checks issued, and employees payrolled for serviced posts and client agencies. Only the first two measurements relate to workload lost to the new FMCs because the American payroll function will remain at the RAMCs.

The six FMCs planned for the RAMC-Bangkok's service area account for about 47 percent of the accounting lines processed and about 44 percent of the checks issued by RAMC-Bangkok. The 11 FMCs planned in the RAMC-Paris service area represent about 40 percent of the accounting transactions processed and about 20 percent of the disbursements made by RAMC-Paris. The RAMC-Bangkok director stated that these data are not sufficient to measure the impact of workload lost due to FMC development or to determine when and where staff should be decreased at the RAMC for two reasons:

--A basic staffing level is needed for the RAMC to operate, and this level has not been determined.

--The number of errors an individual post makes in the data submitted to RAMC influences the RAMC workload significantly, but this data is not currently accumulated at the RAMC.

The RAMC director told us he recognizes that Comptroller officials expect decreases in RAMC staff to offset staff increases necessary to open FMCs. However, staff decreases, in his view, cannot be in direct proportion to the workload lost because of the two factors discussed above. The Department of State officials believe some staffing realignment may be possible as workload is lost to FMCs, primarily in the number of programming, data entry, pouch/mail room, and accounting staff.

## FUTURE ROLE OF THE RAMCS NEEDS TO BE DECIDED

Currently, the Information Systems Office is reevaluating the role assigned to the RAMCs for the long run--beyond the next 4 years. Recently, an Information Systems Office proposal called for the RAMCs to evolve into high technology service centers to support the micro- and mini-computers being installed overseas. Plans to enable the RAMCs to become such centers have not yet been developed.

At the October 1984 meeting mentioned earlier, the RAMC directors and Information Systems Office officials began to consider the long term role of the RAMCs. They agreed that in addition to providing financial management services (to the posts not designated to become FMCs and the posts not serviced by one of the new FMCs), the RAMCs have a role to play in improving the processing of unclassified information overseas.

To respond to such a need, the Information Systems Office ultimately plans to have RAMCs assume additional responsibilities for unclassified information processing, including systems design and maintenance, training, evaluation, limited equipment maintenance and repair, administrative and management assistance, backup and contingency operations, telecommunications, and troubleshooting.

Accepting those responsibilities will require the RAMCs to change the nature of their operations. These changes may also require more technically skilled staffs who are willing to travel. Currently, the RAMCs operate primarily as automated data processing service bureaus to receive, input, process, and transmit financial transactions. Such operations have relied on certain resources--foreign service national employees trained to handle transactions and large computers--that will not be integral to supporting the RAMCs' new mission as high technology service centers. The Information Systems Office recognizes that adjustments will have to be made to the way RAMCs operate, including retraining personnel.

The Information Systems Office's plans conflict with some assumptions being made by those responsible for implementing the financial management system. Comptroller officials told us that staff increases at the FMCs would be offset by efficiencies derived from the new financial management system and by decreases in the RAMC staffs as the FMCs became operational. Staffing at the RAMCs is not, however, under the Comptroller's control, and therefore personnel cannot be moved unilaterally by the Comptroller. Regardless, Comptroller officials stated that implementation of the new system has not yet proceeded far enough to reduce staff.

## CONCLUSIONS

The approach the Department is using for implementing the new financial management system requires close management oversight and attention to ensure that problems are quickly detected and corrected so that they are not replicated at other FMCs being established.

Issues which are not covered in the financial management system implementation plans need to be resolved. The establishment of FMCs has a major impact on RAMC operations, yet uncertainties continue. The Department has not yet established which posts will be serviced by FMCs or by RAMCs and how currency buying will be carried out. In addition, RAMC transition plans need to be prepared and consideration given to whether any staff reductions at the RAMCs will be accomplished. In order to do this, the RAMCs need to collect data on their workload and relate it to staffing requirements.

With the reduced workload, staffing decreases at RAMCs should be possible. However, these decreases may not be as significant as the Comptroller expects. According to RAMC officials, the bulk of the errors that require manual work at the RAMCs before transactions can be processed are generated by the small and remote posts that the RAMCs will continue to service. Moreover, the overall RAMC workload may be increased by the new duties assigned. For example, RAMC programmers may assist the Information Systems Office in standardizing software for local applications at posts, and the RAMCs may be given new responsibilities to support the program for processing unclassified information overseas.

Farther down the road the issue of the RAMC role must be resolved, including whether converting RAMCs to high technology service centers is realistic and desirable. Potential staff reductions at the RAMCs will depend on how RAMCs are used in the future. Major changes in their role will require long lead times. Top management involvement--for example at the Under Secretary for Management level--is necessary in key decisions to ensure that both Information Systems Office and Comptroller concerns are adequately considered.

## RECOMMENDATIONS TO THE SECRETARY OF STATE

The Department needs to move expeditiously to eliminate the uncertainties which surround the opening of the new FMCs and their impact on the existing RAMCs. We recommend that, in the process of completing its plans, the Secretary direct the Under Secretary of Management to

--closely monitor the schedule for establishing FMCs and modify it if problems arise;

--resolve which posts FMCs will service and which posts RAMCs will service, and determine how the smaller posts will receive maximum benefits;

--ensure RAMC transition plans are prepared which consider the impact the FMCs will have on the RAMCS;

--resolve the issue of how currency buying will be performed so that the impact on the RAMCs and the FMCs can be taken into consideration;

--require that data be collected to measure workload so that RAMCs can assess staff levels; and

--ensure that actions are begun immediately to resolve the issue of the future long-term role of the RAMCs.

# CHAPTER 3

## PERSONNEL AND EQUIPMENT PROBLEMS MAY HINDER FMC OPERATIONS

Of the six centers open as of February 1985, only one (FMC-Bonn) is performing all financial management functions which are currently planned for FMCs. At this early stage, there are some indications that problems may arise as to the availability of qualified personnel and the reliability of computer equipment support and high speed data telecommunication lines. Other problems, such as retaining skilled foreign service national personnel and the inability of equipment to support competing demands, may also arise as implementation progresses.

None of the problems we identified was surprising given the newness of the project and the scope of the undertaking. These problems may, however, limit the benefits of the new financial management system if unattended. The Department is taking some actions and can take others to minimize the impact of these problems.

### STAFFING FMCs MAY POSE PROBLEMS

State officials at headquarters and in the field told us that the Department is short of both qualified budget and fiscal officers and experienced disbursing officers. Officials believe that specialists with financial backgrounds are important for effective FMC operations, and therefore are concerned that the Department will have difficulty finding enough qualified officers to staff 20 FMCs.

Comptroller and post officials identified several reasons for the shortage: (1) budget and fiscal positions are not viewed as prestigious by Foreign Service officers, (2) such positions do not extend to the Senior Foreign Service level so Foreign Service officers must leave these positions to progress, and (3) the Department has not recruited budget and fiscal officers for several years.

The shortage of experienced disbursing officers is especially acute because, according to State officials, the Department eliminated disbursing officer positions at all posts, except Brasilia, when the RAMCs began providing disbursing services.

In December 1984, the Director of Personnel approved a proposal to hire financial management officers from outside the Department. The Personnel Office estimates 33 financial management officers should be hired in fiscal year 1985. Due to the time required to advertise, evaluate, and select candidates, only 25 will be hired. Similar positions will also be filled by generalists hired through the Foreign Service officer examination process. In April 1985, Comptroller officials advised us they are still concerned that there will not be sufficient qualified budget and fiscal officers to operate the FMCs.

### Improved training is being developed

Because the Department of State lacks experienced officers to staff FMCs, training is especially important. However, special training for budget and fiscal staff and disbursing officers is lagging FMC openings. The Foreign Service Institute has tasked Price Waterhouse, the contractor for the financial management improvement project, to develop the appropriate training. Starting in November 1985, the Institute plans to offer the budget and fiscal courses. By that date, 11 FMCs will be open.

Regarding training for disbursing officers, the Department attempted, without success, to secure appropriate training through other government agencies. Until the Foreign Service Institute course is available, the Department is offering disbursing officers 2 days of orientation and training before sending them to an FMC. According to one disbursing officer, the 2 days of training he received before assuming his position did not adequately cover the responsibilities and accountability required of a disbursing officer.

Contractor-provided training is filling the void left by the lack of formal, centralized training. For example, representatives of the contractor had been at FMC-Bonn almost continuously from implementation of the disbursing capability to the time of our visit--about a year. The disbursing officer at FMC-Bonn told us that over that period, 12 contractor employees were at Bonn to help introduce the disbursing software. In addition, 17 contractor employees were in Bonn to help phase in the overseas financial management software.

### Post officials are concerned about local staff turnover

One criterion State officials established for FMC development was a high quality foreign service national staff. Staff at the two operational FMCs we visited appeared to meet this criterion. FMC officials, however, were concerned about retaining experienced foreign service nationals. They believe the classification standards for these employees do not allow for a high enough pay grade in relation to FMC-required duties, and consequently turnover may result.

Department of State classification standards grade foreign service nationals primarily on the number of people supervised and not on the technical skills required for the automated operations at an FMC. Automation of budget and fiscal functions at posts may actually decrease the number of employees a foreign service national supervises, but at the same time require a higher level of technical skill to perform the job. Some officials are concerned that local employees will use the embassies to gain training and experience in automated operations and then leave for higher paying employment.

The Department of State last introduced new foreign service national classification standards in 1982, and did not consider potential changes in overseas financial management operations. The Associate Comptroller responsible for the financial management project believes that key foreign service national positions at FMCs need to be evaluated and that some upgrading of the positions may be necessary.

## COMPUTER OPERATIONS FACING SOME DIFFICULTIES

Each FMC will operate a mini-computer system. The Office of the Comptroller--responsible for implementing the new financial management system overseas--is relying on the Information Systems Office to install the computer systems at the 20 FMCs. The Information Systems Office has been automating posts since 1979 and, as of September 1984, had installed or upgraded existing mini-computer systems at 17 of the 20 designated FMCs. Some problems have occurred. For example, air conditioning and air pollution problems at FMC-Cairo interfered with getting the complete system operating for several months. Also, Abidjan has experienced serious electrical failures. Embassy officials believe that, with an uninterruptable power supply and a new generator, the problem is under control, but cautioned that the true test will be during the summer months.

### Some FMCs lack experience with automation

Information Systems Office and overseas officials cautioned that some posts designated to become FMCs have little or no experience with automation and could take longer to become operational than FMCs Tokyo and Bonn took. Both of those posts have extensive experience with automated operations, whereas some posts have been slow to automate. Some officials overseas agreed. They stated that opening FMCs at posts which have had little experience with automation will be more difficult and probably take longer. The project contractor's staff stated that automating a post and introducing the new system's software at the same time would be difficult.

### Posts not tracking competing demands for computer use

The financial management applications will be only one of several major demands placed on the computer systems located at the designated FMCs. FMCs will share the computer resources with other Department users and client agencies at post. However, we found that the two operational FMCs we visited were not accumulating the total usage data needed to determine and schedule future computer system requirements.

The Department and the project contractor determined the computer system capacity necessary for FMC operation. Systems managers at some operating and designated FMC locations we visited agreed that the identified capacity requirements will be sufficient, at least initially. The Chief of User Support Services, Information Systems Office, stated that in addition to the applications posts currently run, State is developing new applications.

Usage is not tracked. Under existing arrangements the Department provides the basic computer system for its own needs, as well as for client agencies. Embassy systems managers do not maintain utilization statistics on the peripherals, such as printers and terminals funded by the Department or client agencies, and are thus not fully aware of the demands which may be placed on the system once the new financial management system is introduced.

## Computer system maintenance improvements needed

Effective computer system maintenance is critical at the FMCs because computer equipment will be used for processing and recording fiscal transactions. The Department has experienced problems with the maintenance services for the computer equipment installed at the FMCs, which could seriously impair financial operations.

Maintenance of the computer equipment at posts is provided under a contract between the Department and the equipment manufacturer. The Information Systems Office is responsible for administering the contract, which covers both equipment procurement and maintenance. Numerous problems, including incomplete shipments, disk drive failures, poor packing, damaged equipment, and delayed installation due to lack of spare parts, have arisen in the past several years.

Posts we visited provided examples of maintenance and service problems with the equipment to be used at the FMCs. Officials in Bangkok told us there is a serious shortage of trained engineers in Thailand and that repair and maintenance support is currently inadequate to provide the minimum service required. They also stated that the manufacturer does not stock enough spare parts in Thailand to provide timely service.

FMC-Brasilia has experienced delays in getting equipment repaired and maintained. The nearest software support is in Buenos Aires, and the closest hardware support is in Rio de

Janeiro. This separation of responsibility can compound the delay if the cause of a problem--hardware or software--is incorrectly identified. Embassy staff also told us that manufacturer representatives told them to perform the maintenance work required to resolve problems, even though the contract prohibits embassy staff from doing such work. As with other locations, if parts are not in stock, long waits result.

Systems managers in New Delhi, Jakarta, Dakar, and Cairo made similar complaints about computer support. A report from Dakar indicated that the manufacturer's response time on problems was never less than 15 days and in one case was 50 days. However, the required response time under contract provisions was 8 days. Nairobi reported a tape drive that had been in and out of the repair shop numerous times for over a year.

### Actions taken to resolve maintenance problems

The Chief of User Support Services, Information Systems Office, agreed that problems existed with support overseas. To deal with these problems, the Information Systems Office has developed an escalation policy which instructs posts how and when to raise maintenance problems to higher levels within the manufacturer's organization until the problems are resolved. In addition, State has assessed penalties provided for in the contract--$5,000 for damaged equipment received in Nairobi and $28,000 for late delivery at 10 posts in Europe.

## TELECOMMUNICATIONS CAPABILITIES EXPERIENCING SOME PROBLEMS

The Department's implementation plans call for linking FMCs to headquarters by high speed telecommunications lines to provide rapid transmission of financial data. Linking the computers should improve the timeliness of reporting financial information and therefore make it more useful to managers.

Initially, the Department had technical difficulties with its communications software. In May 1985, the Deputy Assistant Secretary, Information Systems Office, told us that the problem had been overcome and that they are now looking at available vendor software to meet future needs.

The responsibility for installing high speed lines rests with the Office of Communications. This office is responsible for providing communications support to all foreign affairs agencies located overseas. Traditionally, this support has been in the form of processing and transmitting telegrams or cable traffic. The Office of Communications began installing high speed lines about 6 years ago to provide the Department and other users the ability to transmit more information than the existing telegraphic system could support.

High speed lines have already been installed at 12 designated FMCs. The schedule calls for installing seven more lines by the end of 1986. The one remaining line--at FMC-Abidjan--is scheduled to be installed some time after 1986, even though the FMC will open in June 1986.

The Office of Communications has experienced delays in installing high speed lines for several reasons. Since the divestiture of American Telephone and Telegraph, a longer lead time has been necessary in securing equipment. Installing a high speed circuit formerly required about 45 days lead time but now can require up to 6 months. In addition, the Office of Communications does not have enough trained technicians to install more than one or two high speed lines at once.

The Chief of Network Staff, Office of Communications, stated that problems occurring during high speed line installations generally occur in the host country where the line is installed. Facilities in lesser developed countries are not designed for high speed communications. For example, he stated that designated FMC-New Delhi has experienced problems in getting an operable high speed line for several months because of the ground lines available in New Delhi. However, he believes that once installation problems are overcome, the high speed lines are reliable and maintainable.

In sum, the Office of Communications and Information Systems Office officials agreed that delays may occur in developing needed telecommunications capabilities. However, Comptroller officials stated that the delays at this stage of development are not critical because the domestic portion of the new system is not yet operational and therefore not ready to receive financial data from overseas locations.

## CONCLUSIONS

Achieving State's financial management system goals will depend on qualified people and reliable equipment. Inexperienced or insufficiently trained staff could threaten the soundness of the new system, and telecommunications shortfalls and computer downtimes could jeopardize the accuracy, usefulness, and timeliness goals. The overseas environment poses special challenges in all of these areas.

State is well aware of existing and potential problems and is taking action designed to overcome them. The relatively fast-paced schedule for opening FMCs, in our opinion, makes early resolution of these problems especially important. Close coordination among various State activities--Office of the Comptroller as the user, Information Systems Office for computer equipment and telecommunication software, Office of Communications for telecommunications lines, the Foreign Service Institute for training, Personnel for staffing and classification standards, and the regional bureaus--will be key to the successful introduction of FMCs overseas.

## RECOMMENDATIONS TO THE SECRETARY OF STATE

To ensure that FMCs will have the necessary resources and operational capabilities, we recommend that the Secretary of State direct the Under Secretary for Management to

--quantify the need for and availability of qualified budget and fiscal officers, relate shortfalls to recruiting and training plans, and take appropriate action where needed,

--update foreign service national classification standards to reflect work performed at the FMCs,

--require post systems managers to start collecting data on use of post computer resources, and

--ensure that the Department initiatives to resolve its computer maintenance problems are pursued to minimize potential adverse impact on FMC operations.

## CHAPTER 4

## COSTS AND BENEFITS OF OPENING INDIVIDUAL FMCs SHOULD BE REEVALUATED

Initial project proposals evaluated the costs and benefits of establishing FMCs to implement a new financial management system. Significant changes have been made since the early designs, but the Department has not reevaluated costs and benefits.

There are several reasons to conclude that the early cost determinations are no longer appropriate:

--Key assumptions, for example, that the number of personnel required would not increase, have changed.

--Decisions yet to be made, such as potentially decentralizing currency buying to FMCs from RAMCs, could prove more costly.

--Although admittedly early, indications are that some expected benefits may not be realized at FMCs.

Based on cost data made available to us, the Department should reconsider whether local disbursing is needed and cost effective at each proposed FMC post.

### COSTS TO OPEN FMCs NOT TRACKED

The contractors selected by the Department of State to develop the financial management system conceptual designs considered the costs and benefits of the designs they recommended. However, the Department adopted neither conceptual design in total. Instead, it combined features of both proposals to produce its own conceptual design, which has been further modified during implementation. Comptroller officials told us that the Department has not reevaluated the costs in light of the changes.

Comptroller officials are tracking the financial management system contract costs but have not developed a system to capture or project the total cost of establishing and operating the new FMCs. Comptroller officials advised us that contract costs are the major costs associated with implementing the system and opening FMCs. We agree that contract costs are a major expense; however, we found that several offices other than the Comptroller's are incurring significant costs for opening FMCs. Comptroller officials told us that once the new financial management system is fully operational they will be able to track all costs associated with a project.

Various State offices incurring costs for opening FMCs

Our objective was to determine whether significant costs were being incurred to establish FMCs and, if so, to obtain an indication of the extent of those costs. We did not attempt to determine the total costs which will be incurred.

As shown below, our limited examination disclosed about $5.1 million to open FMCs, which was not being tracked by the Comptroller's office as an FMC cost.

SUMMARY OF ESTIMATED COSTS TO OPEN AND OPERATE FMCs NOT TRACKED BY OFFICE OF THE COMPTROLLER[a]

| | Information Systems Office | Overseas posts |
|---|---|---|
| | ---------- thousands | ---------- |
| Computer equipment | $2,900[b] | |
| Salaries | | $1,008 |
| Other equipment, office renovation and supplies | | 1,219 |
| Office totals | $2,900 | $2,227 |
| Total | | $5,127 |

[a]The amounts included in this table reflect several fiscal years because they were derived from various offices and cover different aspects of the program.
[b]Includes the cost of only that computer equipment required specifically for the new financial management system.

The computer equipment cost covers projected costs for all 20 FMCs; additional staffing costs related to 13 FMCs; and other equipment, office renovation, and supplies related to 8 FMCs. (Staffing, office renovation, and supply costs for the remaining FMCs have not yet been determined.) The chart does not include any costs for computer software maintenance or telecommunications. It also does not reflect the impact of any costs which may result if State decides to decentralize currency buying to all 20 FMCs.

We arrived at the $5.1 million figure as follows:

--The Information Systems Office funded about $1.7 million for computer equipment and peripherals (primarily work stations and printers) in fiscal years 1983 and 1984. An Information Systems Office official told us that more such equipment will be funded and that total costs to equip all 20 FMCs could be as high as $2.9 million.

--Regarding salaries, the Department has requested funds for staffing the new FMCs. In fiscal year 1984, the Department requested 14 American and foreign service national positions at an annual cost of about $756,000 based wholly or partially on FMC requirements. In fiscal year 1985, the Department requested 17 additional American and foreign service national positions at a cost of about $592,000 annually, based wholly on FMC requirements. Adjusting for those positions only partially required for FMC operations, we estimate that the annualized cost for positions requested in both fiscal years is $1,008,000.

--In the fiscal year 1985 budget request, the Department requested about $1,219,000 for FMC supplies, equipment, office renovation, and related support.

Appendix II describes specific costs associated with opening three FMCs (Bonn, Tokyo, and Brasilia), as well as costs identified at other FMC locations.

Comptroller officials objected to our categorizing costs as being attributable to FMCs. They told us many of the costs probably would have been incurred eventually, and it is unfair to associate such costs with the FMCs only.

Our estimate is limited to costs which we believe are properly associated with opening FMCs. It does not include, for example, the costs incurred to install the computer's central processing unit or any of the costs for staff currently assigned to the Embassy. Instead, it includes the additional equipment (computer peripherals and disbursing equipment) and personnel that were identified by Comptroller and Information Systems Office officials or in budget requests as necessary to operate the FMCs.

While the Comptroller officials believe these expenses probably would have been incurred anyway, the Department's budget requests submitted to the Congress attribute the additional requirements to opening the new financial management centers and not to ongoing programs. The additional resources requested for implementing the new financial management system have been excluded from our estimate.

## PERSONNEL INCREASES HAVE BEEN NECESSARY

Contrary to the original assumption made by the Department of State that no net increase in staffing would be required to establish and operate the new FMCs, it now appears that State will require an increased number of personnel.

The Department of State required both contractors selected to submit financial management system conceptual designs to develop a system that would not increase State's staffing level. State's own design also assumed that no additional staff would be required over the long run. To achieve this, the financial management system plan envisioned the transfer of not only the work performed by the RAMCs to the FMCs, but also some of the staff. The Comptroller's Office anticipated an increased staffing level in total while the workload was being transferred, but stated that after the FMCs were completely operational, the staff at the RAMCs would be decreased to compensate for the increased staffing at the FMCs. This may not occur because of new duties assumed by the RAMCs as discussed in chapter 2. Comptroller officials have suggested one American disbursing officer and two foreign service national assistants as an informal staffing standard for FMCs to implement the new local disbursing capabilities. Officials at three posts, including FMC-Bonn, advised us that these should be full-time positions.

FMC-Bonn and FMC-Tokyo--the two operational FMCs we visited--have hired additional staff to implement the new system. FMC-Bonn added one temporary and four permanent positions to operate the local disbursing installment. FMC-Bonn's disbursing officer told us that once the overseas financial management capabilities are fully implemented, they expect to eliminate the temporary position. FMC-Tokyo added one full time American position for the disbursing officer. In addition, FMC-Tokyo hired two temporary employees to free permanent foreign service national staff to assist the American disbursing officer and five part-time contract data entry staff. The budget and fiscal officer officer told us that data entry staff may no longer be necessary when financial management capabilities are implemented. However, he expects to request two additional foreign service national employees in fiscal year 1986--one for the disbursing section and one for financial management capabilities.

## SHIFTING CURRENCY PURCHASING RESPONSIBILITIES TO THE FMCs MAY INCREASE COSTS

The Department of State is a major purchaser of foreign currencies--about $2 billion in fiscal year 1983. The Department is considering a number of ways to handle foreign currency purchases--for example, to continue with the RAMCs, to assign the responsibility to some FMCs, or to establish some centralized arrangement. If State selects the FMC option, costs may increase because they could (1) erode bulk purchase discounts, (2) decrease the probability of getting a preferred exchange rate, and (3) maintain foreign currency balances at unnecessarily high levels.

RAMC-Paris alone purchased over $1.8 billion in foreign currencies during calendar year 1983. Currency is purchased daily, taking competitive bids on the spot market through major foreign exchange commercial banks and the Federal Reserve Bank of New York. RAMC-Paris officials believe the economies of scale gained in such bulk foreign exchange purchases by the U.S. government have substantial cost advantages. For example, between March and December 1983, RAMC-Paris estimates that it saved the U.S. government about $2.5 million by purchasing foreign currency in bulk and also by buying competitively rather than from a single source. More recent information shows that since October 1983, RAMC-Paris has obtained a better rate than that quoted by the Federal Reserve 61 percent of the time.

Department of the Treasury officials told us that they are satisfied with current RAMC systems for purchasing currencies. They are concerned that disbursing officers at FMCs might not make arrangements which are the most advantageous to the U.S. government due to a lack of experience in banking, finance, and foreign exchange purchase procedures.

Abidjan's budget and fiscal officer would prefer that RAMC-Paris continue purchasing local currency since RAMC can get a better rate than he can. Moreover, RAMC-Paris and Federal Reserve officials have serious reservations about the cost effectiveness of FMCs purchasing foreign currency. They believe that it will cost the U.S. government more money because of inexperienced foreign currency buyers, direct purchasing arrangements, and the loss of leverage due to volume. To illustrate, the Air Force at Mildenhall, United Kingdom, discontinued buying foreign currencies through RAMC-Paris and decided to buy directly from a bank. We reviewed a joint RAMC/Air Force analysis which showed that RAMC-Paris could have saved the Air Force approximately $21,000 over a 3-month period had RAMC made the purchases. RAMC's disbursing officer informed us that the Air Force at Mildenhall will buy all their foreign currencies through RAMC in the future.

## BENEFITS EXPECTED FROM DISBURSING LOCALLY MAY NOT BE REALIZED OR COST EFFECTIVE AT ALL POSTS

According to Comptroller officials, one of the major benefits of establishing FMCs is local disbursing of vouchers and reduction of cashier balances.

Installing the disbursing capability requires a disbursing officer. The Department's fiscal year 1985 budget request for disbursing officers at three posts averaged $120,000 per officer. In addition, a post needs additional equipment such as an extra printer, work station, check-signing equipment, and so forth.

At the time of our visit, FMC-Bonn had been in operation about 1 year and FMC-Tokyo had been in operation for about 5 months. We found that improved timeliness and reduced cashier balances expected from installing local disbursing capabilities had been achieved in Bonn but had not yet been achieved in Tokyo. FMC-Bonn issues checks daily, and the average time for processing and disbursing a check is about 1.5 days. This is faster than the average 9-day processing and round trip transit time on disbursements processed for Bonn by RAMC-Paris.

FMC-Tokyo disburses weekly, and although in some cases disbursements are made in 1 day, we found the average time for processing and disbursing by check was about 6 days and ranged from 1 to 15 days. We found that the average turnaround time on disbursing transactions processed by RAMC-Bangkok was about 8.5 days and, according to the budget and fiscal officer at FMC-Tokyo, ranged from 7 to 9 days.

Comptroller officials believe that FMCs will be able to reduce cashier balances since they can disburse locally. We found that the cashier balances at FMC-Bonn had been reduced and that interest savings of about $13,000 had been estimated for the first year of operation. Conversely, when we visited FMC-Tokyo during its fourth month of operation, we found FMC-Tokyo had not reduced any of the cashier balances it is responsible for. In fact, average cashier balances had actually gone up, due at least in part to faster replenishment. The disbursing officer stated that he had not yet had the opportunity to evaluate when and how much cashier balances could be reduced.

### Disbursing locally may not be cost effective at all FMCs

Cost effectiveness of disbursing depends to a large extent on the disbursing workload at each post. Because of the lower volume of disbursing transactions processed at FMC-Tokyo, the benefits achieved will be more costly than at Bonn. The estimated disbursing costs at FMC-Tokyo are over three times higher than the cost of RAMC-Bangkok disbursing previously provided to Tokyo.

FMC-Bonn processes an average of about 2,200 disbursements a month, whereas FMC-Tokyo processes only about 440 disbursements a month. Based on the salaries of the American disbursing officer and the foreign service nationals assisting her, we estimated that the cost of disbursing at FMC-Bonn was about $4.60 per disbursement and is expected to drop to about $4.00. Similarly, we estimated that at FMC-Tokyo the cost was about $22 per disbursement. FMC-Tokyo officials estimated disbursing costs of $25 to $50, if full costs are used. Costs they identified, but not used in our estimate, included employee benefits and computer processing time and staff. In any case, FMC-Tokyo disbursing costs are considerably higher than RAMC-Bangkok fiscal year 1983 disbursing costs of about $6 per check. (The RAMC-Bangkok disbursing cost includes not only salaries and benefits, but also the other costs of operating the RAMC, e.g., utilities, maintenance, supplies, transportation charges, etc.)

### RAMCs are alternatives to local disbursement

The Department of State plans to install the new financial management system at the embassies in Bangkok, Paris, and Mexico while continuing to have these embassies rely on their respective RAMCs for disbursing services. This arrangement may be possible at other designated FMCs and could reduce the cost of operating FMCs by eliminating the need for staff increases to accommodate the disbursing capabilities.

Officials at the posts we visited told us that current RAMC transaction processing and turnaround times were adequate for effective post operations. Overall, we found the average round-trip pouching time for posts serviced by RAMC-Bangkok was 8 days, ranging from 4.5 to 18 days. The three longest pouching times were for Honiara, Solomon Islands (18 days); Port Moresby, New Guinea (12 days); and Suva, Fiji (10.6 days). For five designated FMCs serviced by RAMC-Paris (Bonn, London, Brussels, Rome, and Abidjan), the round trip pouching time averaged about 8 days, but ranged from 4 to 14.8 days. If faster processing is required by a post, RAMCs can use emergency telegram procedures and electronic bank transfers to cut processing time to 2 or 3 days. State is already using disbursing and accounting by telegram and electronic funds transfers on a routine basis to service some posts.

Designated-FMC-Seoul illustrates the need to reevaluate the costs and benefits of installing the local disbursing capability at all designated FMCs. Officials at Seoul told us that the 9-day turnaround time on transactions processed for Seoul by RAMC-Bangkok was adequate and caused no operating problems. Hence, they did not believe that disbursing at Seoul was necessary.

Not having disbursing at each FMC should not detract from the benefits accruing from implementing the new financial management system. First, most posts (all but 20), including the embassies collocated with the RAMCs, will not have their own disbursing capabilities. Secondly, as far as State headquarters is concerned, where disbursing is performed should not adversely affect the overall financial management system's benefits.

Lastly, removing disbursing does not impair remaining FMC functions.

## CONCLUSIONS

The Department of State has not evaluated the costs and benefits of the financial management system design currently being implemented. Moreover, a key assumption used in initial cost benefit analyses and the State design currently being implemented--that a net increase in staff would not be needed for the new system because of reduced RAMC staffing--no longer appears valid. Staff increases may not be offset by RAMC reductions if RAMCs assume new duties.

The Comptroller's Office is tracking contract costs, but does not track or project the total cost of opening and operating FMCs. We believe FMC costs should be tracked and disclosed. Without tracking these costs, we question how the Department of State can determine and analyze FMCs' cost effectiveness.

The potential benefits of local disbursements--improved timeliness and better cash management practices--may not be achieved at all posts. Furthermore, the costs incurred at posts with a low volume of disbursing transactions indicate that disbursing at all FMCs may not be cost effective, especially since the RAMCs have improved the timeliness of their disbursements. We believe the Comptroller needs to further evaluate costs and benefits of individual FMCs to ensure that the cost of disbursing is justified. We believe evaluation of costs and benefits is needed as implementation of the new system progresses.

## RECOMMENDATIONS TO THE SECRETARY OF STATE

We recommend that the Secretary of State

--identify and track the total costs of FMC development, and reevaluate the costs and benefits of FMCs as implementation progresses, and

--determine whether the local disbursing capability is needed and cost effective at all 20 designated FMCs.

## SCHEDULE FOR OPENING FMCS

| | | | System Installment | |
|---|---|---|---|---|
| | | Status[1] | Disbursing | Financial management[2] |
| FMC 1 | Bonn | Operational | Oct. 1983 | Dec. 1984 |
| FMC 2 | London | Operational | Dec. 1984 | |
| | | In process | | Feb. - July 1985 |
| FMC 3 | Brussels | Operational | Feb. 1985 | |
| | | In process | | Mar. - Sept. 1985 |
| FMC 4 | Tokyo | Operational | Feb. 1984 | |
| | | In process | | Mar. - Oct. 1985 |
| FMC 5 | Cairo | Operational | Oct. 1984 | |
| | | Planned | | Oct. - Nov. 1985 |
| FMC 6 | Brasilia | Operational | Sept. 1984 | |
| | | Planned | | Nov. - Dec. 1985 |
| FMC 7 | Buenos Aires | Planned | Apr. - Jun. 1985 | |
| | | Planned | | Nov. - Dec. 1985 |
| FMC 8 | New Delhi | Planned | July - Oct. 1985 | |
| FMC 9 | Rome | Planned | July - Oct. 1985 | |
| FMC 10 | Manila | Planned | Oct. - Nov. 1985 | |
| FMC 11 | Vienna | Planned | Oct. - Dec. 1985 | |
| FMC 12 | Nairobi | Planned | Dec. 1985 - Jan. 1986 | |
| FMC 13 | Athens | Planned | Jan. - Feb. 1986 | |
| FMC 14 | Seoul | Planned | Feb. - Mar. 1986 | |
| FMC 15 | Caracas | Planned | Mar. - Apr. 1986 | |
| FMC 16 | Ottawa | Planned | Apr. - May 1986 | |
| FMC 17 | Canberra | Planned | May - June 1986 | |
| FMC 18 | Abidjan | Planned | June - July 1986 | |
| FMC 19 | Jakarta | Planned | July - Aug. 1986 | |
| FMC 20 | Pretoria | Planned | Aug. - Sept. 1986 | |

[1]For planning purposes, a start date is projected only for the disbursing installment. As that date approaches, plans are made for the other installments.

[2]The financial management installment is comprised of three stages. All three stages have been installed in Bonn. The first stage was installed in London in February 1985, and in Tokyo and Brussels in March 1985.

## FMC COSTS AT BONN, TOKYO, BRASILIA, AND OTHER DESIGNATED FMCS

Based on available cost information, opening FMC-Bonn has cost about $467,900. This estimate includes about $307,100 in nonrecurring computer equipment costs, about $39,000 for nonrecurring disbursing equipment costs, about $121,400 in personnel costs, and $400 in annual recurring maintenance costs. In subsequent years, recurring personnel costs are estimated to be $104,000. At FMC-Tokyo, development costs totalled about $301,000. This estimate includes annual recurring costs of about $78,000 for personnel and nonrecurring costs of about $223,000 for disbursing equipment, computer peripherals and related equipment, and space renovation.

FMC-Bonn added one temporary and four permanent positions to operate the local disbursing installment. FMC-Bonn's disbursing officer told us that once portions of the overseas financial management capabilities are implemented, they expect to eliminate the temporary position. FMC-Tokyo added one full-time American position for the disbursing officer. In addition, FMC-Tokyo hired two temporary employees to free permanent foreign service national staff to assist the American disbursing officer and five part-time contract data entry staff. The budget and fiscal officer told us that data entry staff may no longer be necessary when financial management capabilities are implemented. However, he expects to request two additional foreign service national employees in fiscal year 1986--one for the disbursing section and one for financial management capabilities.

FMC-Brasilia has incurred nonrecurring costs of about $140,000 for space additions, disbursing equipment, and computer equipment. Staff increases have not yet occurred. Brasilia already operated a manual disbursing system and had an American disbursing officer with foreign service national assistants.

### Costs expected at other designated FMCs visited

Officials at designated FMCs Canberra, Seoul, Buenos Aires, and Abidjan identified both recurring and nonrecurring costs they expect to incur to become FMCs. The Canberra budget and fiscal officer estimated that recurring personnel costs for Canberra will be about $137,500. He expects the post will require an American disbursing officer and three full-time foreign service nationals to install the local disbursing capability and an additional full-time local national when the financial management capabilities are added. In addition, Canberra officials have requested an additional 1,200 square feet of space, which will cost about $110,000.

An Embassy-Seoul official stated that the post will need an American disbursing officer position, two to four full-time foreign service national positions, and several contract positions for data entry when the disbursing capability is installed. These costs had not, however, been quantified. The Information Systems Office estimated that the computer equipment required to install the new financial management system in Seoul will cost about $171,000.

Buenos Aires officials told us that they will need a systems manager and a disbursing officer in the FMC at an annual recurring cost of about $250,000. In addition, they expect to hire four foreign service nationals--two to assist the American disbursing officer and two for data entry--at an annual recurring cost of about $140,000. The Information Systems Office estimates that computer equipment for the new financial management system will cost about $200,000. Officials in Buenos Aires expect to incur costs for equipment and space renovation to become an FMC.

The Information Systems Office estimates that designated FMC-Abidjan's nonrecurring costs for computer equipment will be about $195,000. Officials in Abidjan expect to hire an American disbursing officer and two foreign service national assistants for FMC operations at a recurring annual cost of about $168,000. They expect nonrecurring costs of about $31,000 for disbursing related equipment. Additional space and renovation will also be required, but they have not estimated these costs.

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