127223

UNITED STATES GENERAL ACCOUNTING OFFICE
Washington, D.C. 20548

127223

FOR RELEASE ON DELIVERY
Expected at 9:30 a.m.
Thursday, June 20, 1985

STATEMENT OF

FRANK C. CONAHAN

DIRECTOR, NATIONAL SECURITY AND INTERNATIONAL

AFFAIRS DIVISION

U.S. GENERAL ACCOUNTING OFFICE

BEFORE THE

SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY

HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

ON

KEY ISSUES CONCERNING

DEPARTMENT OF STATE'S NEW

FINANCIAL MANAGEMENT CENTERS

Mr. Chairman, Members of the Subcommittee:

I am pleased to be here today to discuss our recent report to you on Key Issues Concerning the Department of State's New Financial Management Centers. That report evaluates the Department's efforts to introduce additional financial management capabilities at some overseas posts.

As you are aware, for years the Department of State has acknowledged that its financial management system does not provide timely, accurate, or complete information. In 1979 the Department of State began a project designed to improve its system. That project is now well underway and covers all of

032351

State's financial management functions--here at headquarters as well as overseas.

DEPARTMENT'S PLANS TO OPEN FINANCIAL MANAGEMENT CENTERS

Before 1984, most of the Department's 260 overseas posts relied on one of the three existing regional centers for financial management support. With the introduction of the new financial management system, some of the larger posts will obtain their own financial management capabilities--disbursing, accounting, and budgeting--and the capability to service other nearby posts.

At this time, the 20 posts chosen to receive these capabilities are estimated to account for about 25 percent of the Department's transactions. Thus far, the Department has installed at least a portion of the new system at six posts. One of those, Bonn, is operating all financial management functions currently planned for posts.

The Department believes financial management centers will provide improved service to posts, attached agencies, and vendors and provide better local internal control. State expects that financial management centers will produce more timely financial information because reports will be generated locally. Posts with financial centers will also be able to process their own accounting transactions and standardize information now maintained in nonstandard form. Finally, State expects that providing a local disbursing capability at financial management centers will allow faster payment of vouchers and reduction of cashier balances.

State's schedule for implementing its financial management improvement project gives priority to opening financial management centers overseas. The Department is opening financial management centers before the new system is in place at State headquarters and the regional centers. The first financial management center opened in Bonn in 1983, and all 20 designated financial management centers are scheduled to be opened by September 1986. In contrast, the new system will not be introduced at State headquarters until early in fiscal year 1987. At about the same time, the regional centers will begin to operate the new system and service posts which are not made financial management centers.

The approach the Department is using to open financial management centers--that is, phasing in software segments at the designated financial management centers versus pilot testing the whole system at selected posts and headquarters--has both advantages and risks. State's approach introduces the new system at more locations faster, but multiplies corrective actions needed at a number of posts if problems are discovered in the software.

UNCERTAINTIES REGARDING IMPACT ON REGIONAL CENTERS NEED TO BE RESOLVED

Even though the Department is moving ahead to establish the financial management centers--about 12 more are scheduled to open in the next year--some important decisions still need to be made. The most serious concern is the division of responsibilities between the new centers and the existing regional centers.

The creation of financial management centers will have a major impact on regional center operations. With some financial management functions being transferred to 20 of the larger posts, the workload at the regional centers is expected to decrease somewhat. By how much is not known because the regional centers do not have sufficient data to relate any workload decrease to staffing needs. As a result, staffing reassignments at the regional centers may be difficult to plan. Regional center officials told us that workload data are not sufficient for determining when and where staff decreases should be made as workload is lost to financial management centers.

Workload is measured by quantifying various actions, including the number of accounting lines processed, checks issued, and employees payrolled for serviced posts and client agencies. For example, the six financial management centers planned for the Bangkok regional center's service area account for about 47 percent of the accounting lines processed and about 44 percent of the checks issued by the regional center in Bangkok. The 11 financial management centers planned in the Paris regional center's service area represent about 40 percent of the accounting transactions processed and about 20 percent of the disbursements made by that regional center.

With the reduced workload, staffing decreases at regional centers should be possible. However, these decreases may not be as significant as the Comptroller expects. According to regional center officials, the bulk of the errors that require manual work at the regional centers before transactions can be processed are generated by the small and remote posts that the regional centers will continue to service.

The uncertainties go beyond the impact of the 20 centers. Other open issues include

--which posts will be serviced by the regional centers and which will be serviced by a nearby post with a financial management center and

--how currency buying will be accomplished throughout the system.

The financial management system plans allow for financial management centers to service other posts. However, the Department has not yet decided which overseas posts financial management centers will service and which posts regional centers will service. The Comptroller's Office is determining this jointly with the regional bureaus. Posts will continue to be serviced by the regional centers until decisions are finalized.

Regarding currency buying, the Department is considering a wide range of options, including leaving it at the regional centers, moving it to the financial management centers, or some type of centralized arrangement. This function is now generally performed by the regional centers, and removing it entirely from the regional centers could have an impact on staffing needs. Continued uncertainty about roles could have a negative impact on regional center staff morale and consequently on the quality of services.

Planning for regional centers to shift some of their work to the new financial management centers is complicated by

State's organization. One office is responsible for the regional centers while another office is responsible for implementing the new financial management system and establishing the financial management centers to implement it. As the Department's chief financial officer, the Comptroller is responsible for implementing the new financial management system and establishing financial management centers. On the other hand, the regional centers report to the Bureau of Administration and Security's Information Systems Office.

In the longer term, the Department needs to decide the future role of the regional centers. One Information Systems Office proposal envisions converting the regional centers to high technology service centers to support the computers being installed overseas. Any such major change in role would require long lead times, principally to acquire or train appropriately skilled personnel. We believe top management needs to be involved in any deliberations along these lines, to assess whether plans are realistic or desirable.

PROBLEMS ENCOUNTERED IN OPENING CENTERS

In opening these centers, the Department has experienced some problems relating to qualified personnel availability and training, and reliability of computer equipment and communications lines. Other problems, such as retaining skilled foreign service national personnel and the inability of equipment to support competing demands, may also arise as implementation progresses. Furthermore, the posts selected as locations for the early financial management centers--for example, Bonn and Tokyo--are generally recognized as having the highest chance for success of any of the Department's posts. Conditions at subsequent locations are likely to be more demanding.

The major critical personnel shortage involves budget and fiscal officers and experienced disbursing officers. Comptroller officials believe that specialists with financial backgrounds are important for effective financial management center operations, and therefore are concerned that the Department will have difficulty finding enough qualified officers to staff 20 financial management centers. The Department estimated it needed to hire 33 financial management officers in fiscal year 1985, but due to the time required to advertise, evaluate, and select candidates, only 25 will be hired.

Because the Department lacks experienced officers to staff financial management centers, training is especially important. However, special training for budget and fiscal staff and disbursing officers is lagging the openings of the financial management centers. Appropriate training is expected to be available in November 1985. By that date 11 financial management centers will be open.

Another major area of concern is computer reliability. Effective computer system maintenance is critical at the financial management centers because computer equipment will be used for processing and recording fiscal transactions. The Department has experienced problems with the maintenance services for the computer equipment installed at the financial management centers, which could impair financial operations. Posts we visited provided numerous examples of long delays, insufficient spare parts, equipment failures, and incomplete shipments.

The Department has actions underway intended to resolve many of the problems, and in our report we suggest some additional actions. The relatively fast-paced schedule for opening financial management centers makes early resolution of these problems especially important. Close coordination among various State activities--Office of the Comptroller as the user, Information Systems Office for computer equipment and telecommunications software, Office of Communications for telecommunications lines, the Foreign Service Institute for training, Personnel for staffing and classification standards, and the regional bureaus--will be key to the successful introduction of financial management centers overseas.

COSTS AND BENEFITS SHOULD BE REEVALUATED

Turning now to costs. When the financial management center concept was originally proposed, the planners assumed that the creation of new centers would result in no net increase in personnel. The plan envisioned an offsetting reduction in regional center staff as workload was shifted to the new centers. As I discussed earlier, regional centers have not related the workload decrease to staffing needs, and new tasks may be added to the regional centers. As a result, to date, instead of reducing staff, personnel have been added.

Comptroller officials have suggested one American disbursing officer and two foreign service national assistants as an informal staffing standard for financial management centers to implement the new local disbursing capabilities. Officials at three posts, including the Bonn financial management center, advised us that these should be full-time positions. In fiscal year 1984, the Department requested 14 American and foreign service national positions based wholly or partially on financial management center requirements. In fiscal year 1985, the Department requested 17 additional American and foreign service national positions based wholly on financial management center requirements.

These additional personnel costs--plus other costs for computer equipment, space renovation, and supplies--are not being tracked by the Comptroller's Office. That office, which is responsible for implementing the new financial management system, is tracking only the contract costs to develop, test, and install the software and provide training and manuals (currently about $26 million). Based on information available at the time of our review, we identified at least $5 million in additional costs. (This is only a partial estimate--it includes additional costs for computer equipment at 20 centers, staffing increases at 13 centers, and other associated costs at 8 proposed centers.)

Although it is admittedly early, there are indications that some expected benefits will not be realized at all proposed financial management centers. Based on cost data available to us, we believe the Department should reconsider whether local disbursing is needed and cost effective at each location, particularly at a post with a low volume of disbursing transactions. This is especially true since the regional centers have improved the timeliness of their disbursements.

For example, at the time of our visit, the Tokyo financial management center was disbursing weekly, and although in some cases disbursements were made in 1 day, the average time for processing and disbursing by check was about 6 days and ranged from 1 to 15 days. We found that the average turnaround time on disbursing transactions processed by the Bangkok regional center was about 8.5 days and, according to the budget and fiscal officer in Tokyo, ranged from 7 to 9 days.

Cost effectiveness of disbursing depends to a large extent on the disbursing workload at each post. The Bonn financial management center processes an average of about 2,200 disbursements a month, whereas the Tokyo financial management center processes only about 440 disbursements a month. Based on the salaries of the American disbursing officer and the foreign service nationals assisting her, we estimated that the cost of disbursing at Bonn was about \$4.60 per disbursement and is expected to drop to about \$4.00. Similarly, we estimated that in Tokyo the cost was about \$22.00 per disbursement. This contrasts with the Bangkok regional center disbursing cost of \$6.00 per check in fiscal year 1983.

Seoul, which is designated to have a financial management center, further illustrates the need to reevaluate the costs and benefits of installing the local disbursing capability at all designated financial management centers. Officials at Seoul told us that the 9-day turnaround time on transactions processed for Seoul by the Bangkok regional center was adequate and caused no operating problems. Hence, they did not believe that disbursing at Seoul was necessary.

RECOMMENDATIONS

In our report, we recommend that the Secretary of State

--take a number of specific steps to finalize transition plans and resolve existing uncertainties relating to the regional centers,

--take steps, in addition to the actions already underway, to further address personnel and equipment problems,

--identify and track the total cost of opening financial management centers, and reevaluate the costs and benefits of individual centers as implementation progresses, and

--determine whether the local disbursing capability is needed and cost effective at all 20 designated centers.

That concludes my prepared remarks, Mr. Chairman. We will be pleased to answer any questions you may have.

PARTIAL DEPARTMENT OF STATE ORGANIZATIONAL CHART SHOWING KEY OFFICES AFFECTED BY OPENING FINANCIAL MANAGEMENT CENTERS