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**United States Department of State
and the Broadcasting Board of Governors**

Inspector General

JUL 7 2006

MEMORANDUM

TO: M – Ms. Henrietta H. Fore, Under Secretary for Management

FROM: OIG – Howard J. Krongard, Inspector General *HJK*

SUBJECT: Memorandum Report, International Cooperative Administrative Support Services, ISP-I-06-38

More than 30 percent of the Department's overseas staff, including direct-hire Americans and locally employed staff, are International Cooperative Administrative Support Services (ICASS) employees. The total of posts' ICASS budgets for FY 2004 was over \$960 million. Statistics from FY 2004 indicate that the number of ICASS positions needed to support one direct-hire American continues to rise. Given the magnitude of cost involved, the Office of Inspector General (OIG) selected ICASS as an area of emphasis for October 2004 thru April 2006 and reviewed the ICASS program at 38 posts. OIG looked at whether duplicative administrative support structures existed at inspected posts. OIG questioned whether agencies not subscribing to ICASS services submitted detailed explanations (business cases) of how they fulfill these needs and at what cost. If a new embassy compound (NEC) was being considered, OIG asked whether the embassy had considered consolidation and streamlining support services in staffing projections.

OIG found that the Department has done a very good job of consolidating ICASS services into a single administrative platform on all NEC construction projects but has not been as successful in combining ICASS services for those embassies that are not scheduled for a NEC. OIG found a significant amount of resistance from agencies in embassies not scheduled for a NEC in the near future. As a result, ICASS does not fully realize its intended goal of containing and reducing costs through the sharing of administrative services across agencies, specifically, for those embassies not scheduled for a NEC in the near future. OIG inspection reports in FY 2005 and FY 2006 consistently noted that agencies overseas continue to resist subscribing to the full range of administrative services offered by ICASS. Only the basic package and community liaison service of ICASS services are mandatory. As a consequence, agencies operating overseas develop duplicative administrative structures, which increase overall cost to the U.S. government. Without a requirement to subscribe more fully to ICASS, these conditions are unlikely to change.

OIG identified duplicative administrative services at 29 of the 38 inspected posts in FY 2005 and FY 2006. Despite the Department of State (Department) and U.S. Agency for International Development (USAID) Joint Management Council's guidance to eliminate

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Department/USAID's duplication of services, OIG identified duplicative administrative services in 22 out of 27 posts where USAID was present. Other U.S. agencies including the Department of Treasury, Drug Enforcement Administration, and Department of Commerce replicated administrative services at 10 posts inspected, while only eight posts had no duplication of services.

Agencies do not fully subscribe to ICASS for many reasons: a desire to retain managerial control over administrative support functions; resistance to assuming additional duties not related to the agency's core mission; the agency's belief that their costs can be reduced by providing services in-house or by outsourcing; not being colocated in a single compound; and poor customer service provided by ICASS. There are also a number of unresolved operational problems faced by embassies while trying to consolidate administrative services such as handling surge requirements, different agency regulations, specialized program procurements, and pooling assets.

Agencies that anticipate program expansion through the implementation of transformational diplomacy initiatives, such as the President's Emergency Plan for AIDS Relief and the President's Global Peace Operations, believe that ICASS is not flexible or responsive enough to provide adequate administrative services to agencies with surging workloads. Embassies often find it difficult to conduct any type of advance planning for unanticipated surge requirements that occur because of irregular funding streams and usually after the annual ICASS budget is finalized. This is an operational problem that has led some surge agencies to create or expand duplicative administrative service support structures or to out-source such services. Given the large amount of development money available through these initiatives and the immediate need for program implementation, inexperienced management staff will need to know what resources are available to facilitate quicker responses to surge agencies' requests for operational support.

Agencies with large-scale administrative requirements say that Department ICASS service providers are not familiar with their agency's financial management, personnel, information technology, and general services regulations and authorities, and cannot handle the volume of work without a significant increase in ICASS staff. Smaller agencies are reluctant to support staffing increases because they believe their ICASS contribution will increase. Agencies also say that the ICASS Executive Council based in Washington does not readily support increases in ICASS base costs. This is an operational problem that will take a long time to resolve because regulations, authorities, financial systems, and other support systems are uniquely designed for each agency's core mission and are not always compatible. For this reason, technical and program management functions are not subject to consolidation at this time.

Embassy management personnel do not have the necessary technical skills to handle procurements of specialized medical equipment and supplies for the Centers for Disease Control and Prevention or for USAID programs. Embassy management staff believes that specialized program procurements would be better handled by the Department's Regional Procurement Support offices or by the agency requesting the program procurement. The Department has

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already issued some guidance on this topic, but many posts still do not know how to handle requests for specialized program procurements.

Embassy management personnel do not universally know how to pool housing and motor pool assets owned by multiple agencies. Pooling assets becomes problematic when non-ICASS assets are converted, sold, and replaced. In some instances, regulations prohibit the conversion of an agency's non-ICASS assets to ICASS assets. Also, the funding for converted assets usually goes back to the applicable agencies upon disposal.

However, combining administrative services reduces overall costs to the U.S. government. For this reason, OIG continues to press for greater consolidation of administrative services among embassies not receiving a NEC. OIG recommended consolidation of warehousing at Embassies Lusaka and Amman and merging of travel services at Embassy Tel Aviv. OIG recommended feasibility studies of combining administrative services at Embassies Gaborone, Harare, Lilongwe, and Paris where parallel administrative structures operate. OIG also found smaller scale duplication at other embassies but no formal recommendations were made in these instances.

Consolidation is producing cost savings where there are no plans to build a NEC. Consolidation of administrative services among Embassy Paris, U.S. Mission to the Organization for Economic Cooperation and Development (USOECD) and U.S. Mission to the United Nations Educational, Scientific and Cultural Organization (USUNESCO) into a tri-mission administrative structure is expected to yield about \$600,000 in yearly savings. Embassy Lilongwe estimates that combining their motor pool services with those of USAID will reduce overall operating costs. Personnel costs have also been reduced through consolidation.

Major cost savings have been achieved through the efforts of the Office of Rightsizing the U.S. Government Presence Overseas (M/R). M/R's rightsizing analysis for eight NECs shows the average reduction in desk count for each NEC project was 18 desk positions, 145 desk positions in all. The savings associated with these desk reductions include \$20 million capital security construction costs and \$18 million more in one-time costs for separate annexes. Of the total 145 positions, 50 were U.S. direct-hires, which represent a \$20 million savings in personnel costs. M/R's rightsizing studies are based on the premise that all new embassy construction projects will contain a single administrative platform and that all services provided by ICASS will be consolidated. M/R's rightsizing studies are also based on the Capital Security Cost Sharing program where agencies pay a pro rata share of embassy construction costs for safe and secure facilities for their employees overseas.

M/R tracks the progress embassies are making toward consolidation and makes quarterly reports to Congress on overseas rightsizing. Significant achievements have been made, but more work is needed to persuade embassies not receiving a NEC to consolidate administrative services. OIG believes issuing guidelines that address the unresolved operational problems discussed in previous paragraphs will facilitate consolidation and reduce some of the resistance received from agencies. In addition, a stronger consensus within the ICASS interagency working group and better interagency cooperation is needed to speed up consolidation efforts. M/R and the Office of Global Support Services and Innovation are already working on

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guidelines that will correct some of these cited operational problems. Some of these guidelines, templates, and other tools are in draft form and are pending approval. The Office of Global Support Services and Innovation has provided site assistance to several posts, and its website contains many useful templates for easing consolidation, including an ALDAC from the Department's Under Secretary for Management and USAID's Deputy Administrator (State 54462 dated April 5, 2006). This ALDAC discusses lessons learned regarding shared administrative services pilots in Cairo, Dar es Salaam, Jakarta, and Phnom Penh.

Recommendation 1: The Office of Rightsizing the U.S. Government Overseas, in coordination with the Bureau of Resource Management, the Bureau of Administration, and the Bureau of Human Resources, should issue a cable that identifies guidance and site assistance available to missions that will facilitate quicker responses to surge agencies' requests for operational support. (Action: M/R, in coordination with RM, A, DGHR))

Recommendation 2: The Bureau of Administration should notify general services officers, management officers, and other personnel holding valid contracting warrants that procurement cables defining procurement roles and responsibilities for Department and other agency personnel, including the warranted officers responsibility for procuring complex program procurements, are posted on the Bureau of Administration's website. (Action: A)

Recommendation 3: The Bureau of Resource Management should issue guidance that addresses problems associated with pooling assets of different agencies. (Action: RM)

Inspectors Andrea Leopold and Timothy Wildy prepared this memorandum inspection report. The area of emphasis covers the period of October 1, 2004 thru April 1, 2006. Appendix A lists the 38 posts that OIG inspected during that time and that provided the material for this report.

CC: M/R – Mr. Patrick J. Truhn
RM/ICASS – Mr. Ismail Asmal
A/GSSI – Mr. William H. Moser
A/OPE – Ms. Kimberly Triplett

APPENDIX A

Inspection Posts

Fall 2004 Inspections

Embassy Amman, Jordan
Embassy Bucharest, Romania
Embassy Cairo, Egypt
Embassy Chisinau, Moldova
Embassy Paris, France
Embassy Sofia, Bulgaria
U.S. Mission to the Organization for
Economic Cooperation and Development
U.S. Mission to the United Nations
Educational, Scientific and Cultural
Organization

Winter 2005 Inspections

American Institute in Taiwan
Embassy Bandar Seri Begawan, Brunei
Embassy Beirut, Lebanon
Embassy Damascus, Syria
Consulate General Hong Kong
Consulate General Jerusalem
Embassy Kuala Lumpur, Malaysia
Embassy New Delhi, India
Embassy Singapore, Singapore
Embassy Tel Aviv, Israel

Spring 2005 Inspections

Embassy Dili, East Timor
Embassy Gaborone, Botswana
Embassy Hanoi, Viet Nam
Embassy Harare, Zimbabwe
Embassy Islamabad, Pakistan
Embassy Jakarta, Indonesia
Embassy Lilongwe, Malawi
Embassy Lusaka, Zambia
Embassy Santo Domingo, Dominican
Republic

Fall 2005 Inspections

Embassy Bamako, Mali
Embassy Bogotá, Colombia
Embassy Conakry, Guinea
Embassy Dakar, Senegal
Embassy Kabul, Afghanistan
Embassy Lima, Peru
Embassy Manama, Bahrain
Embassy Sanaa, Yemen

Winter 2006 Inspections

Embassy Panama City, Panama
Embassy San Jose, Costa Rica
Embassy San Salvador, El Salvador