United States General Accounting Office

GAO

Testimony

Before the Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform, House of Representatives

For Release on Delivery Expected at 10:00 a.m., Wednesday, July 19, 2000

STATE DEPARTMENT

Progress and Challenges in Managing for Results

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

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to provide an update on the Department of State's progress in addressing many of the security and other management challenges raised during a hearing before this Subcommittee last year. These challenges arise from the Department's responsibility to maintain a network of operations at over 250 overseas locations to support its mission and that of about 40 other U.S. agencies that operate overseas and to protect over 50,000 U.S. and foreign national employees at hundreds of overseas facilities. State spends a substantial amount of its $4.3-billion foreign affairs administration budget on business-type activities that support its global operations. These activities provide staff overseas with access to financial and information services, security, housing, personnel services, and more. In making decisions on the size and capacity of the support structure at any particular location, State must consider the views of other U.S. government agencies including Defense, Commerce, Agriculture, Treasury and Justice. Since last year's hearing, an independent advisory panel has examined the U.S. overseas presence and recommended options for streamlining and rightsizing overseas operations consistent with U.S. foreign policy priorities and a vastly changing world with new requirements for security, communications, technology, and service.[1] Many of the panel's recommendations address concerns that we have raised over the years.

My testimony today will focus on State's progress in addressing the challenges it faces in its efforts to achieve a more secure, efficient, and effective network of operations, including its response to the recommendations from the independent advisory panel. The major challenges include

[1] *America's Overseas Presence in the 21st Century,* the report of the Overseas Presence Advisory Panel, November 1999.

- better utilizing the Government Performance and Results Act process to improve strategic and performance planning to better achieve overall mission, policy, and operational objectives;
- improving the security of U.S. personnel and facilities at overseas locations in a cost-effective and timely manner;
- determining the right size and location of the U.S. overseas presence to both improve the efficiency of operations and reduce the security burden; and
- upgrading information and financial management systems to further improve communications, accountability, and decision-making.

State has indicated that it will need several billions of dollars in capital construction and other investments over several years to achieve operations that can effectively support U.S. overseas interests. To successfully meet many of these challenges, the Department needs to have a clearly articulated vision, strategy, and congressional commitment to make sure that intended results are achieved. Let me provide a summary of progress, remaining challenges, and obstacles in each of the areas I mentioned.

SUMMARY

The leadership team at the Department of State has recognized many of its critical management challenges and devoted substantial resources to addressing them. As a result, State has made considerable progress in many difficult areas but still faces significant obstacles in achieving an efficient and effective overseas platform to support U.S. interests.

- Our evaluations showed that although State's strategic and performance plans had their strong points, they only partially met the requirements of the 1993 Government Performance and Results Act. State's strategic plan defined U.S. interests and clarified U.S. foreign policy goals, and its annual performance plan for fiscal year 2000 showed improvement over the prior year's plan in linking strategies and measures to its goals. However, its fiscal year 2000 performance plan also fell short in a number of areas. For example, it did not present a complete picture of baselines, targets, and measures for some of its strategic goals and did not elaborate on how State plans to work with other agencies to achieve progress on cross-cutting issues, such as trade policy and stopping the flow of illegal narcotics. State recently issued its fiscal year 1999 performance report, the first required under the Results Act, and its performance plan for fiscal year 2001. Both have some of the same weaknesses found in its prior planning efforts. The performance report does not adequately demonstrate State's level of success in achieving desired outcomes or the way in which State's actions actually led to the achievement of desired goals. State's performance plan for fiscal year 2001 provides more detail on its intended performance compared to prior years' plans but it will be difficult to determine the extent tangible results will be achieved because of the Department's numerous, scattered targets. State recognizes that it needs to continue to strengthen its strategic and performance planning as part of its overall effort to improve management and address critical challenges.

- In light of the potential for terrorism by groups opposed to U.S. interests, enhancing the security of embassies and consulates might well be the most significant challenge facing the Department of State. In the aftermath of the bombings of two U.S. embassies in Africa in 1998, State, using about $1.5 billion in emergency supplemental funds, started to significantly upgrade security at all of its overseas posts and build new facilities that meet higher security standards. However, State faces many challenges to its goals in this area. State has made progress in implementing certain security upgrades, such as surveillance detection programs and providing armored vehicles, but because of the scope of the program, many facilities are awaiting enhancements, including barriers, walls, and other safeguards. In addition, due to an increase in project scope resulting from more stringent security requirements and better documentation of what was needed at individual posts, State estimates that the emergency upgrades may cost hundreds of millions of dollars more than originally envisioned and will likely take several years to complete. Moreover, State is encountering several obstacles in its effort to construct new and more secure embassies and consulates. Some of these hurdles include difficulties in purchasing suitable sites for new buildings and gaining agreements among agencies on future staffing levels and resulting requirements.

- Another key challenge for State is to rightsize its overseas presence. State is in the early stages of examining various options to restructuring overseas presence in light of changing needs in the post cold war world and advances in technology. We have recommended that State reexamine the way it conducts overseas administrative functions, such as relocating and housing employees. From our work, we also have suggested that State explore the potential for regionalizing certain functions and making greater use of technology and outsourcing to achieve efficiencies and improve performance. Actions in these areas could potentially reduce the U.S. overseas presence. In November 1999, the Overseas Presence Advisory Panel convened by State, issued a report calling for changes in the size, composition, and management of the U.S. overseas presence. Many of the panel's findings are consistent with our observations from our work in recent years. State has established several committees to consider the panel's recommendations. In addition to rightsizing, they are considering options identified by the panel to improve information technology and management of capital facilities.

- Consistent with our recommendations, State has made many improvements in its information and financial management systems but faces continuing challenges in working with U.S. agencies operating overseas to standardize information technology capabilities and to correct weaknesses in its information security and financial management systems. State was able to successfully meet Y2K challenges and has received unqualified opinions on its financial management statements for fiscal years 1997, 1998, and 1999. However, devising a common technology solution that would permit electronic communication between agencies overseas and improve the productivity and effectiveness of overseas staff remains a formidable task. Our evaluations of State's computer networks and assessments by State's Inspector General also point to the continued need for State to assess its controls over sensitive information. Regarding financial management, the Department’s Office of Inspector General has reported that State’s financial systems do not comply with certain federal laws and requirements largely due to the overall lack of organization and integration of the Department's financial management systems. Improvements in its financial management systems, including those required to be in compliance with the Federal Financial Management Improvement Act of 1996, would provide managers with the more timely information they need to operate in a more business-like fashion and make better cost-based decisions.

STRENGTHENING STRATEGIC AND PERFORMANCE PLANNING

The Government Performance and Results Act provides a framework for addressing management challenges and increasing accountability for results in programs and operations. Under the Results Act, agencies are to prepare a five-year strategic plan that defines their mission, long-term goals, and strategies to achieve the goals; and an annual performance plan that communicates performance goals, targets, and measures. The Act also requires that, beginning this year; agencies prepare an annual performance report describing actual performance in comparison to stated goals and targets.

As required by the Results Act, State has prepared a strategic plan and annual performance plans. Our review of State’s performance plan for fiscal year 2000[2] found that improvements had been made over the prior year’s plan, including the addition of results-oriented goals, quantifiable measures, and baselines for many of its performance goals. However, while State's foreign policy goals cover a wide spectrum of U.S.

national interests, its plan did not provide a full range of objectives, strategies, and performance indicators for all of its 16 strategic goals. To illustrate, one of State's strategic goals is to open foreign markets to U.S. firms. Within this goal, State identified two major objectives but elaborated on only one in detail. In addition, the plan did not describe how State would coordinate with other agencies contributing to the same or similar results. For example, State says it works closely with the U.S. Trade Representative and the Department of Commerce on specific U.S. government export promotion efforts without explaining precisely what each agency will do.

We have analyzed State's performance report for fiscal year 1999 and its performance plan for fiscal year 2001. We found that it is difficult to judge how the agency performed or can be expected to perform in some areas. For example, one of State's outcome goals is to enhance the ability of American citizens to travel and live abroad securely. Due to data limitations, State's progress in meeting this outcome is inconclusive. For example, neither the performance report nor the plan provides performance information on passport issuance. The report does, however, discuss State's progress in providing U.S. citizens with information and other services. Another of State's goals is to reduce international crime and availability and/or use of illegal drugs. State's performance plan highlights why these key outcomes are important; however, it does not clearly identify State's progress towards meeting its goals. State reports on only one of four measures identified in the plan--international training programs--which accounts for less than 2 percent of State's international narcotics and law enforcement budget.

State's performance report addressed most of the agency's major management challenges in some manner. However, its fiscal year 2001 plan has not adequately addressed challenges in key areas, including managing information technology modernization and security, the hiring and training of staff, and improving financial management systems. Also, as in prior years' plans, there is no discussion of whether State coordinated with the

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[2] *Observations on the Department of State's Fiscal Year 2000 Performance Plan* (NSIAD-99-183R, July 20, 1999.)

numerous partner agencies listed in the plan, how resources will be used to achieve goals, what data limitations there were, or whether the data used was validated and verified.

State's fiscal year 2000 plan acknowledged that the process of managing for results as envisioned by the Results Act is not well entrenched in the Department. Although improvements are evident in the Department's first performance report and its latest performance plan, State shares our view that much more needs to be done to strengthen strategic and performance planning in the agency. State officials have indicated that the Department plans to form strategic goal teams to produce a more focused fiscal year 2002 performance plan. State officials also acknowledge that performance plans need to better address State's major management challenges. Accordingly, State officials said they plan to amend the fiscal year 2002 plan to make it more comprehensive, particularly in the areas of managing information technology modernization and security, hiring and training staff, and improving financial systems.

ENHANCING OVERSEAS SECURITY

The August 1998 bombings of the U.S. embassies in Nairobi, Kenya, and Dar es Salaam, Tanzania, highlighted the security management challenge of upgrading and/or replacing most embassies and consulates in a timely and cost effective manner. Immediately after the bombings in Africa, State deployed teams to Kenya and Tanzania to assess the damage firsthand and estimate costs for replacements and temporary facilities. It also sent teams to over 30 other high-risk countries to assess the threats and possible options to reduce them. Those teams, in coordination with State's overseas security officers, chiefs of missions, and other officials, helped State further define its security enhancement requirements and estimate the costs for upgrading existing facilities worldwide. In fiscal year 1999, State received about $1.5 billion in emergency supplemental appropriations from the Congress to improve security quickly at all posts, build new facilities in Kenya and Tanzania, and to begin replacing some of its most vulnerable embassies and consulates.

Using funds from emergency supplemental appropriations, State has reestablished embassy operations in interim office buildings in Nairobi, and Dar es Salaam, and has signed a contract for construction of new embassy compounds at those posts. These two embassy compounds are on schedule for completion in 2003 at a cost of about $119 million. Projects to relocate several other embassies and consulates are also under way, including those in Kampala, Uganda; Doha, Qatar; and Zagreb, Croatia. The Kampala and Doha projects are scheduled for completion in 2001 and the Zagreb project in 2003. In addition, State has made progress in implementing many of its planned security upgrades, including enhancing vehicle inspection and security guard programs, hiring additional special agents and other security staff, and instituting a new surveillance detection program designed to identify hostile surveillance activities and potential attackers.

Projects involving major construction upgrades to improve the security of existing facilities at more than 100 posts are likely to cost significantly more than was originally envisioned by the Department shortly after the bombings in Africa and are behind schedule. State estimates that the upgrades and electronic equipment installations, originally funded at $181 million, could potentially cost about $800 million more to complete. According to State, these potential increases in costs have occurred because State has conducted more detailed assessments of posts' security enhancement requirements since the bombings in Africa, and has upgraded its security standards. State requested $200 million in its fiscal year 2001 budget request to address these additional requirements. It also may make future budget requests; realign funds from other projects; stretch the program over several years; and/or, use less costly methods to achieve project objectives.

Looking ahead, State has identified over 190 diplomatic or consular facilities deemed vulnerable to terrorist attack that need to be replaced or substantially altered. State has prioritized these facilities for replacement into groups of 20. In 1999, the Crowe accountability report on the bombings in Africa recommended that State spend about $1 billion annually for 10 years to replace its most vulnerable facilities. State's fiscal year 2000 appropriations included $300 million to continue its embassy replacement program. As of April, State had received additional congressional approval to construct a new embassy in Tunis, Tunisia, and acquire or identify sites, and/or further define projects at 12 other posts.

In its fiscal year 2001 budget, the Department of State requested an advance appropriation of $3.35 billion over 4 years (fiscal years 2002 through 2005) to continue replacing its highest risk and most vulnerable embassies and consulates. State has not identified in its budget request which embassies and consulates will be replaced. Due to the cost increases and schedule delays in State's prior capital construction programs, we have been asked by the Senate Foreign Relations Committee to evaluate whether the Department's plans and strategies adequately identify which projects are highest priority for replacement, what their estimated costs will be, and when construction can be completed. We have just begun this effort and will focus on the project identification and implementation process, potential best practices that can reduce the amount of time required to construct new facilities overseas, and the overall program costs.

OVERSEAS PRESENCE

Another key issue that the Department faces in its everyday operations is managing the sheer number of U.S. employees overseas—which directly affects security requirements, operating costs, and efficiency. There are approximately 19,000 Americans and about 37,000 foreign service nationals[3] and contract employees working at U.S. diplomatic facilities overseas. In recent years, we have raised concerns about the need to reexamine

[3] Foreign service nationals are non-U.S. citizens directly hired by the U.S. missions.

the U.S. overseas presence in light of the costs, changing political landscape, and advances in technology. In 1996, we reported that State needed to reexamine its overseas presence and the scope of its activities or to substantially change its business practices.[4] We encouraged State to expand its use of regional centers for certain administrative services and explore greater use of foreign service national personnel to reduce American staffing costs. In our 1998 report on overseas housing programs, we noted that some administrative functions could be performed by the private sector or through other means that could possibly reduce posts' staffing needs.[5] The security burden is directly affected by the size of the overseas work force.

We are pleased to note that the Department has moved forward in examining its overseas presence. Following the bombings in Africa, State appointed a panel to review overseas operations of the U.S. government. The panel made a number of recommendations in November 1999 about how best to organize and manage overseas posts, addressing areas such as security, interagency coordination, information technology, capital needs, and human resources. The panel concluded that the U.S. overseas presence has not adequately adjusted to the new economic, political, and technological landscape. Many of these points are consistent with our observations from prior work on budget, staffing, and related management issues. The panel recommended that the President establish an interagency committee to determine the right size and composition of overseas posts.

The panel also recommended that State reform its administrative services. Our prior work identified several actions State could take to streamline those services and reduce costs, including outsourcing of key housing functions and one-stop shopping for relocation services. State has reengineered parts of its logistics system, focusing on direct ordering from the supplier and other actions that eliminated unnecessary costs and procedures in providing needed goods and services. It has also implemented the International Cooperative Administrative Support Services system to better allocate costs

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

among agencies and provide greater transparency to the costs of operations. However, it has not broadly embraced the concept of cost-based decision-making for many of its operations, such as overseas housing and relocation. Changes in the way State carries out its administrative functions could reduce the number of overseas staff.

In March 2000, State announced that an interagency committee had been formed to look at how to determine the right size and composition of posts universally and to conduct pilot programs at selected posts. Progress in addressing right sizing issues faces several challenges, including State's limited authority and influence over the staffing decisions of other agencies operating overseas.

IMPROVING INFORMATION AND FINANCIAL MANAGEMENT SYSTEMS

Recognizing that it relied on inadequate information and financial management systems and infrastructures that were generally inadequate to support State's core foreign policy and administrative functions, State developed a 5-year information technology plan in 1997 which outlined its overall modernization effort. Our 1998 report on information resource management[6] questioned State's methodology for making its 1997 estimate that it would cost $2.7 billion over 5 years to modernize its global information technology infrastructure. Consistent with our recommendations, State has improved its information technology planning and investment process and is revising its modernization cost estimates. Moreover, State reports that it has fully achieved some of its modernization goals. For example, overseas posts now have modern computers, the obsolete Wang computer network has been fully replaced, and its e-mail systems have been consolidated and upgraded.

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[5] State Department: Options for Reducing Overseas Housing and Furniture Costs (GAO/NSIAD-98-128, July 31, 1998).
[6] Department of State IRM: Modernization Program at Risk Absent Full Implementation of Key Best Practices (GAO/NSIAD-98-242, Sept. 29, 1998).

Although State has improved its information resource capabilities, there is not a common platform serving all agencies operating overseas. The Overseas Presence Advisory Panel recommended that the Department develop and implement a strategy for standardizing information and communications networks at all posts while providing all agencies with the connectivity they require. The panel suggested that a single, unclassified global communications network to serve all U.S. agencies with an overseas presence could be built at an estimated cost of $200 million. The Department's recently completed modernization program overseas, according to State officials, could provide a common platform at posts for e-mail and other business functions if it is accepted by all agencies at each post. State has included $17 million in its fiscal year 2001 budget request to develop and deploy interagency information platforms at two pilot posts. If the common platform is proven workable and funded, State believes that it could be operational worldwide in about 2-1/2 years.

At this point, State is at the early stages of planning for the common platform initiative--establishing preliminary project milestones, developing rough cost estimates, and formulating a project plan for upgrading information technology systems abroad. The plan, which State expects to complete by August 2000, will define project goals, requirements, benefits/cost, schedule and approval procedures. Nevertheless, devising a common technology solution that will meet the collective needs of the foreign affairs community will be a formidable task. Several thousand American and foreign nationals employed by about 40 federal agencies located in 160 countries comprise the foreign affairs community. Moreover, each agency has a unique mission and its own information systems and obtaining consensus will be difficult. If the common platform is to move from concept to reality, State will have to overcome cultural obstacles and get agreement from platform users on requirements so it can make sound procurement decisions. Further, it will need to carryout this delicate balancing act while defining its own technical architecture and continuing to address pervasive computer security weaknesses.

State relies heavily on its critical information systems and the data contained within them to support its domestic and overseas operations. Two years ago, we reported that State's sensitive but unclassified systems were highly vulnerable to exploitation and unauthorized access. The Department has worked hard to upgrade and secure its information technology, including clarifying roles and responsibilities and requiring the use of risk management by all project managers. However, subsequent computer security evaluations and assessments of controls over sensitive information continue to highlight problems with State's information and physical security. According to State, these vulnerabilities are being addressed. Clearly, continued oversight is needed to ensure that controls are in place and operating as intended to reduce risks to sensitive information assets.

Regarding financial management, the Department of State received an unqualified audit opinion on its Department-wide financial statements for fiscal years 1997, 1998, and 1999--a significant accomplishment. State has also closed some of its previously identified material weaknesses, including worldwide disbursing and cashering. The audit report for the fiscal years 1998 and 1999 statements, however, disclosed that State faces several longstanding challenges in developing financial management systems that fully comply with federal requirements. According to State's fiscal year 1999 performance report, it deferred upgrading its financial management system because of Y2K activities and the consolidation of the foreign affairs agencies. State is continuing its efforts to improve its financial management systems. State submitted its proposed remediation plan to the Office of Management and Budget in March 2000. The plan, required by the 1996 Federal Financial Management Improvement Act, identifies actions the agency believes are necessary to address its internal control weaknesses and be in substantial compliance with the Act.

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

Contacts and Acknowledgements

For questions regarding this testimony, please contact Ben Nelson at (202) 512-4128. Individuals making key contributions to this testimony included Jess Ford, Diana Glod, and Lynn Moore.

RELATED GAO PRODUCTS

STRATEGIC AND PERFORMANCE PLANNING

Observations on the Department of State’s Fiscal Year 2000 Performance Plan (NSIAD-99-183R, July 20, 1999).

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

Managing for Results: Agencies' Annual Performance Plans Can Help Address Strategic Planning Challenges (GAO/GGD-98-44, Jan. 30, 1998).

OVERSEAS SECURITY AND PRESENCE

State Department: Overseas Emergency Security Program Progressing, but Costs Are Increasing (GAO/NSIAD-00-83, Mar. 8, 2000).

INFORMATION MANAGEMENT

Foreign Affairs: Effort to Upgrade Information Technology Overseas Faces Formidable Challenges (GAO/T-AIMD/NSIAD-00-214, June 22, 2000).

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

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

FOREIGN AFFAIRS ORGANIZATION AND MANAGEMENT

State Department: Progress and Challenges in Addressing Management Issues (GAO/T-NSIAD-00-124, Mar. 8, 2000).

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