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FOREIGN AFFAIRS

Effective Stewardship of Resources Essential to Efficient Operations at State Department, USAID

Statement of Jess T. Ford, Director
International Affairs and Trade

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Highlights

Highlights of GAO-03-1009T, testimony before the House Committee on International Relations

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Why GAO Did This Study

In recent years, funding for the Department of State has increased dramatically, particularly for security upgrades at overseas facilities and a major hiring program. The U.S. Agency for International Development (USAID) has also received more funds, especially for programs in Afghanistan and Iraq and HIV/AIDS relief. Both State and USAID face significant management challenges in carrying out their respective missions, particularly in areas such as human capital management, performance measurement, and information technology management. Despite increased funding, resources are not unlimited. Thus, State, USAID, and all government agencies have an obligation to ensure that taxpayer resources are managed wisely. Long-lasting improvements in performance will require continual vigilance and the identification of widespread opportunities to improve the economy, efficiency, and effectiveness of State's and USAID's existing goals and programs.

GAO was asked to summarize its findings from reports on State's and USAID's management of resources, actions taken in response to our reports, and recommendations to promote cost savings and more efficient and effective operations at the department and agency.

www.gao.gov/cgi-bin/getrpt?GAO-03-1009T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jess Ford at (202) 512-4128 or fordj@gao.gov.

What GAO Found

Overall, State has increased its attention to managing resources, and its efforts are starting to show results, including potential cost savings and improved operational effectiveness and efficiency.   For example,

- In 1996, GAO criticized State's performance in disposing of its overseas property. Between fiscal years 1997 through 2002, State sold 129 properties for more than $459 million with plans to sell additional properties between fiscal years 2003 through 2008 for approximately $300 million. Additional sales would help offset costs of replacing about 160 unsecure and deteriorating embassies.

- State is now taking a more businesslike approach with its embassy construction program, which is estimated to cost an additional $17 billion beginning in fiscal year 2004. Cost-cutting efforts allowed State to achieve $150 million in potential cost savings during fiscal year 2002. State should continue its reforms as it determines requirements for, designs, and builds new embassies.

- The costs of maintaining staff overseas are generally very high. In response to management weaknesses GAO identified, State has begun addressing workforce planning issues to ensure that the government has the right people in the right places at the right times. State should continue this work and adopt industry best practices that could reduce costs and streamline services overseas.

- GAO and others have highlighted deficiencies in State's information technology. State invested $236 million in fiscal year 2002 on modernization initiatives overseas and plans to spend $262 million over fiscal years 2003 and 2004. Ongoing oversight of this investment will be necessary to minimize the risks of spending large sums of money on systems that do not produce commensurate value.

- State has improved its strategic planning to better link staffing and budgetary requirements with policy priorities. Setting clear objectives and tying resources to them will make operations more efficient.

GAO and others have also identified some management weaknesses at USAID, mainly in human capital management and workforce planning, program evaluation and performance measurement, information technology, and financial management. While USAID is taking corrective actions, better management of critical systems is essential to safeguard the agency's funds.

Given the added resources State and USAID must manage, current budget deficits, and new requirements since Sept. 11, 2001, oversight is needed to ensure continued progress toward effective management practices. This focus could result in cost savings or other efficiencies.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the Department of State's and the U.S. Agency for International Development's (USAID) stewardship of their resources and areas within their budgets where applying strong management practices has the potential to produce efficiencies that could result in cost savings. To put this in perspective, in fiscal year 2003, State was appropriated about $6 billion for the administration of foreign affairs and USAID received approximately $12 billion in total program funding.

In carrying out its mission of forming, representing, and implementing U.S. foreign policy, State faces complex challenges, some of which have intensified since the terrorist attacks of September 11, 2001, including the provision of secure facilities overseas. Over the last several years, funding for State's operations has increased, particularly for security upgrades at embassies and consulates around the world and for a major hiring program to meet U.S. foreign policy needs. USAID has also received significant funding increases for foreign assistance programs, in Afghanistan and Iraq in particular, as well as for HIV/AIDS relief programs. However, resources are not unlimited, and sound management practices can affect the utilization of large sums of money.

Over the years, GAO, State's Office of the Inspector General (OIG), and various commissions and studies have identified numerous management weaknesses at State. In addition, GAO and others have identified management challenges and operational deficiencies at USAID that affect the agency's ability to implement its programs. Ongoing attention to resource management issues at both State and USAID will be needed to ensure that the department and the agency take advantage of opportunities for more efficient operations and achieve budget savings wherever possible.

My statement today is based on our work at State and USAID over the last several years. I will focus on our observations regarding State's management in the following five areas: (1) unneeded[1] real estate; (2) embassy construction; (3) overseas presence and staffing, including rightsizing;[2] (4) information technology; and (5) strategic planning. I will

[1]We use the term "unneeded" property to encompass the terms "excess, underutilized, and obsolete" property used by the State Department.

[2]We define rightsizing as aligning the number and location of staff assigned overseas with foreign policy priorities and security and other constraints.

also discuss key areas where USAID has faced challenges, including (1) human capital management and workforce planning, (2) program evaluation and performance measurement, (3) information technology, and (4) financial management. A list of relevant GAO reports is attached to the end of my statement (see app. I).

Summary

Overall, our work at the Department of State shows that it has paid more attention to managing resources, and this effort is starting to show results—including the potential for cost savings and improved operational effectiveness and efficiency. For example,

- In 1996, GAO was critical of State's disposal of unneeded facilities. We reported that State did not have an effective process for identifying and selling unneeded real estate, and that decisions concerning the sale of some properties valued at hundreds of millions of dollars had been delayed for years. In recent years, State has brought a more businesslike approach to managing its overseas real estate portfolio—valued at approximately $12 billion—and has accelerated the sale of unneeded property and generated revenue that can be used to replace unsafe, deteriorating facilities worldwide. In total, between fiscal years 1997 through 2002, State sold properties for more than $459 million. The proceeds from these sales will be used to construct new facilities in Germany, Angola, and other locations worldwide. State estimates proceeds from additional property sales valued at $300 million between fiscal years 2003 through 2008 that could be used for other priorities. If State continues to streamline its operations and dispose of additional facilities over the next several years, it can potentially avoid having to request additional funding from the Congress for other real property needs.

- In the past, we reported that State's embassy construction projects took longer and cost more than budgeted. Due to delays in State's construction program of the late 1980s, and subsequent funding cutbacks, facilities lacked adequate security and remained vulnerable to terrorist attack. State has also begun taking a more businesslike approach with its embassy construction program, which it expects will cost an additional $17 billion beginning in fiscal year 2004. For example, State has instituted reforms, such as using standard building designs and "fast-track" contracting, that could lower the cost of embassy construction and lessen the chances of cost overruns and schedule delays. We reported in January 2003 that cost-cutting efforts allowed State to achieve about $150 million in potential cost savings during fiscal year 2002. State should continue to promote a streamlined approach as it determines requirements for, designs, and constructs new embassies in an effort to find other opportunities to cut costs while continuing to provide safe and secure facilities.

- We have also reported that State and most other foreign affairs agencies lacked a systematic process for determining appropriate overseas staffing levels. As a result, there was no assurance that personnel stationed abroad represented the right number of people with the right skills. Since 2001, State has directed significant effort to improving the management of its overseas presence in an effort to address workforce planning and staffing issues. In response to management weaknesses that we have previously identified, State has begun addressing rightsizing options and staffing shortages at hardship posts. For example, the department has indicated that it is pursuing regionalization in Europe, as well as opportunities to relocate positions from overseas back to the United States, which should result in lower operating costs. State should continue to review its workforce planning policies to ensure that the U.S. government has the right people in the right places at the right times to support U.S. foreign policy goals. Moreover, in determining overseas staffing levels, State should adopt industry best practices, such as competitive sourcing of administrative and support functions, which could result in cost reductions and streamlined services overseas.

- Previous GAO and State's Office of Inspector General (OIG) reports cited weaknesses in the information technology system, including State's inability to collaborate with other foreign affairs agencies, as significant challenges for the department. State officials have recognized deficiencies in the department's management of information technology programs. The Secretary of State has made a major commitment to modernizing information technology and plans to spend $262 million over fiscal years 2003 and 2004 on information technology modernization initiatives overseas. For example, State is now working to replace its antiquated cable system with a new integrated messaging and retrieval system. According to State, its information technology is now in the best shape it has ever been, including improved Internet access and upgraded computer equipment. Due to the level of investment the department is making in information technology, continued oversight will be necessary to minimize the risks of spending large sums of money on systems that do not produce commensurate value.

- From 1998 through 2000, we found major weaknesses in State's strategic planning processes. The department had not developed overall priorities for achieving its strategic goals, and consequently, had no overall basis for allocating resources to priorities. Since 2001, State has made improvements both at headquarters and overseas that are intended to link staffing and budgetary requirements with policy priorities. State is now working to forge a stronger link between resources and performance, strategic plans, annual performance plans, and annual performance reports. This effort will enable State to show what is being accomplished with the money it is spending. Improvements in strategic planning will also ensure that State is setting clear objectives, tying resources to these objectives, and monitoring its progress in achieving them—all of which are key to efficient operations.

Our work at the U.S. Agency for International Development (USAID) indicates that the agency has begun taking corrective actions in areas that, over the years, GAO and others have identified as having weak management and operational deficiencies. These areas include human capital management and workforce planning, program evaluation and performance measurement, information technology, and financial management. Improved management of these critical systems is essential if USAID is to ensure that its foreign assistance objectives are being met and its funds and resources are effectively safeguarded. Our recent work on USAID's democracy and rule of law programs also revealed certain management weaknesses that, if corrected, would help ensure that these programs can be sustained in difficult overseas environments, are better coordinated with other U.S. agencies and international donors to maximize resources, and achieve their intended results.

Mr. Chairman, State, USAID, and all government agencies have an obligation to ensure that taxpayer resources are managed wisely. The programs and activities that I am covering today have benefited and will continue to benefit from sound management practices that could result in more savings and efficiencies.

Background

Approximately 4 percent of discretionary spending in the United States' federal budget is appropriated for the conduct of foreign affairs activities. This includes funding for bilateral and multilateral assistance, military assistance, and State Department activities. Spending for State, taken from the "150 Account," makes up the largest share of foreign affairs spending. Funding for State's Diplomatic and Consular Programs—State's chief operating account, which supports the department's diplomatic activities and programs, including salaries and benefits—comprises the largest portion of its appropriations. Embassy security, construction, and maintenance funding comprises another large portion of State's appropriation. Funding for the administration of foreign affairs has risen dramatically in recent fiscal years, due, in part, to enhanced funding for security-related improvements worldwide, including personnel, construction, and equipment following the bombings of two U.S. embassies in 1998 and the events of September 11, 2001. For example, State received about $2.8 billion in fiscal year 1998, but by fiscal year 2003, State's appropriation was approximately $6 billion. For fiscal year 2004, State is seeking approximately $6.4 billion, which includes $4 billion for diplomatic and consular affairs and $1.5 billion for embassy security, construction, and maintenance. In addition, State plans to spend $262 million over fiscal years 2003 and 2004 on information technology modernization initiatives overseas.

Humanitarian and economic development assistance is an integral part of U.S. global security strategy, particularly as the United States seeks to diminish the underlying conditions of poverty and corruption that may be linked to instability and terrorism. USAID is charged with overseeing U.S. foreign economic and humanitarian assistance programs. In fiscal year 2003, Congress appropriated about $12 billion—including supplemental funding—to USAID, and the agency managed programs in about 160 countries, including 71 overseas missions with USAID direct-hire presence. Fiscal year 2004 foreign aid spending is expected to increase due, in part, to substantial increases in HIV/AIDS funding and security-related economic aid.

Department of State

I would like to discuss State's performance in managing its overseas real estate, overseeing major embassy construction projects, managing its overseas presence and staffing, modernizing its information technology, and developing and implementing strategic plans.

Management of Real Property

State manages an overseas real property portfolio valued at approximately $12 billion. The management of real property is an area where State could achieve major cost savings and other operational efficiencies. In the past, we have been critical of State's management of its overseas property, including its slow disposal of unneeded facilities. Recently, officials at State's Bureau of Overseas Buildings Operations (OBO), which manages the government's real property overseas, have taken a more systematic approach to identifying unneeded properties and have significantly increased the sale of these properties. For example, in 2002, OBO completed sales of 26 properties totaling $64 million, with contracts in place for another $40 million in sales. But State needs to dispose of more facilities in the coming years as it embarks on an expensive plan to replace embassies and consulates that do not meet State's security requirements and/or are in poor condition.

Unneeded Property

Unneeded property and deteriorating facilities present a real problem—but also an opportunity to improve U.S. operations abroad and achieve savings. We have reported that the management of overseas real estate has been a continuing challenge for State, although the department has made improvements in recent years. One of the key weaknesses we found was the lack of a systematic process to identify unneeded properties and to dispose of them in a timely manner. In 1996, we identified properties worth hundreds of millions of dollars potentially excess to State's needs or of questionable value and expensive to maintain that the department had not previously identified for potential sale.[3] As a result of State's inability to resolve internal disputes and sell excess property in an expeditious manner, we recommended that the Secretary of State appoint an independent panel to decide which properties should be sold. The Secretary of State created this panel in 1997. As of April 2002, the Real Property Advisory Board had reviewed 41 disputed properties and recommended that 26 be sold. By that time, State had disposed of seven of these properties for about $21 million.

In 2002, we again reviewed State's processes for identifying and selling unneeded overseas real estate and found that it had taken steps to implement a more systematic approach that included asking posts to annually identify properties for disposal and increasing efforts by OBO and officials from State's OIG to identify such properties when they visit posts.[4] For example, the director of OBO took steps to resolve disputes with posts that have delayed the sale of valuable property. OBO has also instituted monthly Project Performance Reviews to review all aspects of real estate management, such as the status of acquisitions and disposal of overseas property. However, we found that the department's ability to monitor property use and identify potentially unneeded properties was hampered by errors and omissions in its property inventory. Inaccurate inventory information can result in unneeded properties not being

[3]U.S. General Accounting Office, *Overseas Real Estate: Millions of Dollars Could Be Generated by Selling Unneeded Real Estate*, GAO/NSIAD-96-36 (Washington, D.C.: Apr. 23, 1996).

[4]U.S. General Accounting Office, *State Department: Sale of Unneeded Property Has Increased, but Further Improvements Are Necessary*, GAO-02-590 (Washington, D.C.: June 11, 2002).

identified for potential sale. Therefore, we recommended that the department improve the accuracy of its real property inventory. In commenting on our report, OBO said that it had already taken action to improve its data collection. For example, State sent a cable to all overseas posts reminding them of their responsibilities to maintain accurate real estate records.

State has significantly improved its performance in selling unneeded property. In total, between fiscal years 1997 through 2002, State sold 129 properties for more than $459 million. Funds generated from property sales are being used to help offset embassy construction costs in Berlin, Germany; Luanda, Angola; and elsewhere. State estimates it will sell additional properties between fiscal years 2003 and 2008 valued at approximately $300 million. More recently, State has taken action to sell two properties (a 0.4 acre parking lot and an office building) in Paris identified in a GAO report as potentially unneeded.[5] After initially resisting the sale of the parking lot, the department reversed its decision and sold both properties in June 2003 for a total of $63.1 million—a substantial benefit to the government. The parking lot alone was sold conditionally for $20.7 million.[6] Although this may be a unique case, it demonstrates how scrutiny of the property inventory could result in potential savings. The department should continue to look closely at property holdings to see if other opportunities exist. If State continues to streamline its operations and dispose of additional facilities over the next several years, it can use those funds to help offset the cost of replacing about 160 embassies and consulates for security reasons in the coming years.

Embassy Construction

In the past, State has had difficulties ensuring that major embassy construction projects were completed on time and within budget. For example, in 1991 we reported that State's previous construction program suffered from delays and cost increases due to, among other things, poor program planning and inadequate contractor performance. In 1998, State embarked on the largest overseas embassy construction program in its history in response to the bombings of U.S. embassies in Africa. From fiscal years 1999 through 2003, State received approximately $2.7 billion

[5]U.S. General Accounting Office, *State Department: Decision to Retain Embassy Parking Lot in Paris, France, Should Be Revisited*, GAO-01-477 (Washington, D.C.: Apr. 13, 2001).

[6]The parking lot was sold on the condition that the purchasers could obtain within the next 2 years the zoning permits necessary to build on the property.

for its new construction program and began replacing 25 of 185 posts identified as vulnerable by State. To better manage this program, OBO has undertaken several initiatives aimed at improving State's stewardship of its funds for embassy buildings, including cutting costs of planned construction projects, using standard designs, and reducing construction duration through a "fast track" process. Moreover, State hopes that additional management tools aimed at ensuring that new facilities are built in the most cost-effective manner, including improvements in how agencies determine requirements for new embassies, will help move the program forward. State is also pursuing a cost-sharing plan that would charge other federal agencies for the cost of their overall overseas presence and provide additional funds to help accelerate the embassy construction program.

Replacing Vulnerable Facilities

While State has begun replacing many facilities, OBO officials estimated that beginning in fiscal year 2004, it will cost an additional $17 billion to replace facilities at remaining posts. As of February 2003, State had begun replacing 25 of 185 posts identified by State as vulnerable after the 1998 embassy bombings. To avoid the problems that weakened the previous embassy construction program, we recommended that State develop a long-term capital construction plan that identifies (1) proposed construction projects' cost estimates and schedules and (2) estimated annual funding requirements for the overall program.[7] Although State initially resisted implementing our recommendation, OBO's new leadership reconsidered this recommendation and has since produced two annual planning documents titled the "Long-Range Overseas Building Plan." According to OBO, the long-range plan is the roadmap by which State, other departments and agencies, the Office of Management and Budget (OMB), the Congress, and others can focus on defining and resolving the needs of overseas facilities.

In addition to the long-range plan, OBO has undertaken several initiatives aimed at improving State's stewardship of its embassy construction funds. These measures have the potential to result in significant cost savings and other efficiencies. For example, OBO has

- developed Standard Embassy Designs (SED) for use in most embassy construction projects. SEDs provide OBO with the ability to contract for

[7]U.S. General Accounting Office, *Embassy Construction: Long-Term Planning Will Enhance Program Decision-making*, GAO-01-11 (Washington, D.C.: Jan. 22, 2001).

shortened design and construction periods and control costs through standardization;

- shifted from “design-bid-build” contracting toward “design-build” contracts, which have the potential to reduce project costs and construction time frames;
- developed and implemented procedures to enforce cost planning during the design phase and ensure that the final designs are within budget; and
- increased the number of contractors eligible to bid for construction projects, thereby increasing competition for contracts, which could potentially result in lower bids.

OBO has set a goal of a 2-year design and construction period for its mid-sized, standard embassy design buildings, which, if met, could reduce the amount of time spent in design and construction by almost one year. We reported in January 2003 that these cost-cutting efforts allowed OBO to achieve $150 million in potential cost savings during fiscal year 2002. These savings, according to OBO, resulted from the application of the SEDs and increased competition for the design and construction of these projects.

Despite these gains, State will face continuing hurdles throughout the life of the embassy construction program. These hurdles include meeting construction schedules within the estimated costs and ensuring that State has the capacity to manage a large number of projects simultaneously. Because of the high costs associated with this program and the importance of providing secure facilities overseas, we believe this program merits continuous oversight by State, GAO, and the Congress.

Staffing Requirements for New Embassy Compounds

In addition to ensuring that individual construction projects meet cost and performance schedules, State must also ensure that new embassies are appropriately sized. Given that the size and cost of new facilities are directly related to agencies’ anticipated staffing needs, it is imperative that future requirements be predicted as accurately as possible. Embassy buildings that are designed too small may require additional construction and funding in the future; buildings that are too large may have unused space—a waste of government funds. State’s construction program in the late 1980s encountered lengthy delays and cost overruns in part because it lacked coordinated planning of post requirements prior to approval and budgeting for construction projects. As real needs were determined, changes in scope and increases in costs followed. OBO now requires that all staffing projections for new embassy compounds be finalized prior to submitting funding requests, which are sent to Congress as part of State's annual budget request each February.

In April 2003, we reported that U.S. agencies operating overseas, including State, were developing staffing projections without a systematic approach.[8] We found that State's headquarters gave embassies little guidance on factors to consider when developing projections, and thus U.S. agencies did not take a consistent or systematic approach to determining long-term staffing needs. Based on our recommendations, State in May 2003 issued a "Guide to Developing Staffing Projections for New Embassy and Consulate Compound Construction," which requires a more serious, disciplined approach to developing staffing projections. When fully implemented, this approach should ensure that overseas staffing projections are more accurate and minimize the financial risks associated with building facilities that are designed for the wrong number of people.

Capital Security Cost Sharing

Historically, State has paid all costs associated with the construction of overseas facilities.[9] Following the embassy bombings, the Overseas Presence Advisory Panel (OPAP)[10] noted a lack of cost sharing among agencies that use overseas facilities. As a result, OPAP recommended that agencies be required to pay rent in government-owned buildings in foreign countries to cover operating and maintenance costs. In 2001, an interagency group put forth a proposal that would require agencies to pay rent based on the space they occupy in overseas facilities, but the plan was not enacted. In 2002, OMB began an effort to develop a mechanism that would require users of overseas facilities to share the construction costs associated with those facilities. The administration believes that if agencies were required to pay a greater portion of the total costs associated with operating overseas facilities, they would think more

[8]U.S. General Accounting Office, *Embassy Construction: Process for Determining Staffing Requirements Needs Improvement*, GAO-03-411 (Washington, D.C.: Apr. 7, 2003).

[9]Agencies contribute funding to support the International Cooperative Administrative Support Services system, which funds common administrative support functions, such as travel, mail and messenger, vouchering, and telephone services, that all agencies at a post may use.

[10]Secretary of State Madeline Albright established OPAP following the 1998 embassy bombings in Africa to consider the organization of U.S. embassies and consulates. Department of State, *America's Overseas Presence in the 21st Century, The Report of the Overseas Presence Advisory Panel* (Washington, D.C.: Nov. 1999).

carefully before posting personnel overseas. As part of this effort, State has presented a capital security cost-sharing plan that would require agencies to help fund its capital construction program. State's proposal calls for each agency to fund a proportion of the total construction program cost based on its respective proportion of total overseas staffing. OBO has reported that its proposed cost-sharing program could result in additional funds, thereby reducing the duration of the overall program.

Overseas Presence and Staffing

State maintains a network of approximately 260 diplomatic posts in about 170 countries worldwide and employs a direct-hire workforce of about 30,000 employees, about 60 percent of those overseas. The costs of maintaining staff overseas vary by agency but in general are extremely high. In 2002, the average annual cost of placing one full-time direct-hire American family of four in a U.S. embassy was approximately $339,000.[11] These costs make it critical that the U.S. overseas presence is sized appropriately to conduct its work. We have reported that State and most other federal agencies overseas have historically lacked a systematic process for determining the right number of personnel needed overseas—otherwise known as rightsizing.[12] Moreover, in June 2002,[13] we reported that State faces serious staffing shortfalls at hardship posts[14]—in both the number of staff assigned to these posts and their experience, skills, and/or language proficiency. Thus, State has been unable to ensure that it has "the right people in the right place at the right time with the right skills to carry out America's foreign policy"—its definition of diplomatic readiness.[15] However, since 2001, State has directed significant attention to improving weaknesses in the management of its workforce planning

[11]Testimony of Nancy Dorn, deputy director of the Office of Management and Budget, before the House Subcommittee on National Security, Veterans Affairs, and International Relations, House Committee on Government Reform, May 1, 2002.

[12]U.S. General Accounting Office, *Overseas Presence: More Work Needed on Embassy Rightsizing*, GAO-02-143 (Washington, D.C.: Nov. 27, 2001).

[13]U.S. General Accounting Office, *State Department: Staffing Shortfalls and Ineffective Assignment System Compromise Diplomatic Readiness at Hardship Posts*, GAO-02-626 (Washington, D.C.: June 18, 2002).

[14]Hardship posts are locations where the U.S. government offers additional pay incentives to compensate Foreign Service employees for adverse living and environmental conditions, such as poor schools, inadequate medical facilities, high levels of crime, and severe climates.

[15]GAO-02-626.

and staffing issues that we and others have noted.[16] Because personnel salaries and benefits consume a huge portion of State's operating budget, it is important that the department exercise good stewardship of its human capital resources.

Overseas Staffing

Around the time GAO designated strategic human capital management as a governmentwide high-risk area in 2001, State, as part of its Diplomatic Readiness Initiative (DRI), began directing significant attention to addressing its human capital needs, adding 1,158 employees over a 3-year period (fiscal years 2002 through 2004). In fiscal year 2002, Congress allocated nearly $107 million for the DRI. State requested nearly $100 million annually in fiscal years 2003 and 2004 to hire approximately 400 new staff each year.

The DRI has enabled the department to boost recruitment. However, State has historically lacked a systematic approach to determine the appropriate size and location of its overseas staff. To move the rightsizing process forward, the August 2001 *President's Management Agenda* identified it as one of the administration's priorities. Given the high costs of maintaining the U.S. overseas presence, the administration has instructed U.S. agencies to reconfigure the number of overseas staff to the minimum necessary to meet U.S. foreign policy goals. This OMB-led initiative aims to develop cost-saving tools or models, such as increasing the use of regional centers, revising the Mission Performance Planning (MPP) process,[17] increasing overseas administrative efficiency, and relocating functions to the United States.[18] According to the OPAP, although the magnitude of savings from rightsizing the overseas presence cannot be known in advance, "significant savings" are achievable. For example, it said that reducing all agencies' staffing by 10 percent could yield governmentwide savings of almost $380 million a year.[19]

[16] U.S. General Accounting Office, Performance and Accountability Series, *Major Management Challenges and Program Risks, Department of State*, GAO-03-107 (Washington, D.C.: Jan. 2003).

[17] MPPs are annual plans that describe the performance goals and objectives for a given embassy.

[18] Office of Management and Budget, *The President's Management Agenda, Fiscal Year 2002* (Washington, D.C.: Aug. 2001).

[19] U.S. Department of State, *America's Overseas Presence in the 21st Century, The Report of the Overseas Presence Advisory Panel* (Washington, D.C.: Nov. 1999).

GAO's Rightsizing Framework

In May 2002, we testified on our development of a rightsizing framework.[20] The framework is a series of questions linking staffing levels to three critical elements of overseas diplomatic operations: security of facilities, mission priorities and requirements, and cost of operations. It also addresses consideration of rightsizing options, such as relocating functions back to the United States or to regional centers, competitively sourcing functions, and streamlining operations. Rightsizing analyses could lead decision makers to increase, decrease, or change the mix of staff at a given post. For example, based on our work at the U.S. embassy in Paris, we identified positions that could potentially be relocated to regional centers or back to the United States. On the other hand, rightsizing analyses may indicate the need for increased staffing, particularly at hardship posts. In a follow-up report to our testimony,[21] we recommended that the director of OMB ensure that our framework is used as a basis for assessing staffing levels in the administration's rightsizing initiative.[22]

In commenting on our rightsizing reports, State endorsed our framework and said it plans to incorporate elements of our rightsizing questions into its future planning processes, including its MPPs. State also has begun to take further actions in managing its overseas presence—along the lines that we recommended in our June 2002 report on hardship posts—including revising its assignment system to improve staffing of hardship posts and addressing language shortfalls by providing more opportunities for language training. [23] In addition, State has already taken some

[20]U.S. General Accounting Office, *Overseas Presence: Observations on a Rightsizing Framework*, GAO-02-659T (Washington, D.C.: May 1, 2002).

[21]U.S. General Accounting Office, *Overseas Presence: Framework for Assessing Embassy Staff Levels Can Support Rightsizing Initiatives*, GAO-02-780 (Washington, D.C.: July 2002).

[22]GAO subsequently applied the framework to developing countries and found that it was applicable. See U.S. General Accounting Office, *Overseas Presence: Rightsizing Framework Can Be Applied at U.S. Diplomatic Posts in Developing Countries*, GAO-03-396 (Washington, D.C.: Apr. 2003).

[23]GAO-03-107.

rightsizing actions to improve the cost effectiveness of its overseas operating practices.[24] For example, State

- plans to spend at least $80 million to purchase and renovate a 23-acre, multi-building facility in Frankfurt, Germany—slated to open in mid-2005—for use as a regional hub to conduct and support diplomatic operations;[25]

- has relocated more than 100 positions from the Paris embassy to the regional Financial Services Center in Charleston, South Carolina; and

- is working with OMB on a cost-sharing mechanism, as previously mentioned, that will give all U.S. agencies an incentive to weigh the high costs to taxpayers associated with assigning staff overseas.

In addition to these rightsizing actions, there are other areas where the adoption of industry best practices could lead to cost reductions and streamlined services.[26] For example, in 1997, we reported that State could significantly streamline its employee transfer and housing relocation processes. We also reported in 1998 that State's overseas posts could potentially save millions of dollars by implementing best practices such as competitive sourcing.

In light of competing priorities as new needs emerge, particularly in Iraq and Afghanistan, State must be prepared to make difficult strategic decisions on which posts and positions it will fill and which positions it could remove, relocate, or regionalize. State will need to marshal and manage its human capital to facilitate the most efficient, effective allocation of these significant resources.

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[24]We will report further on State's recruitment of new Foreign Service officers in a report for the House Government Reform Committee's Subcommittee on National Security, Emerging Threats, and International Relations that we expect to issue this fall.

[25]This facility, called Creekbed, will be the largest U.S. diplomatic facility overseas. In July 2002, Creekbed was officially transferred from the German government to the State Department for $30.3 million. The design and renovation cost for the facility is estimated as $49.8 million, bringing total projected costs to $80.1 million. See U.S. General Accounting Office, *Overseas Presence: Rightsizing Is Key to Considering Relocation of Regional Staff to New Frankfurt Center*, GAO-03-1061 (Washington, D.C.: Sept. 2, 2003).

[26]U.S. General Accounting Office, *State Department: Using Best Practices to Relocate Employees Could Reduce Costs and Improve Service*, GAO/NSIAD-98-19 (Washington, D.C.: Oct. 17, 1997); and *State Department: Options for Reducing Overseas Housing and Furniture Costs*, GAO/NSIAD-98-128 (Washington, D.C.: July 31, 1998).

Information Technology

Up-to-date information technology, along with adequate and modern office facilities, is an important part of diplomatic readiness. We have reported that State has long been plagued by poor information technology at its overseas posts, as well as weaknesses in its ability to manage information technology modernization programs.[27] State's information technology capabilities provide the foundation of support for U.S. government operations around the world, yet many overseas posts have been equipped with obsolete information technology systems that prevented effective interagency information sharing.

The Secretary of State has made a major commitment to modernizing the department's information technology. In March 2003, we testified that the department invested $236 million in fiscal year 2002 on key modernization initiatives for overseas posts and plans to spend $262 million over fiscal years 2003 and 2004.[28] State reports that its information technology is now in the best shape it has ever been, including improved Internet access and upgraded computer equipment. The department is now working to replace its antiquated cable system with a new integrated messaging and retrieval system, which it acknowledges is an ambitious effort.

State's OIG and GAO have raised a number of concerns regarding the department's management of information technology programs. For example, in 2001,[29] we reported that State was not following proven system acquisition and investment practices in attempting to deploy a common overseas knowledge management system. This system was intended to provide functionality ranging from basic Internet access and e-mail to mission-critical policy formulation and crisis management support. We recommended that State limit its investment in this system until it had secured stakeholder involvement and buy-in. State has since discontinued the project due to a lack of interagency buy-in and commitment, thereby avoiding additional costs of more than $200 million.

[27]U.S. General Accounting Office, *Information Technology: State Department-Led Overseas Modernization Program Faces Management Challenges*, GAO-02-41 (Washington, D.C.: Nov. 16, 2001), and *Foreign Affairs: Effort to Upgrade Information Technology Overseas Faces Formidable Challenges*, GAO-T-AIMD/NSIAD-00-214 (Washington, D.C.: June 22, 2000).

[28]U.S. General Accounting Office, *Overseas Presence: Conditions of Overseas Diplomatic Facilities*, GAO-03-557T (Washington, D.C.: Mar. 20, 2003).

[29]GAO-02-41 and GAO-T-AIMD/NSIAD-00-214.

Recognizing that interagency information sharing and collaboration can pay off in terms of greater efficiency and effectiveness of overseas operations, State's OIG reported that the department recently decided to merge some of the objectives associated with the interagency knowledge management system into its new messaging system. We believe that the department should try to eliminate the barriers that prevented implementation of this system. As State continues to modernize information technology at overseas posts, it is important that the department employ rigorous and disciplined management processes on each of its projects to minimize the risks that the department will spend large sums of money on systems that do not produce commensurate value.

Strategic Planning

Linking performance and financial information is a key feature of sound management—reinforcing the connection between resources consumed and results achieved—and an important element in giving the public a useful and informative perspective on federal spending. A well-defined mission and clear, well understood strategic goals are essential in helping agencies make intelligent trade-offs among short- and long-term priorities and ensure that program and resource commitments are sustainable. In recent years, State has made improvements to its strategic planning process both at headquarters and overseas that are intended to link staffing and budgetary requirements with policy priorities. For instance, State has developed a new strategic plan for fiscal years 2004 through 2009, which, unlike previous strategic plans, was developed in conjunction with USAID and aligns diplomatic and development efforts. At the field level, State revised the MPP process so that posts are now required to identify key goals for a given fiscal year, and link staffing and budgetary requirements to fulfilling these priorities.

State's compliance with the Government Performance and Results Act of 1993 (GPRA),[30] which requires federal agencies to prepare annual performance plans covering the program activities set out in their budgets,

[30]P.L. 103-62, 107 Stat. 285, as amended.

has been mixed.[31] While State's performance plans fell short of GPRA requirements from 1998 through 2000, the department has recently made strides in its planning and reporting processes. For example, in its performance plan for 2002, State took a major step toward implementing GPRA requirements, and it has continued to make improvements in its subsequent plans.[32]

As we have previously reported,[33] although connections between specific performance and funding levels can be difficult to make, efforts to infuse performance information into budget deliberations have the potential to change the terms of debate from simple outputs to outcomes. Continued improvements to strategic and performance planning will ensure that State is setting clear objectives, tying resources to these objectives, and monitoring its progress in achieving them—all of which are essential to efficient operations.

U.S. Agency for International Development

Now I would like to discuss some of the challenges USAID faces in managing its human capital, evaluating its programs and measuring their performance, and managing its information technology and financial systems. I will also outline GAO's findings from our reviews of USAID's democracy and rule of law programs in Latin America and the former Soviet Union.

Human Capital Management

Since the early 1990s, we have reported that USAID has made limited progress in addressing its human capital management issues and managing the changes in its overseas workforce. A major concern is that USAID has

[31]See U.S. General Accounting Office, *The Results Act: Observations on the Department of State's Fiscal Year 1999 Annual Performance Plan*, GAO/NSIAD-98-210R (Washington, D.C.: June 17, 1998); *Observations on the Department of State's Fiscal Year 2000 Performance Plan*, GAO/NSIAD-99-183R (Washington, D.C.: July 20, 1999); *Major Management Challenges and Program Risks: Implementation Status of Open Recommendations*, GAO/OCG-99-28 (Washington, D.C.: July 30, 1999); *Observations on the Department of State's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan*, GAO/NSIAD-00-189R (Washington, D.C.: June 30, 2000); and *Department of State: Status of Achieving Key Outcomes and Addressing Major Management Challenges*, GAO-02-42 (Washington, D.C.: Dec. 7, 2001).

[32]GAO-02-42.

[33]U.S. General Accounting Office, *Results-Oriented Budget Practices in Federal Agencies*, GAO-01-1084SP (Washington, D.C.: Aug. 2001).

not established a comprehensive workforce plan that is integrated with the agency's strategic objectives and ensures that the agency has skills and competencies necessary to meet its emerging foreign assistance challenges. Developing such a plan is critical due to a reduction in the agency's workforce during the 1990s and continuing attrition—more than half of the agency's foreign service officers are eligible to retire by 2007. According to USAID's OIG, the steady decline in the number of foreign service and civil service employees with specialized technical expertise has resulted in insufficient staff with needed skills and experience and less experienced personnel managing increasingly complex programs.[34] Meanwhile, USAID's program budget has increased from $7.3 billion in 2001 to about $12 billion in fiscal year 2003, due primarily to significant increases in HIV/AIDS funding and supplemental funding for emerging programs in Iraq and Afghanistan. The combination of continued attrition of experienced foreign service officers, increased program funding, and emerging foreign policy priorities raises concerns regarding USAID's ability to maintain effective oversight of its foreign assistance programs.

USAID's lack of progress in institutionalizing a workforce planning system has led to certain vulnerabilities. For example, as we reported in July 2002, USAID lacks a "surge capacity" that enables it to quickly hire the staff needed to respond to emerging demands and post-conflict or post-emergency reconstruction situations.[35] We also reported that insufficient numbers of contract officers affected the agency's ability to deliver hurricane reconstruction assistance in Latin America in the program's early phases.

USAID is aware of its human capital management and workforce planning shortcomings and is now beginning to address some of them with targeted hiring and other actions.

Program Evaluation and Performance Measurement

USAID continues to face difficulties in identifying and collecting the data it needs to develop reliable performance measures and accurately report the results of its programs. Our work and that of USAID's OIG have identified

[34]USAID Office of the Inspector General, *Semiannual Report to Congress* (Washington, D.C.: Oct. 31, 2001).

[35]U.S. General Accounting Office, *Foreign Assistance: Disaster Recovery Program Addressed Intended Purposes, but USAID Needs Greater Flexibility to Improve Its Response Capability*, GAO-02-787 (Washington, D.C.: July 24, 2002).

a number of problems with the annual results data that USAID's operating units have been reporting. USAID has acknowledged these concerns and has undertaken several initiatives to correct them. Although the agency has made a serious effort to develop improved performance measures, it continues to report numerical outputs that do not gauge the impact of its programs.

Without accurate and reliable performance data, USAID has little assurance that its programs achieve their objectives and related targets. In July 1999, we commented on USAID's fiscal year 2000 performance plan and noted that because the agency depends on international organizations and thousands of partner institutions for data, it does not have full control over how data are collected, reported, or verified. In April 2002, we reported that USAID had evaluated few of its experiences in using various funding mechanisms and different types of organizations to achieve its objectives.[36] We concluded that with better data on these aspects of the agency's operations, USAID managers and congressional overseers would be better equipped to analyze whether the agency's mix of approaches takes full advantage of nongovernmental organizations to achieve the agency's purposes.

Information Technology and Financial Management

USAID's information systems do not provide managers with the accurate information they need to make sound and cost-effective decisions. USAID's OIG has reported that the agency's processes for procuring information technology have not followed established guidelines, which require executive agencies to implement a process that maximizes the value and assesses the risks of information technology investments. In addition, USAID's computer systems are vulnerable and need better security controls. USAID management has acknowledged these weaknesses and the agency is making efforts to correct them.

Effective financial systems and controls are necessary to ensure that USAID management has timely and reliable information to make effective, informed decisions and that assets are safeguarded. USAID has made progress in correcting some of its systems and internal control deficiencies and is in the process of revising its plan to remedy financial

[36]U.S. General Accounting Office, *Foreign Assistance: USAID Relies Heavily on Nongovernmental Organizations, but Better Data Needed to Evaluate Approaches*, GAO-02-471 (Washington, D.C.: Apr. 25, 2002).

management weaknesses as required by the Federal Financial Management Improvement Act of 1996.[37] To obtain its goal, however, USAID needs to continue efforts to resolve its internal control weaknesses and ensure that planned upgrades to its financial systems are in compliance with federal financial system requirements.

Democracy and Rule of Law Programs

Our reviews of democracy and rule of law programs in Latin America and the former Soviet Union[38] demonstrate that these programs have had limited results and suggest areas for improving the efficiency and impact of these efforts.[39]

In Latin America, we found that U.S. assistance has helped bring about important criminal justice reforms in five countries. This assistance has also help improve transparency and accountability of some government functions, increase attention to human rights, and support elections that observation groups have considered free and fair. In several countries of the former Soviet Union, U.S. agencies have helped support a variety of legal system reforms and introduced some innovative legal concepts and practices in the areas of legislative and judicial reform, legal education, law enforcement, and civil society. In both regions, however, sustainability of these programs is questionable. Establishing democracy and rule of law in these countries is a complex undertaking that requires long-term host government commitment and consensus to succeed. However, host governments have not always provided the political support and financial and human capital needed to sustain these reforms. In other cases, U.S.-supported programs were limited, and countries did not adopt the reforms and programs on a national scale.

In both of our reviews, we found that several management issues shared by USAID and the other agencies have affected implementation of these programs. Poor coordination among the key U.S. agencies has been a long-standing management problem, and cooperation with other foreign

[37] 31 U.S.C. 3512 note.

[38] USAID is not the only U.S. actor promoting democratic institutions overseas; the Departments of Justice, State, and the Treasury also play significant roles.

[39] U.S. General Accounting Office, *Foreign Assistance: U.S. Democracy Programs in Six Latin American Countries Have Yielded Modest Results*, GAO-03-358 (Washington, D.C.: Mar. 18, 2003); and *Former Soviet Union: U.S. Rule of Law Assistance Has Had Limited Impact*, GAO-01-354 (Washington, D.C.: Apr. 17, 2001).

donors has been limited. U.S. agencies' strategic plans do not outline how these agencies will overcome coordination problems and cooperate with other foreign donors on program planning and implementation to maximize scarce resources. Also, U.S. agencies, including USAID, have not consistently evaluated program results and have tended to stress output measures, such as the numbers of people trained, over indicators that measure program outcomes and results, such as reforming law enforcement practices. Further, U.S. agencies have not consistently shared lessons learned from completed projects, thus missing opportunities to enhance the outcomes of their programs.

Mr. Chairman, this completes my prepared statement. I would be happy to respond to any questions you or other members of the committee may have at this time.

Contacts and Acknowledgments

For future contacts regarding this testimony, please call Jess Ford or John Brummet at (202) 512-4128. Individuals making key contributions to this testimony include Heather Barker, David Bernet, Janey Cohen, Diana Glod, Kathryn Hartsburg, Edward Kennedy, Joy Labez, Jessica Lundberg, and Audrey Solis.

Appendix I: GAO Reports on Resource Management

Department of State

Overseas Security, Presence, and Facilities

Overseas Presence: Conditions of Overseas Diplomatic Facilities. GAO-03-557T. Washington, D.C.: March 20, 2003.

Overseas Presence: Rightsizing Framework Can Be Applied at U.S. Diplomatic Posts in Developing Countries. GAO-03-396. Washington, D.C.: April 7, 2003.

Embassy Construction: Process for Determining Staffing Requirements Needs Improvement. GAO-03-411. Washington, D.C.: April 7, 2003.

Overseas Presence: Framework for Assessing Embassy Staff Levels Can Support Rightsizing Initiatives. GAO-02-780. Washington, D.C.: July 26, 2002.

State Department: Sale of Unneeded Property Has Increased, but Further Improvements Are Necessary. GAO-02-590. Washington, D.C.: June 11, 2002.

Embassy Construction: Long-Term Planning Will Enhance Program Decision-making. GAO-01-11. Washington, D.C.: January 22, 2001.

State Department: Decision to Retain Embassy Parking Lot in Paris, France, Should Be Revisited. GAO-01-477. Washington, D.C.: April 13, 2001.

Staffing and Workforce Planning

State Department: Staffing Shortfalls and Ineffective Assignment System Compromise Diplomatic Readiness at Hardship Posts. GAO-02-626. Washington, D.C.: June 18, 2002.

Foreign Languages: Human Capital Approach Needed to Correct Staffing and Proficiency Shortfalls. GAO-02-375. Washington, D.C.: January 31, 2002.

Information Management

Information Technology: State Department-Led Overseas Modernization Program Faces Management Challenges. GAO-02-41. Washington, D.C.: November 16, 2001.

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

Electronic Signature: Sanction of the Department of State's System. GAO/AIMD-00-227R. Washington, D.C.: July 10, 2000.

Strategic and Performance Planning and Foreign Affairs Management

Major Management Challenges and Program Risks: Department of State. GAO-03-107. Washington, D.C.: January 2003.

Department of State: Status of Achieving Key Outcomes and Addressing Major Management Challenges. GAO-02-42. Washington, D.C.: December 7, 2001.

Observations on the Department of State's Fiscal Year 1999 Performance Report and Fiscal Year 2001 Performance Plan. GAO/NSIAD-00-189R. Washington, D.C.: June 30, 2000.

Major Management Challenges and Program Risks: Department of State. GAO-01-252. Washington, D.C.: January 2001.

U.S. Agency for International Development: Status of Achieving Key Outcomes and Addressing Major Management Challenges. GAO-01-721. Washington, D.C.: August 17, 2001.

Observations on the Department of State's Fiscal Year 2000 Performance Plan. GAO/NSIAD-99-183R. Washington, D.C.: July 20, 1999.

Major Management Challenges and Program Risks: Implementation Status of Open Recommendations. GAO/OCG-99-28. Washington, D.C.: July 30, 1999.

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

U.S. Agency for International Development

Major Management Challenges and Program Risks: U.S. Agency for International Development. GAO-03-111. Washington, D.C.: January 2003.

Foreign Assistance: Disaster Recovery Program Addressed Intended Purposes, but USAID Needs Greater Flexibility to Improve Its Response Capability. GAO-02-787. Washington, D.C.: July 24, 2002.

Foreign Assistance: USAID Relies Heavily on Nongovernmental Organizations, but Better Data Needed to Evaluate Approaches. GAO-02-471. Washington, D.C.: April 25, 2002.

Major Management Challenges and Program Risks: U.S. Agency for International Development. GAO-01-256. Washington, D.C.: January 2001.

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