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REPORT TO THE CONGRESS

UNITED STATES
GENERAL ACCOUNTING OFFICE

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BY THE COMPTROLLER GENERAL OF THE UNITED STATES

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Concept, Cost, And Management Of Administrative Support Services Provided By Department Of State To Other Federal Agencies Overseas

The State Department's system of administrative support services to other agencies operating overseas still has many problems. In this report GAO offers better ways to address the more serious of these. The Department has proposed a viable revision of the system. With GAO's suggestions, the revision could help to achieve greater economy and better system management.

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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To the President of the Senate and the
Speaker of the House of Representatives

This report summarizes our survey of the Department of State's shared administrative support program. The Department of State has experienced increasing difficulties and costs in this program in recent years. GAO undertook the survey to determine if practical alternatives were available which would limit State's continuing difficulties with the provision, accounting, and billing of program services without increasing aggregate costs for administrative services. Our survey was conducted pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67).

Concurrent with our survey a State Department task force devised a system which will change the basis of appropriations for support costs and permit the Department of State to fund its own administrative support. The revised system will require a one-time transfer of about \$50 million from the serviced agencies' appropriations to State's in fiscal year 1977. Thereafter, State and the participating agencies will request funds for the fixed costs and additional costs which each generates and can control.

Copies of the report are being sent to the Chairmen of the House and Senate Committees on Government Operations and Appropriations and the oversight committees; the Director, Office of Management and Budget; and officials of the major participating agencies.

A handwritten signature in black ink, reading "James A. Stacks".

Comptroller General
of the United States

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ABBREVIATIONS

AID	Agency for International Development
CORE	costs State would have to incur if no other agency located at post
DAS	distributed administrative support costs
DIA	Defense Intelligence Agency
FAAS	Foreign Affairs Administrative Support
FAS	Foreign Agricultural Service
GAO	General Accounting Office
MAP	Military Assistance Program
SAS	Shared Administrative Support
S&E	salaries and expense
USIA	U.S. Information Agency

COMPTROLLER GENERAL'S REPORT
TO THE CONGRESS

CONCEPT, COST, AND MANAGEMENT
OF ADMINISTRATIVE SUPPORT
SERVICES PROVIDED BY
DEPARTMENT OF STATE TO OTHER
FEDERAL AGENCIES OVERSEAS

D I G E S T

This report discusses the need for improved coordination and reconciliation of the efforts and records of funds management and regional bureau personnel. The improvement suggested would provide more meaningful and complete budgetary and accounting control over this program (see pp. 15 and 16) and a basis for criteria to measure the efficiency of program operations. (See pp. 17 and 18.)

GAO believes that visibility over the State Department's program of administrative support to U.S. agencies overseas could be improved by establishing a single point of accountability in the Department and by requiring more comprehensive reporting of the total program costs.

Until recently, no distinction has been made between State's own fixed administrative costs overseas and costs due to support of other agencies.

Under State's current system, participating agencies share in State's fixed costs. (See p. 6.) GAO is suggesting an incremental cost system which would charge other agencies only for those costs State incurs in meeting their requirements.

Charging only for State's additional costs should allow State to better control self-support funds as well as deter participating agencies from decisions which would add to the total administrative support cost. Charges to State and the participating agencies would be closer to the costs that each has caused. (See pp. 27 and 28.)

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Some of the problem areas which State had not addressed adequately in managing the system are discussed on pages 17 and 18. State has not established criteria or standards for measuring the effectiveness of most operations; moreover,

--participating agencies have no practical means to determine whether system productivity and costs are reasonable,

--internal audit effort needs to be increased, and

--costs incurred to administer the system are not known.

State has agreed that a number of improvements similar to those offered in this report are necessary. State feels, however, that the first step should be to implement a system devised by a State Department task force. Because the proposed change will eliminate some of the deficiencies in the current system and because the Department of State agrees that improvements similar to those contemplated in this report are needed, GAO is making no recommendations. However, GAO suggests that the observations in appendix I and the conclusions on pages 26 to 28 be considered before implementing the proposed system, as well as during its administration.

GAO also notes that State has not secured approval of its general accounting system and suggests that the Foreign Affairs Administrative Support system (see p. 2) be submitted immediately for approval.

State also should direct the proposed system to make maximum use of available support services capabilities to reduce costs--an overriding objective. (See p. 34.)

GAO agrees with the 1974 task force's view that it is "appropriate to eliminate any basis for the existing criticism that

State is using reimbursements to subsidize itself." GAO suggests that the proposed treatment of object and domestic costs be made consistent with the incremental cost concept. (See p. 32.)

One concern is that the proposed transfer of funds assumes that the recent aggregate administrative expenditures allocated to State and participating agencies reflect the costs for the next year that can be apportioned to each. GAO is suggesting a special effort, undertaken or supervised by a multiagency task force, as one means of validating the staff levels properly allocable to fixed costs and distributed administrative support costs. (See pp. 32 and 33.)

CHAPTER 1

INTRODUCTION

Under the Shared Administrative Support (SAS) program in effect since 1955, the Department of State provides administrative services, on a reimbursable basis, to other U.S. Government offices located overseas. The Department provides security and guard, communications, and general services, such as budget and fiscal, personnel, housing, and custom clearances. The specific services are set forth in agreements between the Department and the receiving agencies, and estimates of the costs of these services are accumulated to derive the agency participation percentage to be applied to estimated SAS costs for the next year. The legislative authority for State to provide and be reimbursed for these services is section 601 of the Economy Act of 1930 (31 U.S.C. 686).

The cost of SAS activities has increased over the years, and for fiscal year 1974 the total cost of the program was about \$188 million, consisting of about \$106 million for State Department activities (the "State Basic" program) and about \$82 million for other departments and agencies with overseas offices or installations. Total SAS costs include overseas and domestic costs (State Department headquarters costs that are considered a part of the SAS program and certain State allotments that are controlled in Washington).

During fiscal year 1974, SAS overseas costs amounted to about \$135 million and domestic costs totaled about \$53 million. The 1974 operations were carried out at 117 overseas posts serving 125 U.S. agencies. Eight U.S. departments and agencies account for about 84 percent of the \$82 million of reimbursable SAS costs. These are Agency for International Development (AID), United States Information Agency (USIA), Military Assistance Program (MAP), Peace Corps, Army, Air Force, Defense Intelligence Agency (DIA), and Foreign Agricultural Service (FAS). Thirty-one of the 125 agencies receiving services have annual SAS costs of \$100,000 or less.

Our survey was carried out at the Department of State in Washington, D.C., where we reviewed the policies and procedures of the SAS program, examined pertinent records, and met with responsible Department administrators. We also met with Washington officials of six of the eight agencies listed above and randomly selected agency officials abroad to receive questionnaires on their views. Our work was primarily to determine how the SAS system operates and whether there are any major deficiencies or inequities in the system. We did not attempt to verify the accuracy or propriety of SAS costs.

During our study of the SAS system, a State Department task force was constituted on February 11, 1974, to further review the SAS system. In its report to the Assistant Secretary for Administration, "Funding for the Future," dated May 10, 1974, the task force proposed to modify the system. (See apps. I and II.) In essence the revised system, referred to as Foreign Affairs Administrative Support (FAAS), would identify the core costs required to support Department of State operations (CORE) and the additional costs of supporting other agencies would be recovered from them. These costs would be referred to as distributed administrative support costs (DAS). The acronym for this system would be FAAS-CORE/DAS.

The Department of State has not secured our approval of its general accounting system and did not submit the FAAS-CORE/DAS system for approval before implementation.

CHAPTER 2

THE PRESENT SAS SYSTEM

THE SAS CONCEPT

The shared support concept could be the most economical way of providing administrative services to Government offices overseas, particularly if State operates as a service center for administrative support. Most State Department installations abroad have the administrative personnel and resources to carry out their missions, such as mail and communications facilities, employee medical facilities, security and guard and basic office services, such as payroll and accounting. Under the Shared Administrative Support system, the Department agrees to use its personnel and facilities to provide these services on a reimbursable basis.

A small overseas U.S. agency office could not be expected to perform these functions as efficiently as an embassy or consulate that has developed the capability for similar services to meet its own needs. SAS is a practical way of providing these services and could be in the best interests of all parties. It should not be assumed, however, that the system is totally effective merely because individual agency requirements are met and the aggregate cost is lower than if each agency provided the supervision, staff, and other resources necessary for its own administrative support. State Department management should budget and control SAS system costs to assure that the support service capability and facilities do not exceed normal service output requirements.

HOW SAS OPERATES

The basic premise of the present cost-sharing system is that costs are to be allocated to the participating agencies on the basis of use--for example, if an agency uses 10 percent of a particular service, it will be charged 10 percent of the cost of that service.

Overseas SAS services are divided into eight major functions: personnel, budget and fiscal, general, communications, security and guard, management (shared support operation), direct (program activities), and consulate (general SAS).

Within these major functions are 27 subfunctions used by the posts in reporting, pricing, and distributing costs. For example, there are five subfunctions for budget and fiscal services: accounts and records, payroll, voucher, cashier and disbursing office operations, and budget and financial planning.

The system also prescribes 32 standard workload factors to distribute costs to the various subfunctions. These workload factors include such measurements as employees serviced, vouchers processed, miles driven (for pool vehicles), office space occupied by each serviced agency, etc. The workload statistics developed are identified for each agency and subfunction and used to apportion SAS costs to the various agencies, including State.

In May of each year, each post is required to submit to Washington workload data consisting of the following SAS forms.

<u>Title</u>	<u>Form no.</u>
Workload Factor Distribution	2
SAS Staffing Distribution	4
SAS Personal Services Distribution	5
SAS Other Object Distribution	6
SAS Vehicle Usage Report	7

SAS Form 2 provides for reporting workload statistics for each of the standard factors. The form is primarily used to develop percentages for application to the personal services costs on SAS Form 5. SAS 4 Form summarizes the SAS staff and related salaries and allowances. SAS Forms 5 and 6 are used to record the posts' total SAS costs and their distribution according to workload factors in order to arrive at a final percentage for each agency's participation in SAS costs. The key figures on these two forms are the percentage figures rather than the dollar figures. Total dollar costs to be incurred in the following year are only estimates when the forms are prepared. The percentages developed from the preceding year's operations are later applied to the negotiated costs for the coming year. SAS Form 7 reports statistical information to be used in Washington to determine each agency's share of vehicle replacement costs.

Each post is also required to submit in May of each year a going-rate submission and an initial increase/decrease request. The going-rate submission is an estimate of the post's SAS costs for the coming fiscal year. The going rate is arrived at by using the post's current year operating allowances (adjusted for non-recurring costs, mandatory cost increases, and annualizations), broken down by personal services costs and other-object costs. By applying the participation percentages developed on SAS Forms 5 and 6, each agency's share of the post's SAS cost for the coming year is determined. Increase/decrease requests are amendments to the going-rate submission and represent changes in the post's level of SAS operations. The first such request is submitted at the same time as the going-rate submission, and others may be submitted during the year.

In Washington the post data is reviewed by the Department's Regional Bureaus and Funds Management Division and major participating agencies, and so-called domestic costs are added to the totals negotiated for the going rate. Domestic costs represent direct and indirect SAS support costs and include such items as international travel, motor vehicle replacements, and post language-training. After the SAS totals are revised for domestic costs, individual agencies are billed.

CHAPTER 3

DEFICIENCIES IN THE SAS SYSTEM

There are several features inherent in the system that benefit State at the expense of the other agencies.

State provides only those services which it has already established to carry out its own activities. Since State is the primary user of the services, extending them to other agencies would be expected to lower unit costs. Supervision and other fixed costs are spread among all users, and better use of the productive capacity of State service staff is possible. Obviously any payments exceeding the cost of satisfying agency requirements reduce Department costs.

The method used by State to recover SAS costs is based on a percentage of use (see ch. 2), not on any additional costs necessary to satisfy agency requirements (mainly costs for staff needed to handle workload beyond the capability of State's own staff). State's cost allocation method results in excessive payments by the serviced agencies, because it fails to recognize that a substantial part of SAS costs are fixed, i.e., they do not vary in relation to the volume of work and would be incurred by State even if there were no other agencies at the post.

A second benefit to State follows from the requirement that each agency share in the full cost of a particular service even if it uses only part. Since State has structured the organizational components of the SAS system to meet its needs, it can be expected to use the full service of each subfunction. It follows that the Department's costs are shifted to other agencies to the extent that they are paying for services they do not need or receive. (See p. 8.)

Another indication that the present SAS system is biased in State's favor is that SAS costs and staff do not necessarily decrease when workload is reduced. This fact seems to substantiate the view that many SAS costs would be incurred even without participating agencies.

The cost allocation method now used by State is deficient because it does not identify the additional costs which State incurs to service the participating agencies. In our opinion, this identification could facilitate cost control, reducing cost to the Government. The situation has been noted by several of the participating agencies who have reduced their overseas operations in recent years and expected their SAS costs to be reduced accordingly. Instead, they found that their share of SAS costs either increased or remained at about the same level.

For example, the Peace Corps pointed out that from 1968 to 1972 it cut its overseas staff 17 percent and the number of Peace Corps volunteers 43 percent. During this same period, however, its SAS costs actually increased 23 percent. USIA has experienced a similar situation, particularly at its African posts. The agency stated that, during fiscal years 1968 through 1971, the cost of its programs in Africa increased 10 percent while its SAS costs rose 24 percent. Officials of these two agencies recognize the cumulative impact of inflation but believe that the main reason their SAS costs have not been reduced is that State does not reduce its SAS personnel complement when the other agencies at the post cutback their personnel and programs.

We do not believe that these contentions are isolated cases. Our analysis of SAS data at New Delhi, India, showed that from 1971 to 1973 Government personnel at the post decreased from 3,062 to 1,490, while State Department employees engaged in SAS activities decreased only 22--from 548 to 526. Although we did not attempt to obtain similar data on a worldwide basis, indications are that the results would be similar.

In recent years, many agencies have reduced their overseas operations, at least in terms of personnel, as part of the overall effort to improve the U.S. balance-of-payments position. During this same period, however, total SAS expenditures have steadily risen. While a variety of factors, such as general price increases, may have contributed to higher SAS costs during this period, we believe that the principal reason a reduction has not occurred is that a large portion of these costs are directly attributable to State Department operations and therefore will be incurred even without participating agencies.

One possible way to correct this basic inequity was suggested by AID representatives several years ago when an inter-agency task force was considering alternative methods of handling SAS cost allocations. (See p. 19.) Under the AID proposal, all SAS services would be divided into three categories with a separate cost procedure for each.

1. "Hard core" costs--consisting of those State would incur in carrying out its activities even if no other agencies were receiving services. Under the AID proposal, these costs would be borne by State.
2. Per capita costs--representing the cost of those services which generally are provided overseas only by the State Department (cashier and disbursing officer operations, telegraphic traffic, pouching, medical services, personnel investigations, and

physical security). These costs, budgeted world-wide, would be prorated among the various agencies based on the number of personnel at the post.

3. Discretionary services costs--representing all other SAS costs. According to the AID plan, these services would be provided by whatever agency at the post was best able to perform them or under commercial contract. These costs would be repaid at the post by the various agencies, eliminating the need for detailed statistics and reports and Washington involvement.

The AID proposal was rejected by the task force for a number of reasons. First, they felt that determining which costs are "hard core" would be extremely difficult and would probably result in arbitrary decisions. Secondly, the per capita cost part of the AID proposal was objectionable for the same reason as other proposals rejected by the committee--it incorrectly assumed that per capita use of SAS is the same for all agencies. Third, the task force felt that most agencies would not agree to the AID plan to settle at the post level the cost of the so-called discretionary services. It pointed out that even if such agreement could be reached, it would still be necessary to determine each agency's appropriate share of these costs.

During our survey, we indicated that serious consideration should be given to AID's suggestion that the "hard core" costs should be segregated from other SAS costs and any additional costs could be determined with little difficulty and agreed upon by State and the other agencies. They could be distributed among the users in basically the same manner as currently. We suggested that the SAS system could be made more equitable and less cumbersome in stages, with each of the aspects of the AID proposal being tested and initiated at different times.

Concurrent with our study of the SAS system, a State Department task force was constituted on February 11, 1974, to further review the SAS system. This task force recommended modifying the system to essentially incorporate our suggestions. (See app. I.)

FULL CHARGES FOR PARTIAL SERVICES

As stated previously, all overseas SAS activities are divided into 8 functions and 27 subfunctions, each subfunction involving several specific activities. For example, the subfunction of travel services includes such matters as travel orders, Government transportation requests, arrival

and departure assistance to travelers, tickets, reservations, visas, etc. Under present procedures a participating agency is charged a pro rata share (based on its workload factor units) of the full cost of a particular subfunction, although the agency might use only part of the services. Thus, if an agency used SAS only for visas and arrival and departure assistance (customs), it would be charged the same as another agency that used all the available travel services.

The agencies indicate in their annual SAS agreements with State whether they plan to participate fully or partially in the various services; thus they may be unaware that they are paying for unused services. The agreements do not point out that charges for each subfunction are based on full participation. Consequently, some agencies have incorrectly assumed that they would reduce their SAS costs by using only some of the services.

State Department officials have stated that to charge participating agencies only for actual services received would require expanding the present function-subfunction structure. According to these officials, the cost of the additional detailed records that would be involved in such an undertaking would more than offset any benefits. We agree that any unnecessary recordkeeping should be avoided, however we believe that as a minimum the participating agencies should be told that they may be paying for unused services. This could be accomplished by clarifying the language of the present SAS agreement and the SAS instructions issued to the agencies.

PERSONNEL COSTS

As stated previously, the basic SAS cost data for a particular fiscal year is compiled in advance. State includes the cost of SAS positions that are authorized but not filled at compilation.

Under present procedures, however, there is no requirement for reducing SAS costs if these vacant positions are not filled. Since these estimates are included in the SAS costs allocated to the participating agencies, these agencies may be reimbursing State for expenses not incurred.

Although we do not know the extent to which these vacant positions remain unfilled, we believe that it is improper to include such contingent items in SAS reimbursable costs. A more appropriate method of handling personnel costs would be to include only the cost of those employees who are actually onboard at the time the SAS cost data is prepared. The cost of those SAS employees who

are subsequently hired could be handled through the regular increase/decrease provisions of the SAS system.

QUESTIONABLE ALLOCATION OF SAS COSTS

As stated previously, the participation percentages developed on SAS Forms 5 and 6 are key to the SAS cost accumulation and allocation system, since they represent the share of SAS cost that each agency will ultimately pay. Our review of the methods used to develop these percentages showed that some unreasonable cost distribution exists, as described below.

SAS Form 5 is used to develop agency participation percentages for SAS personnel service costs (salaries, allowances, etc.), and SAS Form 6 is used to develop similar percentages for all other costs. Both forms show the cost of each subfunction, each agency's share of these costs, and each agency's percentage of the total cost. Since some costs are incurred by the SAS organizational units themselves (i.e., personnel management, building maintenance, communication services, etc.), these costs must be distributed to the participating agencies, including State, in order that all SAS costs can be recovered. In other words, for cost accumulation purposes, organizational units performing SAS services are handled like participating agencies.

The Department's method of distributing the "SAS agency" cost on SAS Form 5 is different from that on SAS Form 6. On SAS Form 5 (personal service costs) the "SAS agency" costs are deducted from the total and agency percentages of the remainder are developed. The "SAS agency" costs are then distributed to the other agencies on the basis of these percentages, as illustrated in the following hypothetical case.

		<u>"SAS"</u>	<u>Participating agency</u>		
			<u>A</u>	<u>B</u>	<u>C</u>
Total Cost	\$1,000,000	\$200,000	\$400,000	\$200,000	\$200,000
Less "SAS Agency"	<u>200,000</u>	200,000			
	\$ 800,000				
Participation Percentage	100	-	50	25	25
"SAS Agency" Distribution	<u>\$ 200,000</u>	<u>-</u>	<u>\$100,000</u>	<u>\$ 50,000</u>	<u>\$ 50,000</u>
Total	<u>\$1,000,000</u>	<u>-</u>	<u>\$500,000</u>	<u>\$250,000</u>	<u>\$250,000</u>

However, on SAS Form 6 (costs other than personal services) "SAS agency" cost distribution is based on the percentage developed on SAS Form 5, regardless of an agency's share of the cost accumulated on SAS Form 6. Using the above example, agency A would be charged with 50 percent of the "SAS agency" cost shown on SAS Form 6 and agencies B and C would be charged 25 percent each, although their actual share of the costs recorded on SAS Form 6 might be different. The Department's method suggests that there is a direct relationship between an agency's share of personal services cost (SAS Form 5) and all other costs (SAS Form 6). This is not necessarily the case and we noted many instances where an agency's proportions of personal and other-object costs differed widely.

We believe that a more appropriate method of handling this matter would be to combine the totals on SAS Forms 5 and 6 and distribute "SAS agency" costs to the participating agencies on a pro rata basis. This is the method presently used for SAS Form 5. The current method results in an inequitable distribution. "SAS agency" other-object costs and the aggregate "SAS agency" costs should be distributed to best reflect the cost attributable to the service received by each agency.

We note that the participation percentage which is now developed on Form 5 and used for Form 6 "SAS agency" costs is a composite of the personnel costs allocated on the basis of space, equipment, workload, and time factors. It seems reasonable therefore to include the other-object costs and to use the total cost assigned to the services received by each

agency to determine the value of benefits or services it received from the SAS staff--although there is room for different viewpoints.

We wish to point out the inconsistency and potential unreasonable distribution of "SAS agency" costs on Forms 5 and 6 and that the procedure now used can be expected generally to benefit the larger agencies at the expense of the smaller.

DOMESTIC SAS COSTS

As stated previously, after the annual post data submissions are reviewed and consolidated in Washington, the so-called SAS domestic costs are then determined so as to arrive at the year's total SAS cost to be distributed to the various agencies, including State. Domestic costs represent Washington support or administrative expenses of Washington-based organizational components whose activities relate to SAS post functions, and are therefore allocable to the overseas SAS program. Domestic costs represent a large part of total SAS expenditures. For fiscal year 1974, total SAS cost was about \$188 million, of which \$53 million (about 28 percent) were domestic or support costs. About \$35 million of this was allocated to the State basic program, and the remaining \$18 million was distributed to the other agencies.

Domestic SAS costs are classified as direct and indirect. Direct support costs include international travel, communications, motor vehicle replacement, marine guard travel, post language-training, the Paris Regional Finance Center (accounting and payroll work), and other activities. Indirect support costs consist of such activities as personnel administration, financial planning, security services, etc.

Although there are no written guidelines for accumulating and distributing domestic costs to the agencies, the Department's procedures are similar to those used for overseas SAS costs. Seven major functions (divided into 44 subfunctions) and 58 workload factors are used to accumulate and distribute these costs. The seven major functions are personnel, budget and fiscal, general, and security services, communications, regional bureau executive staffs, and special complements. Domestic costs are distributed on the basis of domestic workload factors, some of which are based on personnel positions, workload, or actual costs that are readily identifiable and attributable to a specific agency.

Before fiscal year 1970 when State began holding inter-agency hearings on domestic cost estimates, the participating

agencies had no voice in determining what costs were to be chargeable to the SAS program or how they were to be distributed to the various agencies. These determinations were made by the State Department and the amounts so allocated were included in the annual billings to the agencies. The agencies know that certain overhead costs were included in their SAS billings, but not what some of the specific cost elements were or whether the charges were reasonable.

We believe that for the most part the allocation of domestic support costs--like that of overseas costs--to the participating agencies is questionable since many of these costs would be incurred by the Department even if there were no SAS program overseas.

We are not questioning the premise that domestic overhead costs can be attributed to the SAS program and other Department activities. Such a distribution is sound accounting and good management if those held accountable for the costs are in control of them. Our point is that although it may be proper to allocate a reasonable portion of these overhead costs to the SAS program to improve management, it is not reasonable or useful to obtain reimbursement for these costs from the participating agencies, since the Department would incur these costs without participating agencies. In our opinion, it is unlikely that the level of costs State incurs in its domestic operations is influenced by tenant agency needs overseas; rather, these costs are fixed, or discretionary with State management--i.e., they depend solely on management's judgment concerning the value of the service or product.

For example, included in SAS domestic costs are the costs of headquarters personnel engaged in such activities as personnel management, budget and fiscal work, internal auditing, and general services. These are general administrative activities common to any organization, and the costs of these activities are relatively fixed regardless of the volume of program activities. Even if there were no SAS program, the Department would still need a personnel staff, an internal auditing organization, and general services personnel. Since these activities primarily benefit the Department of State and not the participating agencies, we believe that it is inappropriate to charge the agencies.

QUESTIONABLE COSTS

We noted that State has included in SAS reimbursable costs certain expenditures that appear to be solely for the State Department's benefit. These generally consist of

improvements and maintenance items that seem to have little relationship to administrative support activities.

For example, the Embassy in Moscow included in its 1973 SAS cost data \$17,800 for such items as a trash compactor, fire extinguishers, and a forklift truck; the Embassy in Rome included \$81,000 for office furniture; and the post at Sofia, Bulgaria, included such items as drapes, a kitchen sink and cabinets, and a security door for the chancery. We were unable to determine whether these particular items are legitimate elements of SAS costs, since we do not know the specific use to be made of the items or the conditions existing at these posts. Taken at face value, however, the inclusion of such items among SAS costs seems questionable, since they do not benefit the participating agencies.

CHAPTER 4

SAS MANAGEMENT

State Department administration of SAS has weaknesses that it is not adequately addressing. Criteria to measure operations efficiency, adequate audits and internal checks to ascertain cost validity, a strong interagency advisory group to assure effective representation of State's and participating agencies' interests, and meaningful communication and good relations with the participants are all lacking. On the other hand, the user agencies themselves could take certain steps, such as additionally training officials involved in the program both at home and abroad.

The responses to the questionnaire we sent to agency overseas representatives indicate that action is needed. For example, more than half of the respondents reported that they had not received orientation to the SAS system before assignment to the post, nor had they been subsequently oriented by the post's administrative officer. Also, very little supplemental guidance appears to have reached the post representatives. Nine of twenty-two representatives indicated receiving some supplemental agency guidance, while only 5 of 26 had received information from audit teams about the mechanics of the SAS system. As many as 18 of 25 incorrectly believed that they could automatically reduce their costs by using only part of the services available under a particular subfunction and/or modifying the participation agreement to designate partial services. The responses to the questionnaire indicate that agency representatives at overseas posts are inadequately informed about the mechanics of the SAS system. Accordingly, they may routinely review SAS Forms 2, 4, 5, and 6, and be insufficiently informed to deal effectively with State administrative officers and SAS officials.

THE STATE DEPARTMENT

Lack of meaningful and complete budgetary and accounting control over SAS costs

Under present procedures, SAS costs approved in the going rate and increase/decrease statements are not reconciled with funds allotted and costs incurred, nor are billings with reimbursements or approved or actual costs. Consequently, there is no assurance that all costs incurred were approved and are being correctly recovered from the participating agencies. Some agencies may be paying for costs not approved or for more than their share of actual

costs, thus subsidizing the administrative costs of State and nonpaying agencies.

All SAS activities are financed from State's salaries and expense (S&E) appropriation, as are many of the Department's other activities. S&E funds for SAS operations are allocated to the various regional bureaus and then allotted to the individual posts within each region. We learned that post SAS expenses are charged to their allotments and then to these regional bureaus, but reimbursements from the user agencies are credited only at the appropriation level.

As explained in chapter 2, SAS billings are based on the individual post's going rate, which is a projected figure corresponding to the authorized post budget by cost classification and function. The billings therefore are based on a projection of preceding year costs, not actual costs. We also learned that the amounts allocated to the regional bureaus or allotted to the posts may not correspond to the negotiated going rate. Furthermore, the final amount billed to the agencies is not necessarily the same as the going-rate figure developed at the post and approved by Washington (plus a charge for domestic costs). These differences arise from protracted negotiation of the going rate, funds management practices, discretionary actions of regional bureaus or posts, and special agency needs or positions.

For example, although records maintained in the funds management section show reimbursements due for fiscal year 1973 SAS costs totaled \$88.6 million, records of the financial service section, which is responsible for billing and collecting amounts due the State Department, show actual billings totaled \$97.3 million. We were given an explanation for \$7.3 of the \$8.7 million difference. Funds management personnel informed us that in order to explain the additional difference, it would be necessary to compare and analyze the records maintained in both sections. We did not undertake this work; however, it would seem that the work of the funds management section should routinely provide for this reconciliation. Funds management is responsible for the overall consolidation of projected SAS costs and the negotiation of the going-rate post budgets. In our opinion, it should be aware of the final amounts recovered from the participating agencies.

It is also our understanding that neither funds management, the regional bureau, or the post utilize the revised going-rate level proposal, which is in effect the budget document and the basis for billing, to fund operations

or control costs. The need for the extensive process to estimate costs for agency bills must be seriously questioned.

Lack of criteria
for evaluating SAS operations

The Department of State has not established criteria for measuring the efficiency of many SAS operations, although the current system provides adequate cost data and workload statistics. This situation exists in part because State management responsibility for the SAS program is delegated to no single organizational entity. Also, given the conditions under which the SAS program operates, there is little incentive for improved efficiency since (1) in most cases there is no acceptable alternative to SAS, so competition does not exist and (2) all SAS costs are recovered from the users.

As explained in chapter 2, each year, the individual posts prepare and transmit to Washington their detailed SAS cost estimates and workload statistics for the current year and resulting agency participation percentages for the coming fiscal year. Although this data is reviewed both at the post and in Washington, these are administrative reviews, concerned primarily with whether the proposed costs are reasonable and prescribed procedures have been followed. Little or no effort is made to systematically analyze the data to help management appraise the efficiency of SAS operations such as the development of staff-to-workload norms, unit costs, or labor hours; comparative studies at the posts; etc. If this data were properly developed, the Department could establish productivity standards for the various tasks performed under SAS, based on prior performance. Without such criteria, management has no way of evaluating SAS efficiency, either in total or by subfunction.

We believe that a major reason for not establishing such criteria is that by nature, the SAS program gives no real incentive to make operations more efficient. First, in most instances there is no practical means of determining whether SAS productivity and costs are reasonable. From an individual agency viewpoint, any charges which are less than for a separately staffed function might be considered reasonable. Also from a practical standpoint it may be immaterial, without a central point of accountability, whether SAS operations are conducted as efficiently as possible, since the costs are routinely recovered from the users. Thus, the only real restraint on the level of SAS expenditures is the availability of appropriated funds.

Furthermore, there is no single State Department unit with overall responsibility for the program. Each of the regional bureaus is responsible for SAS activities in its geographic area, and the bureau of administration is responsible for consolidating the SAS data developed initially at the posts and in the regional bureaus, establishing overall funding levels, determining the amounts to be charged to the participating agencies, and handling billings and collections. None of these organizations is responsible for the entire program, or even for relating approved costs to funds allotted, actual expenditures, and reimbursements on a regional basis. Each bureau is primarily concerned only with using available SAS funds which it judges as contributing to mission responsibilities. A single point of accountability and more comprehensive reporting of total program costs could improve program management.

Department audits of SAS costs

The State Department has an internal audit organization to review all of its activities. Our survey showed that although periodic reviews of the embassies and consulates abroad do include an examination of the posts' SAS activities, they are primarily administrative and directed toward determining whether the post has complied with instructions in preparing the annual workload data reports and going-rate submissions. As far as we could determine, little audit effort has been directed toward SAS costs, either at the post level or programwide. Nor has audit been used to give management an independent view of the efficiency of SAS operations on a post, regional, or worldwide basis.

Cost of administering the SAS system

The Department does not know how much it costs to administer the SAS system, although such information would seem essential to permit a comparative judgment of the system.

In 1972, the Department tried to determine how much time and effort was spent by its employees overseas in implementing the SAS system. Accordingly, each post was requested to submit its best estimate of the time spent annually on SAS accounting, reporting, and administration. About 60 percent of the posts responded, and the average time reported per post was about 1.2 man-years. There is some question as to the accuracy of these estimates because of the wide variation in the reported figures for posts with comparable workloads. In any event, the Department should have reliable data, in terms of manpower and money, on the cost of administering the SAS system.

The 1968 SAS task force

The SAS task force was composed of representatives from the State Department, the Department of Defense, AID, and USIA. The task force was established in 1968 in response to a memorandum from the President to the Secretary of State and the Director, Bureau of the Budget, on "Reduction in U.S. Employees and Official Travel Overseas." The memorandum stated in part that:

"Simultaneously, you should initiate special studies from Washington of functional areas aimed at reducing instructions, assignments, and activities which unnecessarily create the need for maintaining or increasing overseas staff, e.g., reporting requirements, consular work, and administrative support."

The task force has directed its efforts primarily toward reviewing (1) SAS procedures and (2) the SAS system itself, with an eye to recommending procedural improvements and/or major system changes.

In March 1971, the task force issued its report on suggested improvements in present SAS procedures. It proposed mainly changes designed to simplify or clarify outstanding instructions and procedures, and most of them have been implemented.

In the second phase of the study, the task force drafted a report in which it considered and rejected five alternatives for handling SAS allocations and reimbursements. However, the report on this phase of its work was never approved or issued, and as far as we could determine the task force has been inactive since 1971. We could not determine what procedures, if any, governed the functioning of this task force or the scope and formality of its considerations. We were also unable to locate any records of task force activities, and State Department officials were unable to tell us when the task force last met.

In view of the size and scope of the SAS program and the large number of U.S. agencies involved, an interagency advisory organization could play an important role in improving overall SAS management. If it effectively represented both the supplier and the users of SAS services, it could act as an acceptable moderator of major disputes between State and the participating agencies as well as monitor the efficiency of operations and the reasonableness of billings. To be effective, such a group would require access to staff resources, as well as the full support of all

parties. A broader based management of the SAS program would also serve to minimize the natural suspicion that self-interest often influences SAS policies, procedures, and administration.

Interagency going-rate hearings

Each year after the current fiscal-year SAS cost data has been reviewed and approved in Washington, State sponsors a series of meetings on a regional bureau basis with representatives of the major participating agencies. The purpose of these meetings is to give the agency representatives an opportunity to review the SAS costs proposed for the year and obtain explanations of the need of any items.

At the time these meetings are held, estimated SAS costs consist of the individual posts' going-rate submission plus any approved increase/decrease requests. Domestic costs are not considered at this time, since they have not yet been determined or apportioned to specific agencies. The minutes of these interagency meetings indicate that the agencies often question certain items included in the SAS cost data and certain practices State follows in preparing the data, such as including estimated rather than actual costs. The disputed items are ultimately accepted or rejected, depending on whether State can justify them.

According to SAS procedures, disputed items are not to be included in the final billings unless State can convince the objecting agency. While these procedures may be carried out properly, we found very few instances where an expenditure item was deleted after being questioned.

For example, on numerous occasions agencies have objected to State's practice of using estimates instead of actual costs for anticipated price increases of certain cost elements. State has consistently overruled these objections on the grounds that appropriate adjustments will be made if the estimated price increases do not materialize. Although State insists that such adjustments are routinely made, we were unable to verify their statement. The procedures need refinement to assure a clear documentation of the basis for agency acceptance or adjustment of the going rate for questioned items, before final billings are made for any year. The prescribed negotiation and adjustment procedures can only consume time and increase concern, unless the inquiries raised by the participating agencies are given full consideration and needed adjustments can be proven correct.

Training of agency representatives

A basic concept of the SAS system is that it will be implemented and monitored by the users--State and the other agencies. For this concept to be carried out effectively, and for cost sharing to be equitable, the responsible agency officials must be aware of the cost effect of their decisions.

Present procedures provide that State, when requested, will brief participating agencies' senior officials assigned to overseas posts who will be responsible for SAS system requirements. State should increase its efforts to assure a sound understanding of the cost impact of decisions by agency personnel who authorize or approve participation in SAS activities and the resulting billings. The participating agencies also need to increase their training and orientation efforts for personnel engaged in SAS system decisions. (See p. 25.) However, since State operates the system, we believe it has the primary training responsibility.

PARTICIPATING AGENCIES

Although the Department of State is responsible for administering the SAS system, we believe that the participating agencies themselves should become more involved in certain aspects of the program, particularly the monitoring of costs allocated to them. The agencies have applied limited resources to this effort.

Participating agencies' audits of SAS costs

Our discussion with officials of six of the eight largest agencies participating in the SAS program indicated that most of them do not make detailed or specific audits of their SAS costs. As a result, they cannot ascertain whether State's determination of their pro rata share of SAS costs is reasonable. While these agencies may believe that on occasion their SAS billings from State are unjustified, they generally do not have the factual data to support their position.

USIA is the only major participating agency that includes audits of SAS costs as part of its regular internal audit and review coverage. Some of the other agencies, however, do make occasional reviews of SAS activities. The Peace Corps, for example, has made several studies of how to reduce its SAS costs by restricting or performing certain functions itself. Also, AID, has done some work in this area, including a review of the agency's SAS costs in Brazil. This review, made in 1969, concluded that AID could also save by performing certain administrative services itself.

Whether an agency could advantageously perform its own administrative functions would depend upon various factors, such as the size of the agency's complement at the post, the services required at the post, the administrative staff resources available, and the extent to which the specific services provided by State are dependent on agency actions and data. Cost analyses of alternative servicing methods should be conducted. Only then can the agencies determine if it is beneficial to use SAS. These analyses are also needed under the self-monitoring features of the current system to help to disclose uneconomic operations.

In deciding whether to use SAS, consideration must be given to the total costs to the Government, not just to the agency's costs. In many instances the appropriate course of action might be to work on reducing State costs, improving the efficiency of operations, and avoiding duplication of SAS staff activities and costs.

Headquarters evaluation of SAS costs

The major participants in the SAS program should analyze as far as practicable their SAS requirements and costs to be sure of obtaining their overseas administrative services at a reasonable cost. Although more systematic, prescribed, and meaningful efforts are generally needed in this area, two agencies--the Peace Corps and USIA--have been actively making such evaluations in recent years, as described below.

Peace Corps

The Peace Corps has become increasingly concerned with the level of its SAS costs. Since fiscal year 1966, Peace Corps appropriations have steadily declined and its overseas staffing has been reduced, yet its SAS costs have increased. For several years, the agency has been unable or unwilling to pay the full amount of its SAS bill to State, creating budgetary and other problems for both agencies.

The Peace Corps has therefore increased its efforts to analyze and control its SAS costs, including the issue of adequate guidelines to overseas officials concerning SAS system requirements and negotiations, country-by-country analysis of SAS estimates and workload data, training courses for headquarters personnel engaged in SAS matters, and increased contact with other participating agencies and State Department SAS officials. The agency is also developing the capability to handle in-house certain administrative functions and thus reduce the agency's participation in the SAS program.

USIA

USIA also appears to be making a determined effort to evaluate and control its SAS costs. The agency has issued detailed instructions to its overseas officials concerning system requirements and negotiations, verifications of workload data, means of reducing charges, etc. The agency also analyzes going-rate submissions from the individual posts and is usually well prepared for the annual going-rate hearings sponsored by State.

The procedures, criteria, and timing applied by these agencies should be considered. The Foreign Affairs Manual number 4 might be expanded to include similar guidance to make attainment of the system's self-monitoring concept more realistic.

Participating agency proposals and initiatives

Discussions with the participating agency officials responsible for SAS matters indicated that while they are primarily interested in obtaining SAS services for their agencies at a reasonable cost, they also are concerned with the entire system's effectiveness and efficiency. Consequently, they have advanced various proposals and suggestions intended to lower their costs by improving SAS management.

For example, USIA has proposed that a team of auditors from several of the major participating agencies be established to audit SAS activities. The State Department rejected this proposal on the grounds that it would be inappropriate for the other agencies to audit State's activities.

In most instances the State Department position on this matter would be entirely correct; however, as far as the SAS program is concerned, a joint audit team might be appropriate. First, the participating agencies are paying State for the services received under the SAS program and are entitled to greater assurance that the costs charged to SAS are proper. Second, we feel that audit coverage of SAS is presently inadequate. If the State Department does not have the necessary staff resources to carry out sufficiently broad and timely reviews, we see no valid reason why a joint audit effort should not be made.

Other agencies (AID and DIA) have made suggestions for improving or simplifying the SAS system. As stated on pages 7 and 8, AID has proposed a cost allocation system under which State would bear all SAS costs that

would be incurred if there were no agencies at the post, while the remainder of the SAS costs would be distributed among the user agencies on several bases. This proposal was rejected by State until it adopted an essentially similar system in March 1975. DIA personnel suggested to us that the administration of the SAS program would be greatly simplified if all SAS costs were financed from one appropriation to State, based on estimates given State of the various agencies' needs for a particular fiscal year. This method of funding would eliminate the interagency cost allocation, negotiation, and reimbursement process currently employed and make the total budget available to the Congress. One basic problem anticipated with this proposal is that congressional approval would be difficult to get, since the subcommittees concerned would be reluctant to relinquish their control over individual agency budgets for overseas operations.

As stated previously, the Peace Corps has recently had difficulty in meeting its financial obligations to State under the SAS program. During the last year, the agency has concluded that the only way to substantially reduce its SAS costs is to partially withdraw from SAS and either perform the services itself or do without them. Accordingly, for fiscal year 1975, the Peace Corps has decided to eliminate about half of the 28 services provided under SAS, and the agency's overseas directors have been instructed to develop the capability to perform the eliminated services. It is too early to determine whether these measures will result in any actual savings to the Peace Corps. However, this could increase the total cost to the Government for support services if the increase in Peace Corps in-house costs exceeds the reduction in SAS total costs.

In our opinion, these initiatives reflect dissatisfaction with various aspects of the SAS system. Each proposal, and the problem generating it, should be fully considered, possibly by an effective interagency ad hoc committee.

Communication and coordination between major agencies

More communication and coordination--both formal and informal--between the major agencies participating in the SAS program would benefit all. This should result in earlier identification and a better understanding of problems common to all participants and could help to prevent duplication of audit, analysis, and guidance prepared by the various agencies. Such communication and coordination efforts could be accomplished informally by the major

agencies through an exchange of issue-oriented internal audit reports, analyses, and correspondence.

Some good coordinating efforts already have been made. For example, when the Peace Corps intensified its efforts to evaluate SAS costs, one of the steps taken was to visit SAS representatives in other agencies to discuss common problems.

Further efforts should be made to obtain broader audit coverage with the same resources, to focus on important common issues for joint consideration and action by the participating agencies, and to use available guidance and training more effectively.

Training and guidance for personnel involved

As stated earlier, the State Department should take the initiative in providing adequate training and orientation sessions for participating agency personnel who are involved in the SAS program either in Washington or overseas. Notwithstanding any State efforts in this area, it is also in the user agencies' interests to assure that their key personnel thoroughly understand the program. Without qualified personnel, the user agencies can't properly relate their costs to SAS requirements, system participation, and services received.

Although more needs to be done in this area, most of the major users are intensifying their training and guidance efforts. In recent years, the Peace Corps has recognized that its SAS personnel weren't sufficiently expert in the program mechanics, and the agency is now trying to remedy the situation. USIA and AID headquarters personnel engaged in SAS work appear to be thoroughly familiar with the program, and instructions and guidance to their overseas officials appear to be useful. Also DIA appropriately trains its overseas personnel who will handle SAS matters.

CHAPTER 5

CONCLUSIONS

SAS SYSTEM

The present SAS system results in the State Department's administrative services costing less than if no other agencies were receiving and financing them. Shifting of these costs to others is partly inherent in the shared administrative support concept itself and partly due to deficiencies in the system. While these shortcomings alone do not result in increased cost to the Government, they do benefit the State Department at the expense of the participating agencies and should be carefully considered by the Congress, the agencies involved in the SAS program, and other interested parties to determine how they can be modified to allow better management and the lowest possible aggregate cost.

The principal weakness of the current shared administrative support system is that no distinction is made between State's fixed costs and State's added or variable costs that are attributable to the presence of other agencies at a post.

To the extent that the current system shares the costs of basic administrative support for State's programs, these programs are funded by the other agencies at the overseas posts. For example, the costs of basic facilities or equipment, which would be incurred even if State were the only agency at a post, are shared.

We found that the participating agencies also share substantially the systems costs which, although variable in nature, do not vary in actual practice with the volume of work and are thus costs that State chooses to incur without regard to the requirement of the other agencies at the post. (See pp. 6 and 7.)

The State Department also follows the practice of charging each participating agency a pro rata share of Washington overhead costs that are considered to be a proper charge to the SAS program. For the most part, the allocation of these support costs to the participating agencies is improper, since they are not influenced to any measurable degree by these agencies and would be incurred by the Department even if there were no SAS program overseas. (See pp. 12 and 13.)

The cost allocation method now used is deficient because it does not identify the additional costs which State incurs to service the participating agencies. In our opinion, this identification could facilitate better cost control and minimize the total aggregate cost to the Government. (See p. 16.)

Another provision of the present SAS system which reduces State costs disproportionately is that each agency shares in the full cost of a particular service even if it uses only a part of the service. Since State has structured the organizational components of the SAS system to meet its basic needs, State can be expected to routinely use the full service of each subfunction. It follows that the Department is benefited to the extent that the other agencies are paying for services they do not receive or need. (See p. 8.)

As previously stated, the State Department undertook a task force review of the SAS system during our survey. As a result it has proposed a new system--Foreign Affairs Administrative Support (FAAS)--entailing certain policy and procedure changes which eliminate some of the deficiencies and provisions beneficial to State. However, until these changes are effected and the experience under changed policies and procedures can be reviewed, we will not know how effectively these deficiencies have been addressed.

SAS MANAGEMENT

Proper implementation of the Shared Administrative Support concept could be the most efficient means of providing administrative services to Government offices located overseas. A good evaluation of the SAS system's effectiveness seems to be needed. Although agency requirements are generally met and the total cost of the administrative functions provided may be shown to be less than if each agency provided the supervision, staff, and other resources necessary, we do not currently have a measure of what the services rendered should require in terms of dollars or man-days.

In contrast, an incremental cost system would charge the participating agencies only for any additional cost incurred by State to meet their requirements. In the absence of a definitive cost-accounting system, identifying and charging only for State's additional costs will

- provide management with a better basis for control over variable costs,
- permit State to control the funds necessary to provide administrative support to itself,
- help prevent uneconomic decisions by the participating agencies which would add to the total cost borne by the Government for administrative support services, and

--cause the charges to State and the participating agencies to more clearly resemble costs which each agency initiated and/or can control.

Accordingly, State Department management should budget and control SAS costs to assure that the support service capability and facilities are only enough to meet normal service requirements. Significant weaknesses exist in the manner in which the present SAS system is administered by the Department, and known or potential problems have not been adequately addressed.

The recently completed task force report suggests eventually using an automated system to provide the type of information we have suggested for management of the SAS system. In the interim, however, State should develop and use selectively that data and criteria which it will incorporate in the automated system--as a minimum, the standards for workload and staff by subfunction and post.

All of the major agencies which receive administrative support overseas have been contacted to determine their reaction to adopting the new CORE/DAS system. (See app. I.) Virtually all have agreed in principle; however, all agencies want to see the specifics on a post-by-post basis before they commit themselves to final approval.

State is now in the process of developing the data needed to explain the improved and integrated resource management concept to the serviced agencies, the Office of Management and Budget, and the Congress. Its objective is to include the adjustments in dollar and manpower resources that will result from implementing the CORE/DAS system in the fiscal year 1977 budgets.

State said that although it did not agree with all of our findings and conclusions, our report has been helpful because it highlighted certain SAS issues and confirmed a number of problem areas. State further noted that although the first step is to implement the new system, further improvements similar to those contemplated in this report are needed.

The report points specifically accepted were:

--State had not established criteria or standards for measuring the effectiveness of most SAS operations.
(See p. 8.)

--Increased internal audit is needed. (See p. 18.)

--The costs of administering SAS should be known.
(See p. 18.)

--SAS or its replacement system should be automated.
(See p. 33.)

We are making no recommendations, because the proposed change to incremental funding will change the basis of appropriations and eliminate some of the billing deficiencies in the current system, and because State agrees that improvements similar to those contemplated in this report are needed. However, we suggest that the Secretary of State give adequate consideration to the conclusions on pages 26 to 28, and to the observations in appendix I, before the implementation and during the administration of the proposed system. We further suggest that the FAAS-CORE/DAS system be submitted immediately for approval, and we note that we have not yet approved State's general accounting system.

OBSERVATIONS ON THE 1974 SAS TASK FORCE

Our review of the May 10, 1974, report confirms the understanding obtained from our earlier meeting with the task force about the primary recommendations they were going to make.

The principal recommendation of the task force was that the SAS system, and its basic premise of "shared" costs, be replaced with a fundamentally different system called the FAAS-CORE/DAS system. CORE/DAS (fixed costs/distributed administrative support costs) is an incremental cost system under which State would fund its fixed administrative costs and the other agencies would fund the variable costs generated by their needs overseas. The system applies to Washington costs as well as overseas post costs.

The task force reviewed all aspects of funding for administrative support and concluded that if State continues to provide administrative support overseas, it must possess the resources for its own administrative functions.

We note that the recommendations to go to an incremental cost system and to reduce workload through automation are generally compatible with the related points made in our report. These points are included in our discussions of the inherent deficiencies in the SAS system and of State's management of SAS and the need for a realistic measure of SAS system costs.

We believe that various components of the FAAS proposal could satisfy the objectives of the points on training, audit, and system management discussed in our report. However, several additional observations appear to need more consideration.

FUNDING ALTERNATIVES

The Assistant Secretary of State for Administration, on March 11, 1975, indicated that

"the principal weakness of the SAS system is that no distinction is made between State's fixed costs, and State's added or variable costs that are attributable to the presence of other agencies at post. The result is

that State does not now budget for, or control, the funds necessary to pay the fixed costs of providing administrative support to itself."

In the course of its study, the task force reasoned that a single appropriation for the Department of State for administrative support of all agencies' overseas operations, preferred by some task force members, was likely to receive resistance because (1) the one-time increase in State's appropriation would be much greater than for an incremental system and (2) authorizing and appropriating committees' control over participating agency administrative funds would be affected. The consideration of other funding alternatives by the task force led them to conclude that reimbursement on the incremental cost basis was the best way for State to fund its own administrative support.

The Assistant Secretary further noted in comments about the change to an incremental cost and funding concept that,

"under the CORE/DAS system the fixed administrative costs of State, both overseas and domestically, will be identified. And, the U.S. Government agencies now paying for part of these costs will be requested to approve a one-time transfer of these funds from their budgets to State's. State will then control all the dollar and position resources necessary to provide its own administrative support, and the basis for any allegation that State receives a subsidy will be obviated.

"In terms of resources, State's appropriations, S&E and FBO, will be increased by about \$50 million by this transfer, with a corresponding reduction in the appropriations of the serviced agencies. This, in turn, will mean that approximately 1,000 Americans and 1,000 locals now paid for by the serviced agencies will be paid for by State as part of its fixed costs."

We favor the incremental funding approach, which has the potential to enhance the efficiency of FAAS operations if supplemented by adequate accounting and reporting.

NEED TO EXTEND THE INCREMENTAL CONCEPT
TO OTHER OBJECT AND DOMESTIC COSTS

The change from the SAS pro rata cost-allocation concept to an incremental concept by the proposed FAAS system would reduce the unreasonable distribution of costs described in our report. However, a further modification of the SAS system is needed to extend the incremental cost concept to the other-object costs, distributed by workload factor to FAAS on SAS Form 6 as modified, and to domestic costs. Specifically, the \$9.9 million of domestic cost and most of the \$249,569 described in the task force report on page 19, and on Tab G of Form 6, respectively, seem suspect as incremental costs.

We agree with the task force that it is "appropriate to eliminate any basis for existing criticism that State is using reimbursements to subsidize itself." We suggest that a reconsideration and modification of the proposed treatment of SAS-6 object cost and domestic cost will be necessary to achieve consistency with this view by further reducing the potential for subsidy. (See pp. 10 to 12.)

DETERMINING THE ONE-TIME TRANSFER OF FUNDS

In the past, many agencies have contended that SAS billings were inequitable and required funds which could have been applied to primary agency programs. Accordingly, we are concerned about the method of determining the amount of appropriated funds to be transferred from the serviced agencies to State under FAAS and whether this method could affect the future appropriation levels of the serviced agencies. Neither the recent aggregate expenditures for SAS nor the ratio of SAS costs which were assumed by State and the participating agencies should be used without careful analysis to determine an acceptable total cost for FAAS or the amount which might reasonably be classified as CORE or DAS. Further, the absence of specific criteria for relating nonsupervisory personnel to the State and participating agency workload requirements which contributed to their hire could affect a valid segregation of SAS staff to CORE/DAS as a basis for estimating the one-time transfer.

Accordingly, a special effort should be made during fiscal year 1976 to assure that any staff which is said to be needed to handle the other agencies' requirements is well justified and only retained or added when these requirements can be shown to exceed CORE needs. A multi-agency task force might supervise this process based on some reasonable and consistently applied productivity norm

for those services generally required and on the cost of staff time consumed in supplying other infrequently used services. We recognize however that it may not be realistic to expect such a task force to make meaningful decisions in a timeframe which will permit State to meet its objective of including the adjustments in the 1977 budget estimates. If so, we suggest that the support costs that cannot be shown to be incremental be excluded from the segregation process until a meaningful review can be made. Also, because DAS will likely generate greater cost fluctuations when agency participations change, restricting DAS costs to clearly incremental costs together with a strong DAS council appear to be essential.

ADDITIONAL OBSERVATIONS

Although the task force report is not specific in its discussion of better management data, it is possible that an intended product of the automated system would also address establishing what services should cost, either in man-days or monetary terms. In this regard, we note that State is not visualizing any limitation on total FAAS costs--only a slower rate of growth from about 200 percent in the 1971-84 period to about 100 percent for the 1974-84 period. (This rate is based on net of projected staff reductions.) It should be pointed out that under CORE/DAS, the Congress is still not provided with a central point of reporting and accountability of FAAS costs, which we believe would provide an added incentive to look closely at costs and staffing.

The proposed system for automating FAAS to reduce workload and negotiations seems feasible. It could, however, take some time to design and install. The task force report did not say what opinion has been obtained from State Department personnel on this proposal and what effort has been made to develop the system-requirement flow chart which is essential to the design of an automated system.

The suggested FAAS efficiency examination requires clarification regarding

--location and time cycle and

--specific guidelines and reporting requirements to facilitate independent monitoring.

Since the task force proposal continues the distributive concepts now in the SAS system, except for the modifications made to the SAS Forms 4 and 5 to redistribute the SAS agency cost, we believe that the conclusions on pages 26 and 27 continue to require consideration because they are as applicable to the FAAS system as they were to SAS.

There also appears to be a need to dedicate the FAAS system, like SAS, to

- the overriding objective of minimizing the aggregate cost incurred,
- maximum use of support service capabilities available, and
- avoiding duplication of support service capability and cost.

State's attention is also directed to the conclusions on pages 27 and 28. We believe the assessments and evaluations suggested for the SAS system are equally applicable to the administration of the FAAS system.

FAAS IMPLEMENTATION PLAN 1/

1. The FAAS implementation plan can be accomplished with minimal post effort as a spin-off of the fiscal year 1976 SAS submissions due in the Department in May 1975. Three procedural modifications to the normal SAS submissions are involved.

a. Form SAS-4 (SAS Staffing Distribution) will be a standard form, prescribed and furnished by the Department. The major change is an added column to reflect working titles of positions. * * * Using the special guidelines that we are preparing, the post will determine which positions are CORE and then circle the appropriate position title on SAS-4.

b. Form SAS-6 (SAS Other Object Distribution). Again, using the guidelines we are preparing, the SAS-6 will be reviewed by the post to identify those costs determined to be CORE. The type cost and its amount will be described separately. The list of CORE costs is not expected to be extensive. Aside from such costs as short-term leases extending beyond fiscal year 1974, chancery operating expenses, Marine Guards, and security costs, additional CORE costs become difficult to identify.

c. Form SAS-2 (SAS Workload Factor Distribution). A minority of posts having shared employees at Consulates must submit SAS-2's reflecting the applicable workload statistics for each such Consulate as well as one covering the workload statistics applicable to Embassy employees. The separate Forms SAS-2 are needed at the post for work measurement analyses and at Washington for back-up and review purposes. Since posts must collect this information for consolidation, this may not even involve typing.

d. These procedural changes would be added to the SAS instructions for preparing the fiscal year 1976 estimate.

2. The process of obtaining the FAAS data we need could be accomplished after the SAS Estimate is completed in all respects. In fact, a solid SAS submission is an essential prerequisite. The Administrative Officer would review the approved SAS-4 and determine which positions are CORE, review the approved SAS-6 and determine which other object costs are CORE, and then get together with the representatives of the serviced agencies and obtain their concurrence. If an agreement could not be reached, a separate dissent

1/Furnished by Department of State.

could be forwarded to the Department as is now done for SAS. The annotated SAS-4, and a separate report of those SAS-6 classified as CORE, would be sent to the Department and would constitute all we would need at that point.

3. The fiscal year SAS and FAAS submissions would be reviewed in the Department as early as possible, hopefully in June and July. For FAAS purposes this review would include the serviced agencies. After the review is completed, the computation of the FAAS adjustment for each post would be done in the Department. The objective would be to have a precise picture of the estimated adjustment between appropriations by the end of August, including the Domestic Administrative Support Estimate. Each agency involved, and OMB, could then be given the precise picture. If everything went as planned, the necessary adjustments could be made in the fiscal year 1977 Budget Estimates of the various agencies. If, for some reason, we were unable to implement FAAS, or any part of it, our investment in terms of having overseas posts preparing a revised FAAS submission, or some other complex and involved procedural change would be avoided. In fact, only if FAAS were adopted in fiscal year 1976 would the SAS procedures be revised for fiscal year 1977. The revision of the 4 FAM Appendix B will require careful consideration.

4. The conversion of the Domestic Administrative Support Estimate from SAS to FAAS will present no real problem. The present procedure is for the various domestic offices to present raw data on the basis of which M/FM compiled the overall estimate. Once the CORE determinations are made by the offices concerned, using the fiscal year 1975 going rate as a basis, the computations of CORE/DAS could be accomplished in M/FM as in the past.

5. The above plan needs to be discussed with the Regional Bureaus and actually tested in the field before the final instructions are written. However, we already have a draft of the instruction and should have no problem completing it in the appropriate timeframe. In fact, the timely issuance of the instructions for preparing the fiscal year 1976 SAS Estimate (including the uniform SAS-4 requirement) is far more critical, than the FAAS addendum which could follow later.