

GAO

Testimony

Before the Task Force on International Affairs, Committee on the Budget; and the Subcommittee on International Operations, Committee on Foreign Relations, U. S. Senate

For Release on Delivery
Expected at
10:00 a.m., EDT
Thursday
September 17, 1998

FOREIGN AFFAIRS
MANAGEMENT

Major Challenges Facing the
Department of State

Statement of Benjamin F. Nelson, Director, International Relations and Trade Issues, National Security and International Affairs Division



Mr. Chairman and Members of the Task Force and Subcommittee:

I am pleased to be here today to discuss some of the major management challenges facing the Department of State. Most commentators tend to focus their attention on State's role as the lead agency for the conduct of foreign policy. Often missing from this discussion is the business side of the State Department. A substantial amount of State's nearly \$2.7 billion annual budget for the administration of foreign affairs is spent on what could be called business functions. The Department has a worldwide network of business operations to support its headquarters and more than 250 overseas posts, as well as about 35 other U.S. agencies that operate overseas. As the U.S. government's overseas landlord, State builds, leases, and sells millions of dollars of real property each year. It relocates more than 3,000 employees to new duty stations each year and must find suitable housing for them, as well as for employees of other agencies. It buys and ships millions of dollars worth of furniture overseas each year and must provide security for U.S. personnel and buildings abroad. In addition, the Department operates a vast network of communications facilities around the globe. These are just a few of the lines of work that constitute the business side of the State Department.

My statement will highlight some of the more significant management challenges facing the Department of State. I will briefly summarize these challenges and then discuss each in a little more detail. I will also provide some thoughts about the emerging embassy security issues facing State in the aftermath of the bombings of the U.S. embassies in Kenya and Tanzania. I have also attached to the end of this statement a list of relevant GAO reports on various management issues at State.¹

¹See Related GAO Products.

SUMMARY

There is little disagreement that the State Department faces a number of critical management challenges: efficiently managing its extensive overseas real property; capably modernizing its information and financial management systems; efficiently relocating and supporting staff overseas; and adequately protecting overseas personnel and facilities. If these challenges are not successfully met, State's ability to function effectively in the 21st century could be seriously impaired. Addressing these challenges will necessarily require major changes in the way State does business. Key among them is heavier focus on "cost-based" decisionmaking and a greater use of the private sector to perform certain tasks.

State's management of its overseas real estate has continued to be a challenge. State owns or manages more than 13,000 buildings and other facilities overseas, valued at more than \$10 billion. Over the years, State has had difficulty identifying and disposing of unneeded property. Some of the unsold property incurred high operations and maintenance costs. In light of the failure of State's systems to quickly identify and dispose of unneeded properties, we recommended in 1996 that an independent advisory panel be created to review potential properties for sale.² I am pleased to report that, following congressional direction, State established the panel and has significantly increased the sale of excess property. In fiscal year 1997, State reported sales of over \$200 million in real property and expects to sell more than \$360 million in fiscal years 1998-2000. The next step is for State to make sure that the

²Overseas Real Estate: Millions of Dollars Could be Generated by Selling Unneeded Real Estate (GAO/NSIAD-96-36, Apr. 23, 1996).

proceeds from property sales are allocated to the highest priority needs. This has not always been the case. In the past, parochial interests heavily influenced what would be sold and how the proceeds would be used.

State's information technology (IT) infrastructure remains in a very precarious condition. The Department has outdated information and financial management systems and its current communication systems do not allow timely or secure transmission of information between its headquarters and its overseas posts. Moreover, its operation is heavily dependent on a large and costly worldwide support staff. State also has to improve its response to Year 2000 problems and computer security weaknesses.

State is proceeding with a major effort to modernize its IT infrastructure. However, it is doing so without first implementing the type of planning and investment process called for in recent legislation and related GAO and OMB guidance, which was developed in response to numerous failed IT modernization efforts across the government. This guidance is designed to help federal agencies better manage their information technology resources. State's failure to fully follow the guidance increases the risk that State's modernization program will not achieve desired results, will cost more than anticipated, and will take longer to put in place.

One of the more difficult problems confronting State is how to efficiently relocate its employees overseas, find suitable housing abroad, and provide household furniture. Our work suggests that millions could be saved while providing high-quality services if State adopted relocation practices used in the private sector--including outsourcing various parts of the transfer process.

Lastly, in the wake of the bombings of U.S embassies in Kenya and Tanzania, it has become dramatically clear that the United States needs to reassess its strategy to protect embassies and employees and their families stationed overseas. In addressing this issue, several questions may need to be considered. These include the extent to which new property acquisition, construction, renovation, and/or other security enhancements may be needed to improve security; the potential costs of such security upgrades; and whether State has the management capability to enhance embassy security in a timely and cost-effective manner. Another related issue that needs to be addressed is the size of the U.S. presence overseas.

**MANAGEMENT OF OVERSEAS REAL
ESTATE HAS IMPROVED, BUT CONTINUED
ATTENTION IS WARRANTED**

The management of overseas real estate has been a continuing challenge for State. Over the years, we have issued numerous reports and testimonies that identified shortcomings in nearly every aspect of State's property management system. Among the key weaknesses was the lack of a systematic process to identify excess properties and to dispose of them in a timely manner. Some decisions were delayed by disagreements about how the proceeds would be used. As a result, State often did not sell unneeded and excess properties, possibly costing the U.S. government hundreds of millions of dollars. Although State has made improvements in this area, continued oversight is still warranted.

Our work in the mid-1990s found numerous examples of excess property being held because of system failures and disagreement over how the proceeds from sale would be used. For example, our review of State's real property management identified valuable but vacant or underutilized properties in Tokyo.

One such property was the Treasury House. Although State and the Treasury agreed for some time that the Treasury House should be sold, they were unable to concur on how to implement the sale. In the meantime, the value of the property plummeted from an estimated \$15 million in 1991 to \$5 million in 1994. At the time of our review in mid-1994, the Treasury House had deteriorated so much that it could no longer be occupied. It was finally sold for \$3.1 million in fiscal year 1998.

There were problems with another property in Tokyo--the Mitsui compound. In June 1991, State's Office of Foreign Buildings Operations proposed selling the undeveloped portion of the compound for an estimated \$750 million. When we did our work in 1994, we found that senior State officials resisted plans to sell or lease portions of the compound because (1) State was concerned that the level of proceeds, estimated to be roughly twice the entire annual appropriation for overseas real property worldwide, would be so high that State might not be allowed to retain the proceeds, (2) the embassy opposed the sale, and (3) the value of the property had decreased since 1991.

Another example is State's retention of the U.S. Consul General's residence in Hamilton, Bermuda. This beachfront residence is estimated to be worth several million dollars. The property has incurred high maintenance costs and was labeled as "ostentatious" by State's Inspector General.

In light of the failure of State's internal processes to quickly address excess property issues, we recommended that the Congress direct State to establish a panel, including real estate experts from outside the Department, to review disputed properties. State did so, and the panel--the Real Property Advisory Board--has begun to examine the sales potential of several disputed properties. Furthermore, State's Inspector General has begun a process of helping State

better identify potential properties for sale. State has substantially increased its annual property sales consistent with our recommendations.

While it is encouraging that State is increasing the sale of unneeded properties and the Advisory Board is functioning, attention may be needed to assure that the proceeds from property sales will be used for the Department's highest priority real property needs, particularly in light of current security concerns.

STATE'S INFORMATION SYSTEMS ARE OBSOLETE

One of the most significant challenges facing State is the modernization of its obsolete information technology infrastructure. Currently, the Department is dependent on outdated IT systems that cannot effectively support critical mission requirements. In addition, the Department has to address Year 2000 issues and information security problems.

Currently, State spends a significant portion of its total operating budget for information resource management modernization and operations. Of the \$573 million budgeted for fiscal year 1998, about \$293 million is for modernization; much of this money comes from retained consular fees and about 30 percent from the capital investment fund.

The Department has developed a long range plan to upgrade and operate its IT systems. The costs were estimated to be \$2.7 billion over 5-years. However, this figure is very speculative since the plan was not developed through a rigorous analytical process. Our recent work has found that all costs required to complete the plan were not included and that actual costs could be substantially higher. Moreover, the plan is being carried out without full implementation of

the planning and investment process as required by federal guidance. This guidance is found in law,³ GAO documents,⁴ and instructions from the Office of Management and Budget⁵ that were developed to help agencies avoid costly IT modernization mistakes. The Department, for example, has not yet approved a formal IT architecture, an important part of its blueprint to guide its more than one billion dollar modernization effort. This requirement was included in federal guidance to guard against encountering serious technical problems and incurring unnecessary expenses. GAO will soon be issuing its report on State's approach to modernizing its information technology infrastructure, which contains recommendations to the Secretary.

State has also been slow in addressing Year 2000 issues.⁶ According to the Office of Management and Budget, the State Department is one of the few agencies that have failed to demonstrate adequate evidence of progress. Failure to quickly address Year 2000 deficiencies could have a significant impact on State's ability to perform key functions, including identifying visa applicants who may pose a threat to the nation's security; sending and receiving vital communications; establishing secure information systems; providing efficient, flexible, and timely national security reporting; and promoting U.S. business opportunities abroad. If State continues its current approach, which lacks a mission-based perspective, it will risk spending time and resources fixing

³The 1995 Paperwork Reduction Act, P.L. 104-13, 109 Stat. 163, and the 1996 Clinger-Cohen Act, P.L. 104-106, 110 Stat. 679.

⁴Assessing Risks and Returns: A Guide for Evaluating Federal Agencies' IT Investment Decision-Making (GAO/AIMD-10.1.13, Feb. 1997).

⁵Capital Programming Guide (Washington, D.C.: OMB, July 1997).

⁶Year 2000 Computing Crisis: State Department Needs To Make Fundamental Improvements To Its Year 2000 Program (GAO/AIMD-98-162, Aug. 28, 1998).

systems that have little bearing on its overall mission. State needs to determine, at the Department-wide level, which systems have the highest impact on the Department's mission, and direct the necessary resources to those systems.

Finally, our 1997 test of State's security for its information system disclosed that State's unclassified, but sensitive, systems, and the information contained within them are vulnerable to unauthorized access.⁷ These systems represent key business systems that can affect State's daily operations. Although State has some projects underway to improve information security, such efforts need to be greatly accelerated.

RELOCATION AND HOUSING COSTS ARE HIGHER THAN NECESSARY

The State Department also needs to rethink the way it relocates its employees and provides them with housing and furniture. State's employee transfer process has remained essentially unchanged for years. We recently compared State's process for transferring employees and their household goods overseas to those of other public and private sector organizations.⁸ We believe 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.

⁷Computer Security: Pervasive, Serious Weaknesses Jeopardize State Department Operations (GAO/AIMD-98-145, May 18, 1998).

⁸State Department: Using Best Practices to Relocate Employees Could Reduce Costs and Improve Service (GAO/NSIAD-98-19, Oct. 17, 1997).

Our work found that leading companies in the private sector use a number of "best practices" to provide better service and reduce costs. Such practices include having one point of contact for assistance to employees, known as one-stop-shopping, and the use of 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. Moves are typically processed in State's Transportation Division in Washington, D.C.; one of its four regional despatch agencies; and its European Logistical Support Office. We found that private sector firms generally use one contractor for all segments of the move, minimizing in-house support requirements and reducing total costs.

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.⁹ Specific practices that can reduce costs include (1) 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; (2) providing employees with housing allowances to select their own homes rather than managing and maintaining a housing pool of

⁹State Department: Options for Reducing Overseas Housing and Furniture Costs (GAO/NSIAD-98-128, Jul. 31, 1998).

government leases and preassigning residences; and (3) acquiring residential furniture overseas instead of buying and shipping it from the United States.

BETTER COST DATA NEEDED TO IMPROVE DECISIONMAKING

One of the Department's long-standing shortcomings is the absence of an effective financial management system that can assist managers in making "cost-based" decisions. State has long recognized the need to remedy deficiencies in its financial management systems, but has made slow progress in upgrading its core financial system and developing a management reporting system.

Currently, State does not have a true cost accounting system and, as a result, reliable information by function cannot be provided. The Department's inadequate financial accounting systems will make it particularly difficult for State to accurately accumulate the costs of its activities and thereby determine the cost of achieving program results and measuring the success of strategic goals. This data limitation problem is one of the key difficulties State is encountering in its efforts to design and implement performance plans consistent with the requirements of the 1993 Government Performance and Results Act.¹⁰ State would need reliable cost data to attempt to recoup some of the costs of products and services it provides to its numerous customers.

EMBASSY SECURITY

The need to adequately protect employees and their families overseas may very well be the single most important issue currently facing the State Department. The potential monetary requirements for security enhancement could be

¹⁰ The Results Act: Observations on the Department of State's Fiscal Year 1999 Annual Performance Plan (GAO/NSIAD-98-210R, June 17, 1998).

enormous, as well as the management and technological challenges. In response to bombings of U.S. facilities overseas in the 1980s, the Secretary of State convened an Advisory Panel on Overseas Security to assess security risks and make recommendations for improvement. The panel, chaired by retired Admiral Bobby Inman, recommended in June 1985 that State begin a substantial construction program to physically protect U.S. personnel overseas. Congress subsequently authorized a \$2.1 billion Diplomatic Security Program in 1986. State estimated that 57 new office buildings and other capital construction projects could be completed under the program.

According to State, approximately \$1.47 billion in appropriations were applied to the construction program, which reduced the total number of projects that could be implemented. Nonetheless, State encountered several management problems in using the funds that were appropriated, which directly contributed to significant project delays and cost increases. These management problems were related to inadequate staffing, difficulties in site acquisition, changing security requirements, and inadequate contractor performance. In general, State tended to underestimate construction costs and overestimated its ability to complete projects in a timely manner. Twenty of the 57 originally proposed Inman projects have been completed.

In view of State's prior experiences and difficulties in upgrading embassy security, several questions and issues need to be addressed as part of today's efforts to better meet emerging security threats.

- How many embassies and other facilities around the world do not meet current bomb blast and other security standards? Which embassies/facilities are at unacceptable risk?

- Should State initiate another round of embassy construction similar to the Diplomatic Security Construction Program, essentially building diplomatic fortresses around the world to protect Americans? What would be the costs of such a program to bring most posts in compliance with security standards? Does State have the management capability to implement a large-scale construction program?

- To what extent is State looking at major facility enhancements as alternatives to large-scale construction projects to meet its overseas security requirements? Is State considering using regional embassies in certain regions and/or significantly reducing the number of Americans at posts where U.S. interests are of lesser importance?

One of the key issues to consider in addressing future security requirements, however, is the sheer number of U.S. employees overseas. In our prior report on overseas staffing at diplomatic posts,¹¹ we noted that the U.S. government (excluding military operational commands) employed a total 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, particularly by the non-foreign affairs agencies. The annual support costs of stationing U.S. personnel overseas have been estimated to exceed \$200,000 per employee.

I believe that a broad examination of how the U.S. government carries out its overseas role and related missions is now needed in view of the increased security threats. As you know, the security burden is directly associated with

¹¹Overseas Presence: Staffing at U.S. Diplomatic Posts (GAO/NSIAD-95-50FS, Dec. 28, 1994).

the size of the overseas workforce. It is important that State and other agencies operating overseas examine their overseas staffing requirements and supporting rationales and justifications, and explore alternatives to stationing Americans overseas.

CONCLUSION

State faces a number of serious management challenges. The Department will find it difficult to achieve the capability it needs to meet its goals in the 21st century--a period where the ability to communicate quickly and accurately will be paramount. If State's management shortcomings are not adequately addressed, State's operational inefficiencies could encumber its overall performance, seriously impair the Department's ability to meet its goals and objectives, and potentially waste taxpayers' dollars. Continuing to use its current business practices, including approaches to relocating people and upgrading technology, could result in much higher costs than necessary. The introduction of cost-based decisionmaking and "best practices" offers the promise of helping State improve the efficiency of its business operations. Finally, the response to the recent embassy bombings and the resulting rethinking of security requirements must consider all available options to ensure that the dollar investment leads to overall improvements.

- - - - -

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions.

RELATED GAO PRODUCTS

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

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

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

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

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

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

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

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

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).

Overseas Real Estate: Millions of Dollars Could Be Generated by Selling Unneeded Real Estate (GAO/NSIAD-96-36, Apr. 23, 1996).

Overseas Real Estate: Inaction on Proposals to Sell High-Value Property in Tokyo (GAO/NSIAD-95-73 April 7, 1995).

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).

(711354)