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STATE DEPARTMENT

Major Management  
Challenges and Program  
Risks

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Relations and Trade Issues, National Security and  
International Affairs Division



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Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss some of the major management challenges and program risks facing the Department of State. As the lead agency for the conduct of foreign affairs, State has enormous responsibilities as it works to shape a more secure, prosperous, and democratic world. My testimony today will focus on the challenges faced by the Department on the business side of its operations. A substantial amount of State's nearly \$2.7 billion annual budget for the administration of foreign affairs is spent on business functions that support its broad mission. The Department has a worldwide network of operations to maintain its headquarters and over 250 overseas posts and to support about 35 other U.S. agencies that operate overseas. State also provides security for thousands of U.S. personnel and facilities abroad. In fiscal year 1999, it received \$1.45 billion in emergency supplemental funding for worldwide security enhancements.

My statement is largely based on our recently issued report entitled Performance and Accountability Series: Major Management Challenges and Program Risks, Department of State (GAO/OCG-99-12). I have attached a list of other relevant GAO reports to the end of my statement.

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## Summary

The major management challenges facing the State Department are not simple. They cover a wide spectrum of State's operations and responsibilities around the world. If these challenges are not met, they could seriously undermine its ability to function effectively in the 21<sup>st</sup> century. These challenges include

- enhancing the security of U.S. personnel and facilities overseas,
- improving the quality and capability of information and financial management systems,
- successfully integrating other foreign affairs agencies into State,
- effectively managing the visa process to reduce the risk of fraud and abuse, and
- modernizing its approach to relocating and housing employees overseas.

State has recognized these challenges and has put in place over the last 2 years a new leadership team to address them. State has devoted resources toward formulating a strategy and establishing priorities for enhancing overseas security. The Department has also embarked on an

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aggressive approach to addressing its long-standing information and financial management issues. However, much more needs to be done to create an effective and efficient platform to facilitate the conduct of foreign affairs and to protect U.S. employees overseas. The Department has been reluctant to fundamentally change the way it does business. The adoption of cost-based decision-making and use of best practices are critical to State's dealing with these challenges. Furthermore, the 1993 Government Performance and Results Act can serve as an important tool to help State overcome some of the challenges it faces.

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## Enhancing Overseas Security

The need to adequately protect employees and their families overseas may very well be the single most important management challenge currently facing the State Department. The acts of terrorism in Kenya and Tanzania in August 1998 claimed more than 260 lives and injured thousands. Worldwide, several embassies found themselves either shut down or unable to provide normal services because of threatening situations. According to a recent analysis, over 80 percent of State's embassies and consulates do not meet the Department's 100-foot setback standard, one of the major means of reducing vulnerability to terrorist attacks.

Special accountability boards set up to review the circumstances surrounding the August bombings, headed by retired Admiral William Crowe, concluded that insufficient levels of resources have been invested to provide security against terrorist attacks. The January 1999 Crowe report made several recommendations to enhance security. These recommendations dealt with a number of issues concerning among other things, the handling of terrorist attacks and threats, the size and composition of overseas missions, and the level of funding for safe buildings and security programs over the years.

The financial requirements for undertaking security enhancements will be significant. State has already received \$1.45 billion in emergency funding to rebuild the embassies in Kenya and Tanzania, relocate other embassies, and improve security for other facilities serving U.S. personnel worldwide. State reports that it has completed security surveys of over 200 posts and formulated six internal working groups to direct and track program implementation. State is also assessing its longer term security enhancement needs and estimates that several billion dollars may be required for additional embassy construction. In the fiscal year 2000 budget request for the international affairs 150 account, State requested an advance of \$3 billion for fiscal years 2001-2005 to replace its highest risk,

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most vulnerable embassies and consulates. In that request, State indicated that posts would receive priority for construction based on security factors, global situation, and practicality. It did not, however, address certain key issues, such as whether U.S. agencies will be collocated.

Our prior work has raised other issues that deserve attention. These issues concern whether State has the capacity to manage a major security program and whether the current U.S. overseas presence needs to be reexamined to determine if new technologies and regionalization can reduce the number of employees that must be protected.

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## Management Capacity

In the early 1990s, we reported that State encountered several management problems in using the \$1.47 billion in funds that were applied to the diplomatic security construction program after bombings in Beirut. Our work showed that inadequate staffing, poor program planning, difficulties in site acquisition, changes in security requirements, and inadequate contractor performance directly contributed to significant delays and cost increases in the majority of State's construction projects. State has since undertaken a number of efforts to improve its management of the construction program. These include value engineering and configuration management programs designed to reduce project design changes and control costs.

In view of State's prior experiences and difficulties in implementing the security construction program, several questions and issues need to be addressed, as follows:

- What action does State need to take to ensure it has the management capability to implement a large-scale construction program?
- Are there adequate control mechanisms to ensure efficient and effective use of emergency funds and any subsequent funding for overseas security?
- Have meaningful performance measures been set to assess the level of progress made in meeting security program objectives?

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## Overseas Presence

A key issue that should be considered in addressing future security requirements is the sheer number of U.S. employees overseas. The security burden is directly affected by the size of the overseas workforce. In our work on overseas staffing issues in the mid-1990s, we noted that the U.S. government (excluding military operational commands) employed a total

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of nearly 38,000 personnel overseas—split evenly between U.S. direct hire employees and foreign national employees. An important trend has been the increase in the number of overseas U.S. direct hires by the non-foreign affairs agencies. A broad examination of how the U.S. government carries out its overseas role and related missions may now be needed in view of the increased security threats. State, in conjunction with the National Security Council, needs to work with other agencies operating overseas to examine their overseas staffing requirements and explore alternatives for reducing the number of U.S. employees overseas.

I would like to point out that the Crowe report also endorsed the need to better define the role and functions of embassies abroad, with a view toward exploiting technologies more fully, improving their efficiencies, ensuring security, and reducing their overall cost. It was further recommended that State look specifically at reducing the number of diplomatic missions by establishing regional embassies and accrediting ambassadors to several countries.

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## Improving Information and Financial Management Systems

State officials have recognized that deficiencies exist in the Department's information resource management (IRM) operations. The Department is spending hundreds of millions of dollars each year on information resource management, including \$100 million to \$150 million to modernize its information technology (IT) hardware and software systems, remediate Year 2000 problems, implement a comprehensive information security program, and upgrade its overall IT capability. These initiatives have received top-level management support over the last several months as evidenced by the appointment of a permanent Chief Information Officer (CIO) and a deputy CIO for architecture and planning, the creation of a Deputy CIO position for the Year 2000 issue, and the assignment of information system security issues to the Deputy CIO for Operations. Safeguarding State's IT investments will require sustained management commitment and effective program management to provide adequate assurance that (1) critical operations and assets are protected from disruption, loss, and inappropriate disclosure and (2) the sizable investments in modernization will lead to effective information systems.

State estimated in 1997 that it would need \$2.7 billion over 5 years to upgrade and operate its IT infrastructure. This estimate was very speculative because not all costs required to complete the plan were included, such as consular IT operating costs. Also, some costs had changed, such as added bandwidth requirements and capital replacement

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needs. Furthermore, these plans were developed without the benefit of full implementation of the planning and investment process called for by federal guidance. To address these shortcomings, we recommended that State make the full implementation of an IT planning and investment process a top priority. This should include preparing a validated IT architecture to help guide the modernization, establishing a fully functioning technical review board, revising State's long-range plans and cost estimates, and identifying potential cost savings and efficiencies expected from the modernization effort.

State's CIO has taken a number of steps to implement our recommendations. For example, the CIO has

- drafted an IRM vision paper that will serve as a basis for revising the strategic and tactical plans, and related cost estimates;
- finalized a high-level IT architecture;
- implemented a Department-wide capital planning process; and
- reconstituted the technical review board.

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## Year 2000 Issues

State has been slow in addressing Year 2000 issues. In its December 1998 quarterly report, the Office of Management and Budget (OMB) categorized State as a "tier 1" agency, meaning that State was not making sufficient progress. Should State fail to adequately address Year 2000 deficiencies, its ability to perform key functions may be at question, including identifying visa applicants who may pose a threat to the nation's security.

In August 1998, we reported that if State continued its current approach, which lacked a mission-based perspective, it would risk spending time and resources fixing systems that have little bearing on its overall mission. We recommended that State reassess its systems using a mission-based approach and ensure that systems identified as supporting critical business functions receive priority attention and resources. We also recommended that State ensure that contingency planning efforts focus on core business functions and supporting systems and that interfaces with other entities be identified and corrected. State generally agreed with these recommendations and has since prioritized its mission-critical applications and made some progress remediating them. However, in its February 1999 report to OMB, State indicated that it will not be able meet the OMB deadline for compliance of four of its mission-critical systems. In that same report, State also notes that about one-half of its noncompliant, mission-critical systems had not been repaired or replaced. Thus far, the

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Department's Y2K Certification Panel has certified only 2 of its 59 mission-critical systems as compliant.

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## Information Security

Our 1997 evaluation of State's information security program showed that it lacked key elements such as routine assessments of risk, complete written policies, and procedures for testing system controls. Our tests showed that State's unclassified but sensitive systems, and the information contained within them, were vulnerable to unauthorized access. Also, the Department's December 1997 report on internal controls cited information system security as a material weakness. Such vulnerabilities could be exploited by individuals or organizations seeking to damage State's operations, commit terrorism, or obtain financial data. We recommended that State implement a number of corrective measures, including establishing a central information security unit. State concurred with the majority of our recommendations and has taken steps to improve information security. For example, it has established a central IT security unit and Department-level information systems security officer, prepared new management guidance on IT security, and increased IT security awareness activities.

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## Financial Management Systems

One of State's long-standing shortcomings has been the absence of an effective financial management system that can assist managers in making "cost-based" decisions. Recently, and for the first time, the Department of State received an unqualified audit opinion on its Departmentwide financial statements for fiscal year 1997. This achievement represents a good step forward. It provides the Department a basis for routinely producing accurate and timely financial management information essential for effective and efficient use of federal funds.

State must continue its efforts to strengthen its financial management system. For example, in the recently issued audit report on State's fiscal year 1997 financial statements, the Department's Inspector General disclosed that State's systems were out of compliance with certain requirements, including some provisions of the Federal Financial Management Improvement Act of 1996. In addition, State did not meet OMB's March 1, 1999, requirement to submit fiscal year 1998 audited financial statements.

In response to the Inspector General's audit findings, State has indicated that it would study the level of compliance with the Federal Financial

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Management Improvement Act. State will use the results of the study to prepare a remediation plan as required by the act. The Department also stated that additional reports and procedures are being put into place to address the internal control weaknesses identified during the most recent audit.

To better manage and allocate overseas support costs, State has also implemented the International Cooperative Administrative Support Services (ICASS) system. Under ICASS, greater responsibility and authority for managing resources and making decisions about administrative support services shared with other agencies located at diplomatic missions have been delegated to the overseas posts. The stakes are high—initial ICASS reports indicate that shared administrative costs are about \$640 million annually. ICASS is now generating new and more reliable cost data; the key question that remains to be answered is whether State can effectively use the system to consolidate resources and reduce overseas support costs.

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## Successfully Integrating Foreign Affairs Agencies

The long-planned reorganization of the government's foreign affairs agencies is under way. In April 1997, the White House announced a plan to put matters of international arms control, public diplomacy, and other functions within a "reinvented" State Department. In October 1998, the Congress authorized the reorganization, which abolished the U.S. Information Agency (USIA) and the U.S. Arms Control and Disarmament Agency (ACDA) and consolidated and integrated those functions into State. The reorganization is intended to reinvigorate the foreign affairs functions of the United States within the State Department. About 3,000 employees of ACDA and USIA will be integrated into State. Potential areas identified for integration among the three agencies include legal affairs, congressional liaison, press and public affairs, and management. Central management functions that are to be integrated include IRM, overseas facilities and operations, logistics, diplomatic security, financial management, and human resources.

State has indicated that during the transition, costs would likely increase because of the need to implement system conversions and transfers; in the longer term, overall staffing and costs may decrease. State faces several challenges in achieving the objectives of this reorganization. One major challenge is the technological difficulty of uniting the agencies, including integrating separate electronic mail and computer systems. Overall issues include whether the reorganization will actually produce identifiable

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efficiencies and improved performance in foreign affairs programming. As our prior work has indicated, many of the areas targeted for management consolidation need substantial reform.

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## Effectively Managing the Visa Process

The Immigration and Naturalization Service (INS) estimated that as of October 1996, 5 million illegal aliens were residing in the United States. While not the primary source of illegal immigration, visa fraud is a significant matter of concern. State's consular officers at overseas posts are responsible for providing expeditious visa processing for qualified applicants. At the same time, they must prevent the entry of those who are a danger to U.S. security interests or are likely to remain in the United States illegally. In fiscal year 1997, State processed over 7 million nonimmigrant visas and 640,000 immigrant visas for foreigners to enter the United States. Visa processing is a particular problem for some overseas locations where volume and/or security concerns are high.

State has introduced new technologies, equipment, and controls designed to improve visa processing and reduce the incidence of fraud. State notes that progress has been made in several areas, including installation of machine-readable visa systems at all visa-issuing posts, online connectivity to Washington, D.C., databases, and implementation of a first phase of a State-INS data-share program. Many improvements were made possible through State's temporary authority to retain fees charged foreigners applying for nonimmigrant visas. Those fees generated millions of dollars, enabling the Department of State to invest in border security technology and to pay the salaries of nearly 2,000 employees.

State will need to remain vigilant in a number of areas to further reduce the vulnerability of the visa system to fraud and abuse. These include addressing (1) critical staffing gaps in overseas consular positions; (2) limitations in consular automated systems; (3) restrictions in the exchange of intelligence information with INS and other law enforcement agencies; and (4) weaknesses in the integrity of immigrant and nonimmigrant documentation, including the computerized systems used to produce them. The Department must also continue its efforts to encourage consular sections to implement best practices designed to streamline and rationalize the visa workload. Several potential best practices were identified in our recent work on visa backlog issues. These include using travel agents for initial processing, establishing appointment systems to control workload, and allowing the payment of visa fees at a bank or other financial institution. In view of the increased international terrorist threats,

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continued attention to State's progress in addressing these issues will be needed.

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## Modernizing Relocation and Housing Processes

State has recognized the need to reengineer its logistics processes based on the adoption of best practices, hoping to reduce the time and costs associated with its outdated business operations. One area that deserves attention is State's employee transfer process, which has remained virtually unchanged for years. Over 3,000 employees along with their household effects are relocated each year. We recently compared State's process for transferring employees and their household goods to those of other public and private sector organizations. We found that the "best practices" of leading private sector companies and other organizations can serve as a useful model for State to reduce costs and provide better services. One of the key differences between the process State uses to relocate its employees and the process leading private sector organizations use is State's reliance on in-house operations.

Our work found that leading companies in the private sector use a number of "best practices." These include having one point of contact for assistance to employees, known as "one-stop shopping," and using commercial, door-to-door shipments to lower the cost of shipping employees' household effects. In contrast, State employees are confronted with a myriad of steps and multiple offices to navigate. State also separately contracts for each segment of most moves. In addition to incurring annual direct costs of about \$36 million to ship household effects, State incurs as much as \$1,600 in overhead costs for each move.

State and other U.S. government agencies operating overseas also spend over \$200 million annually to lease housing and purchase furniture for employees and their families. This process appears to be more costly than necessary. Our comparison of State's processes with those of key private sector firms operating overseas indicates that if State adopted private sector practices at a number of posts, it could potentially save the U.S. government substantial amounts of money and still meet its employees' overseas residential housing and furniture needs. Specific practices that can reduce costs include:

- using relocation companies and similar service providers to search for housing and negotiate leases to reduce in-house support costs and shift some property preparation expenses to landlords;

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- providing employees with housing allowances to select their own homes rather than managing and maintaining a housing pool of government leases and preassigning residences; and
  - acquiring residential furniture overseas instead of buying and shipping it from the United States.

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## Strengthening Strategic and Performance Planning

The Results Act provides a framework for resolving management challenges and for providing greater accountability of State's programs and operations. As required by the Results Act, State has prepared strategic and performance plans. In its first strategic plan for foreign affairs, State formulated 16 foreign policy goals that cover a wide spectrum of U.S. national interests—national security, economic prosperity, American citizens and U.S. borders, law enforcement, democracy, humanitarian response, and global issues. Our review of that plan and the Department's annual performance plan for 1999 indicated that State's plans had their strong points but often did not provide the information which is needed for effective Results Act planning.

For example, we are concerned that State's strategic plan addressed neither the potential impact of the consolidation of the foreign affairs agencies on its systems nor the potential for other agencies to have functions duplicative of State's. We have found that State's functional bureaus share responsibility with multiple U.S. agencies on various overlapping issues, including trade and export policy and international security functions. The strategic plan also did not address the deficiencies in State's financial accounting and information systems, noting only in general terms that several years will be required to develop performance measures and related databases to provide sufficient information on the achievement of goals.

Our review of State's performance plan revealed similar deficiencies but also some encouraging points as well. For example, State's performance plan generally provided clear and reasonable strategies and goals in the areas of improving U.S. citizens' services and border security, and promoting democracy. In contrast, State's plan did not present a clear picture of its methods to meet strategic and performance goals in the areas of furthering economic prosperity, preventing international crime, and enhancing humanitarian assistance. Overall, the performance plan did not clearly indicate the Department's intended performance and was vague about how State will coordinate with other agencies. Further, State's performance plan did not provide sufficient confidence that the

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Department's performance information will be credible. Also, it did not address how the known deficiencies in State's financial and information systems will affect performance measurement.

In response to our work, State is attempting to improve its planning by developing clearer and more objective performance measures linked to performance goals. It is also identifying partnerships with other agencies or governments to address crosscutting issues.

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## Conclusion

In conclusion, State faces a number of serious management challenges that, if not adequately addressed, could encumber its overall performance, seriously impair its ability to meet its goals and objectives, and potentially waste resources. The introduction of cost-based decision-making, the use of best practices, and the establishment of sound strategic planning offer the promise of helping State improve the efficiency of its operations.

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

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# Related GAO Products

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## Overseas Security and Presence

Overseas Presence: Staffing at U.S. Diplomatic Posts (GAO/NSIAD-95-50FS, Dec. 28, 1994).

State Department: Overseas Staffing Process Not Linked to Policy Priorities (GAO/NSIAD-94-228, Sept. 20, 1994).

State Department: Management Weaknesses in the Security Construction Program (GAO/NSIAD-92-2, Nov. 29, 1991).

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## 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).

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## Visa Processing

State Department: Tourist Visa Processing Backlogs Persist at U.S. Consulates (GAO/NSIAD-98-69, Mar. 13, 1998).

State Department: Efforts to Reduce Visa Fraud (GAO/T-NSIAD-97-167, May 20, 1997).

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## Foreign Affairs Organization and Management

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

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Foreign Affairs: Perspective on Foreign Affairs Programs and Structures  
(GAO/NSIAD-97-6, Nov. 8, 1996).

State Department: Options for Addressing Possible Budget Reductions  
(GAO/NSIAD-96-124, Aug. 29, 1996).

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## 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).

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## Strategic and Performance Planning

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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