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STATE DEPARTMENT

Progress and Challenges in Addressing Management Issues

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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to participate in the Subcommittee's deliberations on the Department of State's fiscal year 2001 budget. The Department is the principal agency for advancing and protecting U.S. interests overseas. The Department maintains a worldwide network of operations at over 250 overseas locations to support its mission and that of about 35 other U.S. agencies that operate overseas. A substantial amount of State's $3 billion annual budget for the administration of foreign affairs is spent supporting these operations. These business-type operations range from providing security for over 50,000 State and other U.S. agencies personnel to locating suitable housing for American employees and their dependents.

In recent years, we have done a significant amount of work examining the way State carries out its management and business-related operations--including our report being issued today on State's progress on immediate security upgrades in the wake of the bombings of the U.S. embassies in Africa.[1] A list of our other relevant reports is attached to the end of my statement. My testimony will focus on the management challenges that State faces in improving its operations in four key areas.

SUMMARY

The State Department faces several wide-ranging and complex challenges in managing its vast overseas operations. These challenges include

- improving the security of U.S. personnel and facilities overseas in a cost-effective and timely manner,

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[1] State Department: Overseas Emergency Security Program Progressing, but Costs Are Increasing (GAO/NSIAD-00-83, Mar. 8, 2000).

- determining the right size and location of the U.S. overseas presence to improve the efficiency of operations,

- upgrading information and financial management systems to further improve communications and accountability, and

- improving performance planning to better achieve mission objectives.

State has recognized these challenges and has devoted substantial resources toward addressing them. For example, in the aftermath of the bombings of two U.S. embassies in Africa in 1998, State, using about $1.5 billion in emergency supplemental funds, has started to upgrade security at all of its overseas posts and has begun a major program to build new facilities that fully meet higher security standards. Following up on a recommendation of the Crowe reports, State also convened an Overseas Presence Advisory Panel, which issued a report in November 1999 to the Secretary of State, calling for substantial changes in the size, composition, and management of the U.S. overseas presence. It concluded that the U.S. presence has not adequately adjusted to the new economic, political, and technological landscape. Further, the panel concluded that a 10 percent reduction in the size of the overseas posts could generate government savings of $380 million annually. State has established an interdepartmental "right-sizing" committee to respond to the panel's recommendations. Furthermore, consistent with our recommendations, State has made many improvements to its information and financial management systems. It was able to successfully meet Y2K challenges and received unqualified opinions on its financial management statements for fiscal years 1997 and 1998. Further, State's performance plans continue to show improvements in establishing results-oriented goals and quantifiable performance measures.

State has made progress in addressing the four areas, but challenges remain.

- In our report issued today, we conclude that State has made progress in implementing certain emergency security upgrades, but current cost estimates to complete major upgrades could exceed the Department's initial estimates by about

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$800 million, and will not be completed as quickly as it had hoped, due to increasing security requirements.

- Although State has convened an interdepartmental right-sizing committee, it has not yet indicated what actions it may take to address the specific recommendations in the Overseas Presence Advisory Panel's report. The panel's findings are consistent with our observations from our work in recent years. We have recommended that State reexamine the way overseas administrative functions, such as relocating employees are carried out. From our work, we have concluded that State could increase the efficiency of its operations by regionalizing certain functions and making use of technology and outsourcing. Actions in these areas could potentially reduce the U.S. overseas presence.

- State also faces continuing challenges in working with U.S. agencies operating overseas to standardize information technology capabilities and in correcting its long-standing weaknesses in financial management systems. Investing in compatible technologies could reduce costs, and improve the productivity and effectiveness of overseas staff. Regarding financial management, the Department's Office of Inspector General reported in September 1999 that State's financial systems did not comply with certain requirements, including some provisions of the Federal Financial Management Improvement Act of 1996. In our view, State needs to continue to make improvements in its financial management systems to provide managers with the information they need to operate in a more business-like fashion and make better cost-based decisions.

- Moreover, while State has made some progress in implementing requirements under the Government's Performance and Review Act, its fiscal year 2000 annual performance plan did not provide a complete picture of the agency's intended performance relating to some of its strategic goals. It contained only a limited discussion of the strategies and resources the agency needs to achieve its goals. Also, the plan did not describe how the Department was going to validate the data it would use to measure its performance.

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ENHANCING OVERSEAS SECURITY

In light of the known threats of terrorism against the American people and property overseas by groups opposed to U.S. interests, enhancing the security of embassies and consulates might well be the most significant challenge facing the Department of State. The August 1998 bombings of the U.S. embassies in Nairobi, Kenya, and in Dar es Salaam, Tanzania, highlighted the security management challenge for the Department of State. Immediately after the bombings in Africa, State deployed teams to Kenya and Tanzania to assess the damage firsthand and estimate costs for replacements and temporary facilities. It also sent teams to over 30 other high-risk countries to assess the threats and possible options to reduce them. Those teams, in coordination with State's overseas security officers, chiefs of missions, and other officials, helped State further define its security enhancement requirements and estimate the costs for upgrading existing facilities worldwide. State requested and received about $1.5 billion in emergency supplemental appropriations from the Congress to improve security quickly at all posts and to begin relocating its most vulnerable embassies and consulates.

Using funds from the supplemental, State has reestablished embassy operations in interim office buildings in Nairobi, Kenya, and in Dar es Salaam, Tanzania, and has signed a contract for construction of new embassy compounds. These two embassy compounds are scheduled for completion in 2003 at a cost of about $119 million. Projects to relocate several other embassies and consulates are also under way including those in Kampala, Uganda; Zagreb, Croatia; and Doha, Qatar. In addition, State has made progress in implementing many of its planned security upgrades, including enhancing vehicle inspection and security guard programs, hiring additional special agents and other security staff, and instituting a new surveillance detection program designed to identify hostile surveillance activities and potential attackers.

According to State's data, major construction upgrades to improve the security of existing facilities at 119 posts are likely to cost significantly more than was originally estimated and are behind schedule. State estimates that the upgrades and electronic equipment installations, originally funded at $181 million, and take longer to complete than projected. State notes that these upgrades could potentially cost about $800 million more to complete than originally envisioned due to an increase in requirements and other factors. State says that to address these additional requirements, it plans to request additional funds in its fiscal year 2001 and future budgets; realign funds from other projects; stretch the program over several years; and/or, where possible, use less costly methods to achieve project objectives. Further, the current cost estimates for the construction of embassies initiated as part of the emergency supplemental in Kampala, Zagreb, and Doha are about $122 million, or about $45 million higher than original estimates, due to increases in staffing and upgrades in security requirements. As of December 31, 1999, State had obligated $972 million and expended $445 million of the $1.5-billion emergency supplemental appropriations.

In its fiscal year 2001 budget, the Department of State requested an advance appropriation of $3.35 billion over 4 years (fiscal years 2002 through 2005) to replace its highest risk and most vulnerable embassies and consulates. State did not identify which embassies and consulates will be replaced or what the estimated project costs are for completion. Because of State's past problems in implementing capital construction programs, we have been asked to evaluate whether the Department's planning adequately identifies which projects are highest priority for replacement, their estimated costs, and when construction can be completed. We have just begun this effort.

OVERSEAS PRESENCE

Another key issue that the Department faces in its everyday operations is the sheer number of U.S. employees overseas—which affects security requirements, operating costs, and efficiency. In recent years, we have repeatedly raised concerns about the need to reexamine the U.S. overseas presence in light of the changing political landscape and

advances in technology. In 1996, we reported that State was reluctant to seriously reexamine its overseas presence and the scope of its activities or to substantially change its business practices. We encouraged State to expand its use of regional centers for certain administrative services and explore greater use of Foreign Service National personnel to reduce staffing costs. In our 1998 report on overseas housing programs, we noted that some administrative functions could be performed by the private sector or through other means that would reduce posts' staffing needs. The security burden is directly affected by the size of the overseas work force.

We are pleased to note that the Department has moved forward in examining its overseas presence. Following the bombings in Africa, State appointed a panel to review overseas operations of the U.S. government. The panel made a number of recommendations in November 1999 about how to best organize and manage overseas posts. The panel concluded that the U.S. overseas presence has not adequately adjusted to the new economic, political, and technological landscape. Many of these points are consistent with our observations from prior work on budget, staffing, and related management issues. The panel recommended that the President establish an interagency committee to determine the right size and composition of overseas posts. The panel concluded that reducing the size of overseas posts overall by 10 percent would generate government savings of $380 million annually.

The panel also recommended that State reform its administrative services. Our prior work identified several actions State could take to streamline those services and reduce costs, including outsourcing of key housing functions and one-stop shopping for relocation services. State has attempted to reengineer its logistics system, focusing on direct ordering from the supplier and other actions that eliminated unnecessary costs and procedures in providing needed goods and services. It has also implemented the International Cooperative Administrative Support Services system to provide greater transparency to the costs of operations. However, it has not broadly embraced the concept of cost-based decision-making for many of its operations, such as overseas

housing and relocation. Changes in the way State carries out its administrative functions could reduce the number of overseas staff.

IMPROVING INFORMATION
AND FINANCIAL MANAGEMENT SYSTEMS

Recognizing that it relied on inadequate information and financial management systems and infrastructures that were generally inadequate to support State's core foreign policy and administrative functions, in 1997, State developed a 5-year information technology plan to lay out its overall modernization effort. Our 1998 report on information resource management questioned State's methodology for making its 1997 estimate that it would cost $2.7 billion over 5 years to modernize its global information technology infrastructure. Consistent with our recommendations, State has improved its information technology planning and investment process and is revising its modernization cost estimates. Moreover, State reports that it has fully achieved some of its modernization goals. For example, overseas posts now have modern computer platforms, the obsolete Wang computer network has been fully replaced, and its e-mail systems have been consolidated and upgraded.

Despite these efforts, the Overseas Presence Advisory Panel reported that U.S. embassies are still equipped with incompatible information technology systems incapable of even the simplest electronic communications between agencies. It added that most employees overseas cannot e-mail colleagues in other agencies even in the same building. The panel recommended that the Department develop and implement a strategy for standardizing information and communications networks at all posts while providing all agencies with the connectivity they require. The panel suggested that a single, unclassified global communications network to serve all U.S. agencies with an overseas presence could be built at an estimated cost of $200 million. The Department's recently completed modernization program overseas, according to State officials, could provide a common platform at posts for e-mail and other functions if it is accepted by all agencies at each

post. State has included $17 million in its fiscal year 2001 budget request to develop and deploy interagency information platforms at about 45 posts overseas.

Regarding financial management, the Department of State has received an unqualified audit opinion on its Department-wide financial statements for fiscal years 1997 and 1998. However, its audit report for fiscal year 1998 issued on September 30, 1999, disclosed that State's financial management systems were still out of compliance with certain federal accounting requirements. Principal weaknesses in State's financial and accounting systems included balances that could not be reconciled, and balances requiring substantial manual effort to correct. In addition, State did not meet the OMB's March 1, 2000 requirement to submit fiscal year 1999 audited financial statements. State officials indicated that they anticipate obtaining an unqualified audit opinion on its fiscal year 1999 statements. State has drafted a remediation plan in compliance with the Federal Financial Management Improvement Act. This plan addresses the actions the agency believes are necessary to address its internal control weaknesses.

STRENGTHENING STRATEGIC
AND PERFORMANCE PLANNING

As required by the Government Performance and Results Act, State has prepared strategic and performance plans in recent years. The Act provides a framework for addressing management challenges and providing greater accountability of State's programs and operations. In its first strategic plan for foreign affairs, State formulated foreign policy goals that cover a wide spectrum of U.S. national interests. Our review of State's performance plan for fiscal year 2000 found that improvements had been made over the prior year's plans, including the addition of results-oriented goals, quantifiable measures, and baselines for many of its performance goals. However, the plan still had limited usefulness and provided an incomplete picture of the agency's intended performance for some of its key strategic goals. For example, State did not provide a full range of objectives, strategies, external factors, and performance indicators for many of

its goals. Also, its plan did not elaborate on the many cross-cutting issues. For example, State says it works closely with the U.S. Trade Representative and the Department of Commerce on specific U.S. government export promotion efforts without explaining what each agency will do. We will soon review State's performance plan for 2001 and its first performance report for fiscal year 1999.

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Mr. Chairman and Members of the Subcommittee, this concludes my prepared statement. I would be happy to answer any questions you may have.

Contacts and Acknowledgements

For questions regarding this testimony, please contact Ben Nelson at (202) 512-4128. Individuals making key contributions to this testimony included Jess Ford, Diana Glod, Lynn Moore, Edward Kennedy, and Jesus Martinez.

RELATED GAO PRODUCTS

OVERSEAS SECURITY AND PRESENCE

State Department: Overseas Emergency Security Program Progressing, but Costs Are Increasing (GAO/NSIAD-00-83, Mar. 8, 2000).

INFORMATION MANAGEMENT

Department of State IRM: Modernization Program at Risk Absent Full Implementation of Key Best Practices (GAO/NSIAD-98-242, Sept. 29, 1998).

Year 2000 Computing Crisis: State Department Needs to Make Fundamental Improvements to Its Year 2000 Program (GAO/AIMD-98-162, Aug. 28, 1998).

Computer Security: Pervasive, Serious Weaknesses Jeopardize State Department Operations (GAO/AIMD-98-145, May 18, 1998).

FOREIGN AFFAIRS ORGANIZATION AND MANAGEMENT

State Department: Major Management Challenges and Program Risks (T-NSIAD/AIMD-99-99, Mar. 4, 1999).

Performance and Accountability Series: Major Management Challenges and Program Risks, Department of State (GAO/OCG-99-12, Jan. 1999).

Foreign Affairs Management: Major Challenges Facing the Department of State (GAO/T-NSIAD-98-251, Sept. 17, 1998).

International Affairs: Activities of Domestic Agencies (GAO/T-NSIAD-98-174, June 4, 1998).

International Affairs Budget: Framework for Assessing Relevance, Priority, and Efficiency (GAO/T-NSIAD-98-18, Oct. 30, 1997).

RELOCATION AND HOUSING

State Department: Options for Reducing Overseas Housing and Furniture Costs (GAO/NSIAD-98-128, July 31, 1998).

State Department: Using Best Practices to Relocate Employees Could Reduce Costs and Improve Service (GAO/NSIAD-98-19, Oct. 17, 1997).

STRATEGIC AND PERFORMANCE PLANNING

Observations on Department of State's Fiscal Year 2000 Performance Plan (NSIAD-99-183R, July 20, 1999).

The Results Act: Observations on the Department of State's Fiscal Year 1999 Annual Performance Plan (GAO/NSIAD-98-210R, June 17, 1998).

Managing for Results: Agencies' Annual Performance Plans Can Help Address Strategic Planning Challenges (GAO/GGD-98-44, Jan. 30, 1998).

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